



COAL

CURRENT TRENDS

- Total U.S. coal production in 2020 dropped 24.4% from 2019 levels, representing the fourth drop in coal production in the five-year period from 2016 to 2020.
- Supply and demand for coal have deteriorated, with aggregate inventory velocity declining and leading to inventory levels increasing from 14.7 weeks of supply at the end of 2019 to 18.1 weeks by the end of 2020.
- The political climate has been leaning toward energy and environmental policies that address reversing climate change, reducing carbon emissions and embracing a variety of renewable energy technologies.
- Pricing has recovered from the lows of 2020, when the pandemic heavily affected the industry.

PROJECTED VALUES (12-MONTH OUTLOOK)

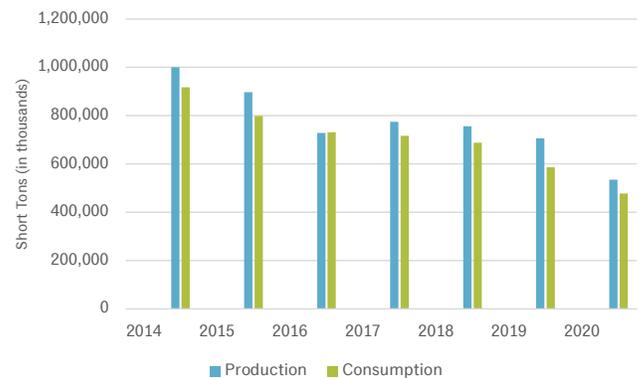


APPROXIMATE NET RECOVERY ON COST

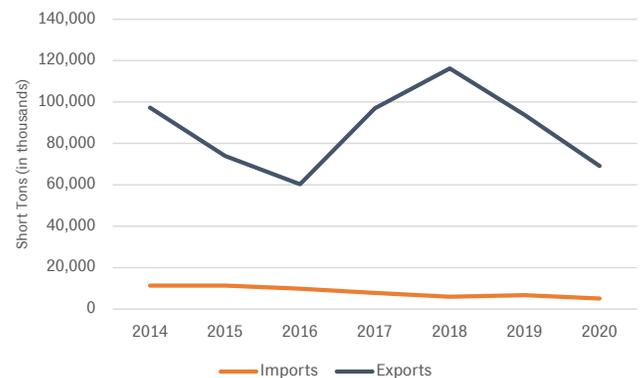
90%-95%

of free on board (FOB) market price for clean finished coal

U.S. ANNUAL COAL PRODUCTION & CONSUMPTION



COAL IMPORTS & EXPORTS



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PRODUCTION RATES DECLINING MORE THAN ANTICIPATED: Total U.S. coal production dropped to 543,302,000 short tons (ST) in 2020, down 24.4% from 2019 levels. This decline represented the fourth drop in coal production in the five-year period from 2016 to 2020. Coal production has been dropping more rapidly than expected because of readily available shale gas and low natural gas prices. Additionally, various regulations have made it harder for coal to remain competitive. These include pollution-control requirements related to mercury emissions, nitrous oxide and sulphur dioxide, as well as the cost of end-of-life mine reclamation and mine waste storage issues.

The Clean Power Plan (CPP), announced in August 2015, set the first-ever limits on carbon pollution from U.S. power plants. Under the Trump administration, the Environmental Protection Agency (EPA) repealed the CPP in June 2019 and replaced it with the Affordable Clean Energy Rule. Although the administration attempted to loosen some policies related to power plant emissions, most of the changes ended up in court, leaving the future of the policies in limbo. Additionally, a Supreme Court decision handed down on the eve of President Biden's inauguration reversed the legality of the most recent EPA policies, which had loosened regulations regarding older power plants.

Existing policies and any new policies passed under the Biden administration likely will be subject to litigation and will take time to influence the industry. Regardless, it is unlikely the current administration will loosen existing rules, which will likely have a dampening impact on future investment decisions in the industry.

SUPPLY AND DEMAND TRENDS: Total coal stock levels for 2020 were relatively flat on a year-over-year basis, reaching 165,958,000 ST as of December 31, 2020, up from 165,334,000 ST in 2019, a 0.4% increase. Despite this slight increase, consumption continues to drop, and 2020 was the seventh consecutive year coal consumption declined.

In 2020, consumption was down 18.6%, or 109,228,000 ST, from 2019 levels. As a comparison, 2014 consumption levels were 917,731,000, which indicates consumption levels dropped more than 48% over the seven-year period that ended December 2020. Supply and demand for coal also have deteriorated, with aggregate inventory velocity declining and leading to inventory levels increasing from 14.7 weeks of supply at the end of 2019, to 18.1 weeks by the end of 2020. At the segment level, consumption for electric power and coke plants had the most pronounced declines at 19% and 19.8%, respectively. The industrial and institutional sectors had lower levels of decline at 12.1% and 9.5%, respectively, for the same period.

The COVID-19 pandemic had a negative impact on coal consumption demand because of a drop off in electricity production and consumption, reduced levels of domestic and overseas steel production and significantly lower natural gas prices. Consequently, power plants equipped to use both natural gas and coal switched to natural gas-driven power production.

The Expert: Alex Sutton



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The demand outlook for 2021 is positive from a macroeconomic perspective. As North America emerges from the pandemic, the economy is growing rapidly. This will have a positive impact on general industrial production, electrical power consumption and steel production, all of which will increase coal demand. Additionally, although export demand fell in 2020 due to the pandemic, analysts expect it to return to growth in 2021.

Given this outlook, the short-term trend in coal production and consumption likely will be positive for 2021, driven by the economic recovery in large part. However, it is important to note the longer-term trend remains negative for the coal industry overall.

RENEWABLE ENERGY, CARBON REDUCTION AND GREEN ENERGY TRENDS:

The political climate has been leaning toward energy and environmental policies that address reversing climate change, reducing carbon emissions and embracing a variety of renewable energy technologies. In January 2020, the United States rejoined the Paris Agreement, a legally binding international treaty on climate change, after a brief hiatus in 2019. The Biden administration's goal is to reach economy-wide net-zero emissions no later than 2050. From the perspective of power production, the two primary avenues to reach this are investments in renewable energy and zero-emission sources, including wind, solar and fuel cell energy; electric vehicles; and carbon capture.

The Biden administration's infrastructure spending bill, The American Jobs Plan, proposes creating a large electric vehicle charging network and extending the investment tax credit and production tax credit for clean energy generation and storage. The administration supports The Storing CO₂ and Lowering Emissions (SCALE) Act of 2021, which will help develop a carbon storage network. Additionally, the administration supports a decarbonized hydrogen production pilot program and the 45Q tax credit, which supports hard-to-decarbonize industrial applications, direct air capture and retrofits of existing power plants.

While some aspects of these proposed policies will support the coal power industry, the focus is primarily on renewable energy and a continued shift away from fossil fuels. Additionally, some of the new tax policies the Biden administration has proposed are designed to eliminate tax preferences for fossil fuel energy and create a superfund trust to pay for environmental cleanup, including the cost of mine reclamation.

PRICING RECOVERY: Given the weakness in demand and growth in inventory levels, pricing trends have been volatile. The average coal export price dropped by 16.1%, from \$89.18 in 2019 to \$83.10 in 2020. Steam coal, which is generally used for power production, dropped by 1.9%. Metallurgical coal, which manufacturers use to make coke for steel production and other industrial processes, dropped by 23.7%.

As of April 28, 2021, 8,800 British thermal unit (BTU) coal from the Powder River Basin, which is one of the largest thermal coal-producing areas in the country, was at \$12.10 per ST, compared with \$11.55 per ST a year prior. Meanwhile, Central Appalachia 12,500 BTU coal was at \$59.70 per ST versus \$55.20.

Despite continued demand weakness, pricing has recovered over early 2020 lows when the industry was heavily affected by the COVID-19 pandemic.

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