
Fitch says US coal producers will experience a weaker demand

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Fitch Ratings said that the US coal industry will experience a weaker demand than 2008 but resilient cash flows will sustain its stable outlook. It said that well capitalized coal companies have solid liquidity and modest near-term debt maturities. Leverage should remain in a range with scant new borrowing and solid earnings.

Ms Monica M Bonar director at Fitch Ratings said that “We are seeing more producers scaling back capital spending together with planned production to conserve liquidity. Looking ahead, we expect to see more instances of building cash balances than either debt repayment or share repurchases, and opportunistic merger and acquisition activity, generally with a high equity component.”

According to the report, coal producers are scaling back production due to the sharp economic contraction that has resulted in lower prices for natural gas, expectations for lower power demand, and sharply lower global demand for metallurgical coal. While spot prices are trending down, most of 2009's and a significant portion of 2010's steam volume was priced in the favorable environment of late 2007 and early 2008.

Regulatory uncertainty about carbon emissions has stalled plans for many new coal plant builds, which will cap domestic demand in the medium term. Despite expectations for lower steel, consumable and energy prices, cost inflation is expected to persist given labor and safety cost escalation.

Ms Monica M Bonar will be part of a panel discussion titled Coal on Wall St Unique market perspective at McCloskey Group's Coal USA 2009 conference in New York on June 24th 2009.

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