



## COKING COAL – THE NEW IRON ORE?

FIS began marketing and broking coking coal derivatives in 2010, after identifying a need for risk management tools to hedge and trade this increasingly volatile product.

FIS believes coking coal has the potential to mirror the development of the iron ore swap market, which has quickly evolved to become a highly liquid market, attracting players from the financial and commodity communities. The iron ore swaps market emerged in response to the pre-2008 physical market where spot and short term prices had decoupled from the annual agreements that officially set levels between buyers and suppliers.

This fundamental change has affected the steel, coking coal and scrap industries. Sensing the opportunity of changing markets, FIS created the Virtual Steel Mill concept. This mirrors similar complexes in energy and agriculture where inputs and outputs of the industrial process can be traded together, managing risk across the supply chain.

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### THE COKING COAL MARKET

When analysing the potential for coking coal swap markets, we consider the three critical ingredients for a successful commodity derivative.

#### Volume

Seaborne coking (met) coal trade in 2014 is estimated at 270m tonnes, with close to 1bn tonnes produced globally, Chinese domestic production accounting for half the total. The appetite for trading coking coal swaps in large volumes certainly exists.

The Dalian Futures Exchange has launched two contracts. Coke Futures, available since April 2011, has traded over 18bn tonnes. Dalian Coking Coal Futures, available since March 2013 has traded about 4bn tonnes. Year to date swaps volume in 2014 is 2.1 million tonnes, up from 168,000 tonnes in 2013.

#### Volatility

Coking coal prices are inherently volatile with Platts FOB highs of \$152.50 and lows of \$105.75, and TSI CFR highs of \$165.7 and lows of \$116.5 in the 12 months to September 2014. With profitability of steel companies so dependent on marginal changes, there is a clear opportunity to manage input costs and improve price risk management.

It is sometimes said that a move to index-pricing increases volatility but we do not agree. Rather, the move to short term pricing increases price transparency and creates an opportunity to manage price fluctuations far more efficiently than by using long term contracts.

#### Value

The value proposition for coking coal swaps is that the changing steel market will encourage more mining, trading and manufacturing entities to become involved in managing their costs up and down the supply chain. With physical exposure increasingly index-linked, companies using swaps to hedge and trade on price direction will have a competitive advantage over those that do not.

There are now five indices against which coking coal swaps can be traded. These are:

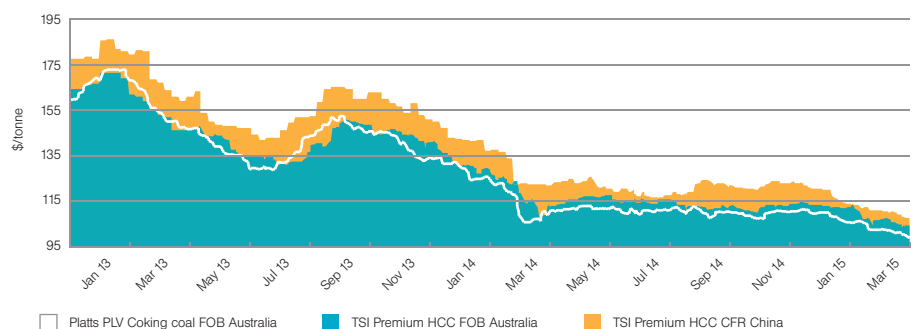
- Platts Hard Coking Coal (Premium Low Vol) FOB Australia
- Platts Hard Coking Coal (HCC 64 Mid Vol) FOB Australia
- Argus Metallurgical Coal FOB Australia
- TSI Premium Coking Coal FOB Australia
- TSI Premium JM25 Coking Coal CFR China

As during the development of the iron ore swap market, FIS remains open-minded as to the market's preferred choice of index provider and will work to support the development of liquidity across these contracts.

### THE WAY FORWARD

The coking coal swaps market is at a point of change. Until now, liquidity has been constrained by a lack of market depth which has made buyers and sellers reluctant to enter the sector in large numbers. Freight Investor Services has successfully incubated successful swap markets in freight, iron ore, fertilizers, steel and scrap and bunker fuel and can bring a decade of experience to bear in coking coal.

### Coking coal spot prices



Source: FIS



<b>Product Symbol</b>	ALW/ALC	
<b>Venue</b>	CME ClearPort, Open Outcry (New York)	
<b>Hours (All Times are New York Time/ET)</b>	CME ClearPort:	Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. Chicago Time/CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. CT)
	Open Outcry:	Monday – Friday 9:00 a.m. – 2:30 p.m. (8:00 a.m. – 1:30 p.m. CT)
<b>Contract Size</b>	1,000 metric tons	
<b>Price Quotation</b>	U.S. Dollars and Cents per metric ton	
<b>Minimum Fluctuation</b>	\$0.01 per metric ton (\$10.00 per contract)	
<b>Floating Price</b>	The Floating Price for each contract month is equal to the average price calculated for all available price assessments published for Hard Coking Coal (Premium Low Vol) FOB Australia (ALW), Hard Coking Coal (HCC 64 Mid Vol) FOB Australia (ALC), and Argus PLV FOB Aus.	
<b>Termination of Trading</b>	Trading terminates on the last business day of the contract month (follows the Singapore calendar).	
<b>Listed Contracts</b>	Trading terminates on the last business day of the contract month (follows the Singapore calendar)	
<b>Settlement Type</b>	Financial	

<b>Contract Specifications</b>	Australia Coking Coal Futures/Swap	China Coking Coal Futures/Swap
<b>Contract</b>	SGX TSI Australia Premium Coking Coal Futures and Swaps	SGX TSI China Premium Coking Coal Futures and Swaps
<b>Contract Size</b>	Swaps: 500 metric tonnes Futures: 100 metric tonnes	
<b>Price Quotation</b>	U.S. Dollars and Cents per metric ton	
<b>Minimum Fluctuation</b>	\$0.01 per metric ton	
<b>Contract Months</b>	Up 20 24 consecutive months starting with current months. Upon expiry of December contract, another 12 months will be listed	
<b>NLT Threshold</b>	Futures: 5 lots	Futures: 5 lots
<b>Trading Hours (Singapore Time)</b>	Swaps T-session: 8.00 am to 8.00 pm T+1 session: 8.00.01 pm to 4.00am Last trading day: 8.00 am to 8.00pm	
	Futures T-session: 8.00 am to 8.00 pm T+1 session: 9.00 pm to 2.00 am Last trading day: 8.00 am to 8.00 pm	
<b>Last Trading Day</b>	Last publication day of Premium coking coal (Australian Exports, FOB East Cost Australian Port) index prices in the contract month	Last publication day of Premium JM25 coking coal (Chinese imports, CFR Jingtang port) index prices in the contract month

For further details about Coking Coal or to discuss trading opportunities, call:

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