

Coal's Familiar Foes Set to Pull Down Prices in Europe This Year



European coal faces another depressing year as natural gas floods the region and clean-energy policies reduce demand for the dirtiest fossil fuel.

Coal use across seven European economies fell to historic lows last year, pushing benchmark rates down by almost a third to \$62 a ton. The prospects for 2020 are looking equally bleak, with analysts from S&P Global Platts and Capital Economics predicting prices plunging to the \$50 mark, the lowest in four years.

It's the latest indication that the economics for burning coal have collapsed in little more than a year since the commodity hit \$100 a ton. Europe's goal of zeroing out carbon emissions by the middle of the century along with ever-cheaper wind and

solar power and falling gas prices all point to drastic reductions for generators that burn coal.

“Although we saw coal generation pushed to minimum levels in the second half of 2019, it should fall again year-on-year in the first half of 2020 due to low gas and stable carbon pricing,” said Joe Aldina, S&P Global Platts’ head of coal analytics.

For most of last decade it was more profitable to burn coal than gas in Germany, Europe’s biggest economy. That relationship was turned on its head last year as imports of liquefied natural gas and mild weather pushed down prices for the cleaner fuel, encouraging utilities to switch away from coal.

Dark spreads indicating the theoretical profit for burning coal to make power in Germany have been falling further behind spark spreads for using gas. The trend, according to Bloomberg analytics, becomes especially acute later this year.

Gas Glut

Part of the reason is the abundance of natural gas. Ample flows from pipelines along with near-record levels of LNG shipments arriving in Europe have left storage sites brimming.

The gas glut may worsen after last month’s deal between Russia and Ukraine to keep gas flowing to Europe. Construction of another direct route to Europe, the Nord Stream 2 pipeline to Germany, is expected to finish this year even though the U.S. imposed sanctions on the project.

“The gas transit agreement between Russia and Ukraine and soon-to-be completed Nord Stream 2 pipeline, allied with the prospect of higher U.S. LNG exports means that the European market will be awash with gas supplies in 2020,” said Franziska Palmas, assistant economist at Capital Economics.

While European year-ahead coal prices have slumped, the penalty for using the fuel has increased as the cost of carbon emission permits surged five-fold since 2017. At the same time, benchmark month-ahead gas contracts have slumped to 42% below the 10-year seasonal average.

“I don’t expect coal to fall below \$50,” said Elchin Mammadov, an analyst at Bloomberg Intelligence in London. “Which is why I don’t think there will be gas-to-coal switching. If anything, it’ll be the other way round given that gas will likely stay cheap throughout the year.”

The pessimistic outlook for coal view is not unanimous. Perret Associates expects a global surplus of the commodity to swing into deficit by the end of this year as India and countries in the Pacific Rim region make up for a drop in demand in Europe.