

# Coal Markets – November 2009

## Monthly Market Update



### Powder River Basin Coal

November was a fairly uneventful month for the Powder River Basin. Most terms were either flat or changed only slightly from levels the previous month. The one exception was Cal '12 8800, which moved from \$12.25 to \$12.85 on a settle basis as the Cal '11/Cal '12 8800 spread widened significantly. There was ample liquidity in the prompt month (Dec'09) 8800 physical as nearly 20 trains were reported traded in various transactions ranging from \$7.95-\$8.25. The Cal '11 8800 financial traded \$11.15 several times and again at \$11.05. Open interest on the 8800 financial swap took a significant dip to 3,710 contracts from 4,120 the month earlier. The 8800 vs 8400 spreads remained stagnant between \$0.70 and \$0.95. Options activity has been nonexistent for some time, as volatility levels remain marked between 32%-35%.

### Central Appalachian Coal

November was an average month in terms of volume for the CSX rail contracts with more than 2.5 million tons trading. The majority of the volume was trading of financial products cleared on the NYMEX exchange. As a result, open interest continued to rise, and it is now close to the 10,000 level. Price movements were very limited throughout the curve and values were stuck in \$2-\$3 range. Spot CSX<1 values at the beginning of the month were \$52 before finding some strength and settling back down to the \$51 level. Cal '10 was also range-bound as values were stuck at the \$56 level with a bit of a pop mid-month to the \$57.50 level. Cal '11 moved from \$68.00 up to \$69.75, before retracing back to beginning of the month levels.

### NYMEX Quality Coal

NYMEX trading in November was volatile as the market experienced see-saw trading throughout the month. The markets softened in early November before rallying to the monthly highs in the middle of the month. However, the NYMEX markets ended the month at their lows, and once again saw the sharpest losses in the front. Continued high inventories, lack of industrial demand, and a mild start of the winter season were all contributing factors. Dec'09 NYMEX was down the most, dropping \$4.25 from \$48.75 to \$44.50, and it pulled down the front end of the '10 curve. Q1'10 was down \$2.80 to \$47.40 and Q2'10 was down \$2.40 to \$50.75. The back-half '10 over front-half '10 NYMEX spread widened from \$5.55 to \$7.15. Q4'10 was down the least, falling just \$0.50 and closing at \$58.05. Traders and utilities continued to look for value further out in the curve. The Cal '11 over Cal '10 NYMEX spread traded as high as \$13.00 before closing at \$12.55. The close was up \$1.05 from October. Q4'11 NYMEX continued to be the most actively traded quarter in '11. Q4'11 traded as high as \$71.00 before closing at \$69.75. Cal '12 saw a bit more interest as rumors shot through the market that a utility was on the buy side. Cal '12 traded as high as \$75.25 before closing the month at \$73.70. NYMEX volatility increased during the month rising from 24%-26% to 26%-28% in 2010. However, traded option activity remains rather muted.

### Commentary

Could have the coal markets finally have turned the corner in November??? Sure there's no arguing that there's oodles of gas in storage, that there's plenty of coal in utility stockpiles, that load demand is still weak, but for some reason it seems like coal is becoming a little harder to find – especially good quality coal.

It seems the stabilization of the steel industry and better than expected Asian spot coking coal demand has taken some of the crossover coals out of the Eastern steam market - at least easing some of the supply overhang for the time being. One interesting thing to note is the rail to river spread, which continued to widen during November: the prompt month spread settled \$5.08, while at the end of October this settled \$2.82. Is this significant? If it's the start of a trend, it likely is as we've seen historically that a widening of this spread portends higher overall pricing in CAPP.

PRB is another issue where lackluster demand is still the driver. While we've seen great producer discipline in trying to manage supply its difficult to find many buyers looking for tons in Cal '10. We're seeing a little interest in Cal '11 and Cal '12 but not enough to get too excited.

PRB 8400		
▼ TERM	▼ BID	▼ OFFER
Dec '09	\$6.50	\$7.50
Q1'10	\$6.95	\$7.95
Q3'10	\$7.40	\$8.40

PRB 8800		
Dec '09	\$7.80	\$8.30
Q1'10	\$8.25	\$8.75
Q3'10	\$8.90	\$9.40

NYMEX		
Dec '09	\$44.25	\$44.75
Q1'10	\$47.15	\$47.65
Q3'10	\$54.10	\$54.60

CSX <1%		
Dec '09	\$50.50	\$51.50
Q1'10	\$52.50	\$53.50
Q3'10	\$56.60	\$57.60

CSX 1.2#		
Dec '09	\$53.50	\$54.50
Q1'10	\$55.55	\$56.55
Q3'10	\$59.75	\$60.75

NS <1%		
Dec '09	\$50.00	\$51.00
Q1'10	\$51.80	\$52.80
Q3'10	\$55.90	\$56.90

NS 1.2#		
Dec '09	\$53.00	\$54.00
Q1'10	\$54.85	\$55.85
Q3'10	\$59.05	\$60.05

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