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Coal at 28-Month High to Beat Oil, Gas on Floods: Energy Markets
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Jan. 13 (Bloomberg) -- Coal for producing power may beat oil and natural gas this year as disruptions from Australia to South Africa drive prices for the fuel to a 28-month high.

Thermal coal may climb about 14 percent to $150 a metric ton in coming weeks, while increased stockpiles limit gains for oil and natural gas, Joachim Azria, a New York-based analyst at Credit Suisse Group AG, said in a Jan. 10 report. Helen Lau, a Hong Kong-based analyst at UOB Kay Hian Ltd., said on Jan. 4 coal may advance as much as 15 percent. Prices at the Australian port of Newcastle were at $131.80 a ton on Jan. 7, the highest since September 2008, according to IHS McCloskey data.

“There’s definitely more possible upside in the coal market at the moment than there is in the oil market,” Ben Westmore, an energy economist at National Australia Bank Ltd. in Melbourne, said in a Jan. 12 interview.

Spot prices at Newcastle, the world’s biggest coal-export facility, have jumped 20 percent in less than six weeks, according to Petersfield, England-based McCloskey. The worst floods in Queensland state in 50 years shut mines and closed transport lines, disrupting supplies. Coal shipped via South Africa’s Richards Bay, Africa’s largest terminal for the fuel, gained about 18 percent. Oil in New York rose 6.1 percent in the same period, while natural gas added 5.1 percent.

“Coal should continue to outperform oil and gas in 2011,” said Azria, who estimates as much as 2 million tons of thermal supplies have been disrupted by the Australian floods.

Asian Economies

Australia & New Zealand Banking Group Ltd. increased its spot thermal coal price forecast to $140 a ton, from $120 a ton, for the three months to March 31, Mark Pervan, head of commodity research in Melbourne, said in a note on Jan. 7.

Demand for coal is growing faster than oil and gas as China and India boost imports to feed economies that are outpacing the rest of the world. China, which relies on the fuel for 70 percent of its energy, may increase overseas purchases by 30 percent this year, according to Lau, while imports to India may double, India Coal Market Watch said. Coal will remain the world’s most-used fuel for power generation through 2035, the International Energy Agency said in November.

Prices at Newcastle jumped 43 percent last year, while oil futures in New York gained 15 percent. Natural gas dropped 21 percent.

While coal is rising, the fuel is still more than 30 percent below the record set more than two years ago. Newcastle coal traded at $192.50 a ton in July 2008 as floods hampered supplies, according to McCloskey data on Bloomberg.

‘Perfect Storm’

This year’s flooding in Queensland, covering an area the size of France and Germany, has cut output by about 4.5 million tons since the start of December, about 3 million tons of which is coking coal, used by steelmakers, and the rest thermal coal, according to Colin Hamilton, a London-based analyst at Macquarie Group Ltd. The state exports about 50 million tons of thermal coal a year, according to Macquarie.

“It was a perfect storm for coal, with cold weather in the northern hemisphere boosting demand and excessive rainfall first in Colombia, Indonesia and now in Australia creating vast shortfalls in supply,” Amrita Sen, a London-based analyst for Barclays Plc, said in an e-mail on Jan. 10.

Indonesia, the world’s biggest supplier of thermal coal, increased the reference price for the fuel by 8.7 percent in January to $112.4 a ton, the Directorate General of Coal and Minerals said on its website. Prices have climbed 25 percent since September.

Coal shipped through Richards Bay was disrupted last month by derailments that depleted stockpiles at the terminal, threatening to curtail first-quarter exports, port Chief Executive Officer Raymond Chirwa said on Jan. 4. India bought almost a third of Richards Bay’s exports last year.

Prices at the port were at $126.39 a ton on Jan. 7, after rising 60 percent last year.

Asian Driver

“You have strong underlying fundamentals for coal,” said Emmanuel Fages, a Paris-based analyst at Societe Generale SA. “Bottlenecks remain on the supply side, so Asia is sucking up resources even more from traditional suppliers of the West, like Colombia or South Africa. You are bound see price increases over the medium term.”

China’s coal imports may rise to 210 million tons in 2011 from an estimated 166 million last year, according to Lau. The country, which became a net importer of the fuel for the first time in 2009, boosted overseas purchases by 35 percent through November 2010, according to government data.

While oil imports to China will continue to increase this year, they may not match last year’s 17 percent pace, as growth in refining capacity slows, Lawrence Eagles, a New York-based analyst with JPMorgan Chase & Co., said in a Jan. 10 note.

India may double imports of thermal coal to 104 million tons in the year ending March 2012, according to Coal Minister Sriprakash Jaiswal. That compares with 3 percent growth in oil consumption, according to the Paris-based IEA.

“Long-term fundamentals for coal are more robust than for oil or gas, because the price increases are really driven by speculative expectations at present for oil and gas,” Fages said. If growth slows in China, it would take only about a month for oil and gas “to come down to much lower levels,” he said.

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