

## Coal despatches rise on higher power demand

August 23, 2021 | Industry Research

**Table 1: Coal production and despatch**

	Production	Despatch
July 2020 (y-o-y)	-5.5%	-8.7%
July 2021 (y-o-y)	19.3%	21.7%
July 2021 (m-o-m)	7.0%	0.3%
April-July 2020	-12.6%	-19.1%
April-July 2021	10.6%	32.0%

Source: Ministry of Coal

India's coal production continued to increase y-o-y in July 2021 by 19.3% to 54.4 million tonnes (mt) over a low base, limited Covid-19 pandemic-led disruptions and pick-up in demand from the power sector. Coal production was also higher sequentially by 7% in July 2021.

Aggregate coal production by Coal India Ltd. (CIL) and Singareni Collieries Company (SCCL) (which account for around 90% of total coal production in the country) grew by 18% y-o-y in July 2021 after witnessing a decline of 8% in July 2020.

Despatch of coal grew by a sharp 21.7% to 62.3 mt due to higher demand from the power and the cement sector. While despatch of coal to power sector and cement sector grew by 23.7% and 12.7% y-o-y respectively that to steel and sponge iron sector fell by 26.5% and 45%, respectively.

Power is the largest demand driver of coal, accounting for around 70% of the total demand. Coal-based thermal power generation grew by 8.9% y-o-y to 85,279 million Kwh during July 2021 due to pick up in industrial activities as India exits the second wave of Covid-19 pandemic.

### Thermal coal –

International coal prices have soared to their highest level since 2008. The price of Australian coal, averaged \$152 per tonne in July 2021, up almost 195% from a year ago. This is mainly driven by robust demand from China as drought in its southern region hit hydropower generation and boosted demand for coal.

However, the Chinese government has announced releasing 10 million tonnes of coal stocks from its strategic coal reserves. This measure is expected to help cool the prices for coal internationally.

In the domestic market, Coal India Ltd (CIL) is expecting to increase its average price realisation by around 10-15% on a sequential basis through the e-auction route in Q3FY22 due to increase in input cost. The average price realisation is expected to be close to Rs 1,700-1,800 a tonne in Q3FY22 as compared with Rs 1,569 a tonne in Q2FY22.

### Coking coal –

International coking coal prices have almost doubled on increased ex-China demand. The semi-soft mid-volatile coking coal price stood at \$126.9 per tonne freight on board (FOB) Australia on 3 August, up from \$92.9 per tonne in May 2021 and \$71.2 per tonne in December 2020.

Australian coking coal prices over the short-term will be supported by restocking activity from Indian buyers, as they scale up production after the July-September monsoon season.

**Outlook:**

Coal production is expected to grow by 2-3% at 730-745 mt in FY22 compared with 716 mt in FY21. Demand for both thermal and coking coal is expected to remain strong as global economic activities improve after the covid-19 downturn in the second half of CY2021. The sharp uptrend in seaborne coking coal prices during the June quarter is likely to continue and we expect stronger prices in the second half of CY2021 as the global supply-demand balance continues to remain tight. Ex-China demand particularly from India is expected to improve with the second wave of Covid-19 pandemic getting largely under control and acceleration in vaccination drive. Demand from Japan, Europe are also expected to remain strong.

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