

Steel: Cyclone Debbie in Australia pushes coking coal prices

Cyclone Debbie that disrupted major mines and ports in Australia towards the end of March 2017 pushed up the prices of coking coal as it distorted coking coal exports from Australia. India majorly imports coking coal for manufacturing of steel (around 70%) and an increase in the input cost will very likely result in rise steel prices in India.

Cyclone Debbie in Australia pushes coking coal prices

As per media reports, coking coal prices have jumped close to USD 300 per tonne. This implies a surge of around 87-94% compared to the coking coal prices of around USD 155-160 per tonne in Australia in March 2017.

On a y-o-y basis, the prices more rose sharply compared to average coking coal prices in Australia that stood at around USD 85 per tonne in April 2016.

The prices are believed to have soared on account of Cyclone Debbie that disturbed major mines and ports towards the end of March 2017, in turn, distorting exports from Australia.

The cyclone affected shipments from Queensland, producer of more than 50% of the world's seaborne coking coal.

Coal (key raw material for steel)

The major raw materials used for the manufacturing of steel are coking coal and iron ore. While the demand for iron ore is majorly met domestically, coking coal is largely imported for manufacturing of steel. Around 70% of coking coal requirements are fulfilled through imports.

Impact of rising coking coal prices on steel prices

The steel companies in India do import coking coal from Australia. Thus, the sharp rise in prices will increase the cost pressure for producers, in turn, leading to a rise in steel prices.

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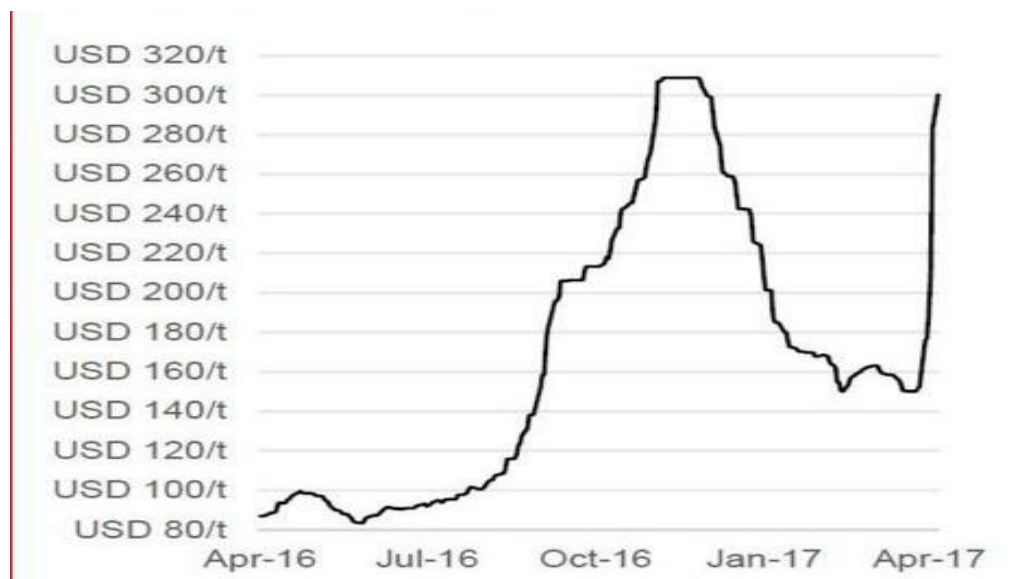
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Movement in coking coal prices in Australia

Chart 1: Spot premium coking coal prices (in USD/tonne)



Source: Bloomberg

The coking coal prices in Australia which remained subdued during the period April-July 2016, picked up from August 2016 on m-o-m basis. However, the prices started moderating from December 2016 and stood at USD 155-160 per tonne in March 2017.

Concluding remark:

- The coking coal prices surged by around 87-94% compared to the average coal prices of USD 155-160 per tonne in Australia in March 2017 and rose sharply compared to average coking coal prices in Australia that stood at around USD 85 per tonne in April 2016 on a y-o-y basis.
- The coking coal requirements in India for manufacturing of steel are majorly met through imports. Thus, the surge in coking coal prices will increase the cost pressure for producers, in turn, leading to a rise in steel prices.

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