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NO FUTURE(S): ASIAN FINANCIAL COAL TRADING DRIES UP AS NOBLE DECLINES, GLENCORE RULES

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By Henning Gloystein and Vera Eckert SINGAPORE/FRANKFURT (Reuters) Financial trading of thermal coal has virtually ceased in Asia as a result of the woes at one major trading house and the growing dominance of another, despite the region being by far the worlds biggest consumer of the fuel. Asia gobbles up some 70 percent of all coal used for power generation, and the unprecedented demise of its futures market poses significant risks for utilities in particular. With coal prices rising sharply this year, power generators would usually hedge or protect themselves by taking positions in related derivatives markets. With Asias futures pretty much gone, that greatly increases our risk for supplies in that region. It may mean that we source less from there going forward, said a risk manager with a big European utility, declining to be named as he was not authorised to speak publicly about company risk. Data from several exchanges shows that since its heyday in 2015, Asia coal futures trading activity has declined by over 90 percent. Two senior coal brokers and six senior traders at merchant houses, utilities and miners spoken to by Reuters pointed to the shrinking role of Singapore-listed commodity merchant Noble Group as the single most important factor in the decline of Asian coal futures volumes. Noble has sold-off assets and slashed trading operations following allegations from Iceberg Research in 2015 that it had overstated its assets by billions of dollars, sending its share price tumbling. Noble is a massive loss to the market. Its troubles seriously dented liquidity, one merchant trader said. Noble declined to comment for this article, but said in a letter to Singapore Exchange in May very thin trading liquidity in hedging instruments had contributed to its first quarter losses.

GLENCORE DOMINANCE Many traders also see a link between declining Asian coal futures and the growing dominance of a single company in supplying physical Asian coal. Swiss-based, London-listed Glencore is the worlds biggest producer of thermal coal, exporting well over 50 million tonnes from Australia alone in 2016, a quarter of the countrys shipments. Physical Newcastle coal prices, which act as Asias key futures benchmark, have jumped from around $70 to over $100 per tonne this year. Glencore, which owns a dozen thermal coal mines in Australia, declined to comment. But market participants say the firm is not as active in coal futures trading as many of its peers, instead preferring bilateral supply deals with customers. Doubts over deliberate intervention on the supply side for Australian coal linger, which kills any enthusiasm to trade the (financial) product, said Georgi Slavov, head of research at commodity brokerage Marex Spectron. Glencores control and knowledge of actual coal output in Australia and the influence this has on derivatives contracts means it is difficult for outsiders to predict price movements, scaring off traders. If you dont know what Glencores mines are up to, its very hard to trade Australian coal futures, said one trader with a large European utility. Its not Glencores wrongdoing, just the way it is. Glencore has previously said it is as vulnerable as any other market participant to commodity price swings, and in the past has also used derivatives to hedge its own production. STEEP DECLINE The decline in Asian coal futures volumes stands in stark contrast to booming oil and natural gas futures. The amount traded in front-month Australian coal futures on the Intercontinental Exchange has collapsed from a high of over 1.6 million tonnes in September 2014 to under 290,000 tonnes this September. Data from rival CME Group shows that open interest, which describes the number of open positions, of its Asian coal futures as fallen from around 2.7 million tonnes in early 2015 to just 65,000 in August this year, with Indonesian and Chinese futures totally vanishing. In that sort of environment, utilities stop hedging. Its too risky, said a senior coal trader with a major commodity merchant, requesting anonymity. Major European utilities that source international coal include Germanys RWE, Uniper and ENBW , Italys ENEL , Swedens Vattenfall, as well as Switzerlands Axpo Holding. All coal derivatives markets have shrunken this year ☀ as a result of lower options trading, and due to some counter parties that have become less active, said Joachim Hall, cross commodity trader at RWE Supply & Trading, the trading arm of Germanys biggest power supplier. Europes API2 (coal futures market) remains liquid, but it does not move in parallel with physical coal we buy in Asia, Hall said. VOLUMESDOWN, RISK UP Nobles troubles and Glencores strength are not the only reasons for the malaise. Unlike many other markets, no single exchange has attracted enough liquidity to hedge reliably. Instead bourses like ICE, CME and others including Chinas Zhengzhou Commodity Exchange (ZCE), Singapore Exchange or the European Energy Exchange offer contracts with varying delivery options, differing underlying coal qualities, and in various currencies. Chinese exchanges like ZCE <0#CZC> have grown somewhat, but months can still pass without trades, and Chinese coal futures are problematic for international traders. There has been quite a bit of turmoil in the coal trading business, said Ben Tait, analyst at British energy consultancy Prospex Research. China is the driver. Its coal policy shifts can make prices soar or plunge. This has led to some big trading losses. Yet not everybody sees only doom and gloom. RWEs Hall said he hoped liquidity would gradually improve again over time, something Pat Markey, managing director of Singapores Sierra Vista Resources, also expected. The Asian market is poised for growth in financial trading, but this will take time as the Asian market is quite fragmented, Markey said. (For a graphic on coal consumption by region, click http://bit.ly/2yKQt8Y) (Editing by Lincoln Feast)

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