

# Southern African Coal Report

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## News

### Seriti to start Eskom talks ahead of South32 asset purchase

Seriti Resources CEO Mike Teke will this week hold the first of several meetings with Eskom regarding his company's proposed purchase of South32's South African Energy Coal (SAEC).

SAEC is a business unit 91.8% controlled by South32, the Perth-listed mining group. Seriti and South32 announced on 6 November that they had inked a binding, conditional sale and purchase agreement for South32's stake in SAEC.

Some of the conditions are thought to be run of the mill. South Africa's Competition Commission, for instance, is expected to rubber-stamp the transaction. Other conditions, however, are politically fraught, which is where Eskom comes in.

Eskom buys about half of the 25 mt/y SAEC mines in long-term contracts. These coal sales agreements (CSA) have to be transferred from South32 to Seriti - a task complicated by the fact South32 has already triggered hardship clauses on the sale of coal from its Wolverkrans Middelburg Complex (WMC) to the Duvha Power station.

Mike Fraser, COO of South32, described the contract as "... the cheapest form of coal to Eskom at probably one of the best qualities".

Clearly, Seriti can't inherit the CSA as it would undermine the purchase of SAEC. By the same token, Eskom can't renegotiate the contract without extracting economic benefits, especially given the current political climate.

The South African government is already convinced Eskom pays too much for coal. It blames the private sector for double-digit primary energy inflation,

## Briefs

### BRM plan Koornfontein restart in Q1 2020

Black Royalty Minerals (BRM) expects to bring South Africa's Koornfontein thermal mine back into production in the first quarter next year, after being declared the winning bidder for the troubled asset two weeks ago.

BRM swooped in at the last minute to win Koornfontein, after business rescue practitioners declared that initial winners, Lurco Group, did not submit their payment on time.

Lurco has filed legal action in the High Court to block the award to BRM.

"There was bound to be some resistance ... lawsuits are what we expected. The question is whether there is merit to this and the court will decide that," Nдавhe Mareda, chairman of BRM's parent company Makole Group, told IHS Markit.

He said the company would "forge ahead" and take the necessary steps in acquiring the asset, despite the court battle.

Assuming no legal disruptions, BRM expects to begin production at Koornfontein in the first quarter of 2020 and could ramp up to 3 mt/y within three to six months.

Mareda hopes to split sales of Koornfontein's production evenly between exports and Eskom to avoid "customer concentration". The asset includes a 1.6 mt/y export allocation at the Richards Bay Coal Terminal.

Coal produced from Koornfontein is expected to range from 4,800-6,000 kc NAR, depending on the washing and blending requirements for its various markets.

BRM will focus on the mine's opencast

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which it says is one of the reasons Eskom is drowning economically.

Teke didn't want to comment explicitly on his planned meetings with Eskom. Seriti isn't re-negotiating the WMC-Duvha contract - that falls to South32.

But Teke said the key was "putting down something that is sustainable for everyone". The fact that Seriti is now the single, most important lead consolidator in South Africa's domestic coal sector is his trump card when talking to Eskom.

As the person taking responsibility for the negotiation of the WMC-Duvha contract, Fraser is more forthcoming: "I think where Eskom is at this point is they are obviously clear they don't want to be in a position where they would ever be accused of doing a Tegeta-type transaction."

His reference is to corrupt coal sales agreements with Tegeta Exploration & Resources, a company owned by the controversial Gupta family, and former Eskom management, now the focus of a government investigation. The Guptas, who were friends of former South African president, Jacob Zuma, have left the country.

"We need to be very clear and we need to be sensitive to our need to help Eskom through its governance process, which has really been beefed up considerably to make sure that we enter into a transaction that is fair," Fraser said.

The outcome South32 is most anxious to avoid is creating the impression Eskom has had to give up economic value in order for the sale of SAEC to conclude. "It can't be that this transaction is at Eskom's expense".

A likely settlement could see Seriti and Eskom agreeing to a new CSA in which it is supplied from mines it already operates following its purchase of Anglo American's domestic mines in 2018. This will allow WMC to become an export-dedicated mine.

Once the purchase of SAEC is completed, Seriti will be the second largest supplier to Eskom after Exxaro Resources, and a kingpin in Mpumalanga province specifically.

Teke says this provides his company with unmatched flexibility to replace WMC coal with coal from another mine at highly competitive prices. Seriti is also pressing ahead with a feasibility study into the

operations initially.

The company is also considering joining one of the final bidders for Koornfontein's sister mine, the 10 mt/y Optimum complex.

Business rescue practitioners are expected to announce the winning bid by the end of this month.

BRM currently operates the Chilwavhusiku colliery, producing 2.5-2.6 mt/y of 5,500 kc NAR material. A small portion is exported through Grindrod's dry bulk terminal in Richards Bay.

### **Gov't taps Nampak CEO to head Eskom**

South Africa's government appointed Nampak CEO Andre de Ruyter to be the new head of struggling power utility Eskom, starting from 15 January.

Eskom is by far the largest buyer of South African thermal coal supplies, taking around half of the country's 250 mt/y output.

De Ruyter replaces former CEO Phakamani Hadebe, who resigned in May citing "unimaginable demands" that had taken a toll on his health. Jabulane Mabuza had been acting as interim CEO while the government looked for a permanent replacement.

Before becoming CEO at Nampak, Africa's largest packaging company, de Ruyter spent more than 20 years with petrochemicals group Sasol in a number of senior management roles, including overseeing work in the United States, Nigeria, Angola, Mozambique, Germany and China.

De Ruyter will be responsible for turning Eskom around and implementing President Cyril Ramaphosa's plan to unbundle the utility into three entities – generation, transmission and distribution.

Upon taking the position, de Ruyter agreed to take a lower compensation package than the position currently pays due to the utility's poor financial situation, said the Ministry of Public Enterprises.

De Ruyter was chosen out of a list of 142 potential candidates, including eight Eskom employees.

12 mt/y New Largo mine that will supply most of the coal Eskom's Kusile power station requires when it is fully built.

## Atha-Africa loses court battle to develop Yzermyn mine

Atha-Africa Ventures (AAV) has lost its court battle to develop a 2.5 mt/y thermal coal export mine in Mpumalanga province.

The Constitutional Court rejected AAV's appeal to overturn a Supreme Court ruling that blocked the development of the Yzermyn mine in Mabola, according to the Centre for Environmental Rights (CER). The area has been identified as a protected area by the government.

Mabola is considered an important confluence for the Vaal and Pongola rivers, environmentalists said.

AAV has argued the mine will create much-needed jobs, has the support of local communities, and will see investment of about ZAR400m (\$27m).

The court said the nature of the appeal did not fall under its authority, and that there was little chance of AAV's appeal being successful. This was despite AAV's argument that it received its mining licence before Mabola was declared a protected area.

While AAV was entitled to build on the section of its mining licence outside of the "Mabola Protected Area", the underground area of the mine fell within the protected area, said Catherine Horsfield, an attorney and programme head of mining for CER.

Even the area it can mine required land use approval for which AAV had not yet applied, she said.

"In any event, it is not clear how constructing mining infrastructure to mine only the property earmarked for the surface infrastructure would be financially viable if the underground workings cannot proceed," she added.

AAV did not respond to questions submitted by the Southern Africa Coal Report (SACR).

In June, Praveer Tripathi, MD of AAV's South African subsidiary, told SACR that there was "... no court order and no appeal order at this moment of time to stop the mine from commencing with construction and extraction of coal for the initial five years of its life of mine".

The CER is also running campaigns against the proposed Thabametsi and Khanyisa coal-fired power projects, which together will add 1,000MW in supply.

## NUM withdraws strike threat after Glencore meeting

South Africa's National Union of Mineworkers (NUM) backed down from its strike threat after a successful meeting with Glencore officials last Tuesday over housing and wage issues.

The NUM had threatened a full-scale strike at Glencore's operations in South Africa if its demands were not met. The union says it represents 3,000 of the 4,500 South African workers employed by Glencore.

"Things are moving in the right direction," NUM Regional Secretary Tshilidzi Mathavha told IHS Markit after the Tuesday meeting.

The two sides were scheduled to meet again yesterday, when Mathavha said they will put what was agreed upon this week in writing.

"We will now see if they will follow through on their commitments. If they don't, we will consider further action," Mathavha said. "We don't just want to strike to prove a point."

A Glencore spokesman was not immediately available for comment.

The union has raised issues with Glencore's recent housing policy. It has also asked Glencore to implement all outstanding wage agreements before the end of this year, and address several other issues in regards to management and union representation.

## AfDB pulls support for Kenya's Lamu coal project - report

The African Development Bank (AfDB) had no plans to fund further coal plants in the future and was withdrawing its support for the Lamu coal project in Kenya, said Reuters citing bank officials.

Wale Shonibare, AfDB's acting vice president for energy, said the bank "... did not move forward with the Lamu Coal transaction and had no plans to do so in the future".

This was after AfDB president, Akinwumi Adesina, told Reuters at a conference in South Africa recently that the bank took environmental concerns seriously. It was focusing on renewable energy, adding that coal projects risked becoming "stranded assets" on

Exxaro Resources, which was to supply coal to Marubeni's Thabametisi project, has already set down plans for alternative uses for its coal.

## Richards Bay prices to test fresh 8-month highs

Richards Bay thermal coal prices are expected to rise to fresh eight-month highs this week, driven by heightened trading activity in the spot market.

Average weekly Richards Bay 6,000 kc NAR prices rose 4% to \$73.52/t FOB last week, the highest since March.

Traders continue to be surprised by the strong rally in Richards Bay prices, as Indian demand has only risen marginally and concerns over a possible union strike at Glencore mines have since eased.

"We are not buying at that price," an Indian trader said.

Last week, the Richards Bay market saw three trades, up from the previous week's one.

All three trades were for December-loading cargos on 11, 12 and 14 November, with the first two transactions recorded at \$73.50/t while the third at \$74.50/t FOB, all for 50,000t. The best bid for January was recorded on 15 November at \$71.50/t FOB and the best offer on 12 November at \$72.00/t FOB, again all for 50,000 t.

In the off-spec market, the 5,700 kc NAR min differential value was seen at minus \$2.93/t for December, compared with minus \$3.17/t previously. January was assessed at minus \$3.27/t from minus \$3.47/t in the previous session.

For 5,500 kc NAR material, December was seen at minus \$9.13/t. In the previous session, it was minus \$9.30/t. January was minus \$9.57/t, compared with the previous session's minus \$9.49/t.

In the 4,800 kc NAR market, December value was seen at minus \$14.63/t. In the previous session, it was minus \$14.80/t. January was seen at minus \$15.37/t, compared with minus \$14.92/t previously.

Outside the spot market, India's MMTC tendered for 0.4 mt of South African or Australian thermal coal on behalf of Andhra Pradesh Power Generation Corporation (APGENCO). If awarded, this will be the first time APGENCO has used imports in several years.

the AfDB's balance sheet, he said.

The Lamu project, which was originally planned to start in 2015, aimed at building a 1,050MW plant in eastern Kenya. It was backed by the East African country's government and Chinese investors but ran into local and international opposition.

The AfDB's retreat from coal will make it harder for the Lamu project to progress, said Reuters.

The AfDB has been a major funder of coal projects in Africa. In the past decade, it has lent more than €1.5bn (\$1.65bn) to South African utility Eskom for its Medupi coal plant and more than €50m for the Sendou coal plant in Senegal.

It still plans to finance flue gas desulfurisation units at Medupi to mitigate sulfur emissions produced by burning coal, said Reuters.

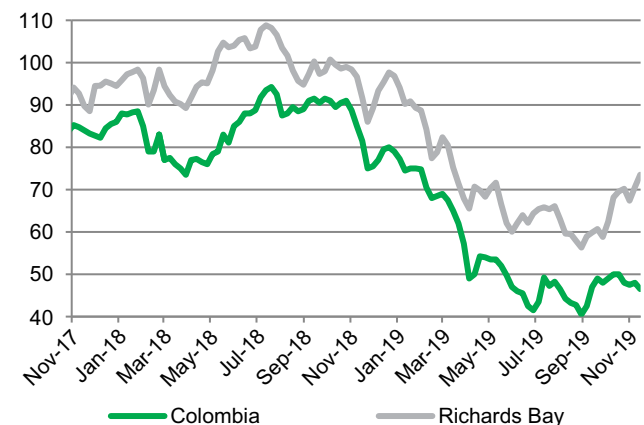
Dozens of top banks, insurers and development finance institutions are restricting coal investments, as climate activists and investors voice growing concerns about the impact of burning fossil fuels, particularly coal.



## Tenders

- Indian government-owned commodity trader MMTC has floated a tender to procure 0.4 mt (+/- 10%) of South African or Australian thermal coal on behalf of Andhra Pradesh Power Generation Corporation (APGENCO). The tender is for the supply of 0.2 mt for APGENCO's 1.76 GW Dr. Narla Tata Rao Thermal Power Plant in Vijaywada and 0.2 mt for its 1.65 GW Rayalaseema Thermal Power Plant in Muddanur. APGENCO is seeking 4,700-5,300 kc GAR coal, with a rejection limit of below 4,700 kc GAR. It has specified the total moisture must fall within 12-16%; ash 25-30%, and sulphur below 1%. The supply must commence within 60 days of placement of the order and must be completed within four months. Offers must be priced on a plant delivered basis through any suitable port on the east coast of India. The deadline for submissions is 27 November.

FOB (US\$/t) Colombia - South Africa



Source: IHS Markit

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15th Annual

# Southern African Coal Conference

29-31 January 2020

Cape Town, South Africa

Westin Cape Town



<https://www.opisnet.com/ihsmarket-southern-african-coal-conference>

## Freight

The Capesize (180,000 dwt) and Panamax (74,000 dwt) markets experienced contrasting fortunes over the past week as the Baltic Exchange Dry Index fell by just 7 points week on week to 1,338 points.

After two consecutive weeks of decline, the Capesize 5 TC average assessed by the Baltic Exchange climbed a net \$1,240/day to \$20,630/day in the week to 18 November. In the Pacific, the round voyage rate climbed \$1,963/day to \$22,896/day on sustained chartering from Australia, especially for iron ore. The Newcastle-Zhoushan Capesize coal spot voyage rate climbed \$0.60/t to \$12.50/t in the week to 15 November, SSY assessments show.

Brazilian iron ore chartering activity over the past week helped support Capesize market sentiment. Indeed, the December 2019 futures contract (FFA) for the Capesize 5 TC average was trading around \$20,450/day at the close of business on 15 November compared with a week-ago level of near-\$19,000/day.

By contrast, Panamax earnings continued to fall in both basins this week with the 4 TC average slipping \$1,083/day to almost half of the September average at \$8,924/day. Despite fleet inefficiencies caused by preparations for IMO 2020, vessel oversupply has

been a feature of the market in both basins with Panamax net fleet growth in the year to date running at a very rapid 4.8%. Coal chartering from Australia was the focus of activity in the Pacific, but the East Kalimantan-Krishnapatnam Panamax coal spot voyage rate fell by \$0.65/t week on week to a seven-month low of \$6.35/t.

On 15 November, the Capesize TC average reached its strongest against its Panamax equivalent since August 2018.

(Source: Simpson Spence Young)

### Weekly shipping fixtures

Load port	Vessel	Capacity Discharge (dwt) port	Load date	Load/discharge terms	Freight Shipper (US\$/t)
Newcastle	Five Ocean TBN	140,000 Dangjin	6/10 Dec	\$22,500.00	\$12.50 KEPSCO
Gladstone	Nordic Oshima	75,000 Rotterdam	1/10 Dec	35000/25000	\$16.00 TKSE
Muara Banyuasin	Five Ocean TBN	80,000 Hosan	26/30 Nov	\$22,500.00	\$7.89 KEPSCO
Gladstone	TBN	75,000 Vizag	1/10 Dec	40000/20000	\$13.40 SAIL
Newport News	TBN	75,000 Vizag	5/14 Dec	40000/20000	\$29.60 SAIL
Newcastle	Panocean TBN	130,000 Boryeong	21/30 Nov	40000/23000	\$11.99 KEPSCO
Riga	Peney	75,000 Nordenham	21/25 Nov	20000/25000	\$7.75 JERA
Tabaneo	Sinocean TBN	85,000 Rizhao	24/30 Nov	12000/15000	\$6.50 Leading Resource
Puerto Drummond	ST Shipping TBN	140,000 Gdansk	27 Nov/5 Dec	50000/35000	\$13.25 JERA
Dalrymple Bay Coal Terminal	TBN	75,000 Vizag	1/10 Dec	35000/20000	\$15.70 SAIL
Newcastle	CCL TBN	130,000 Mailiao	10/19 Dec	40000/35000	\$11.90 Formosa Plastics

Source: Simpson Spence Young (SSY)

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## Statistics

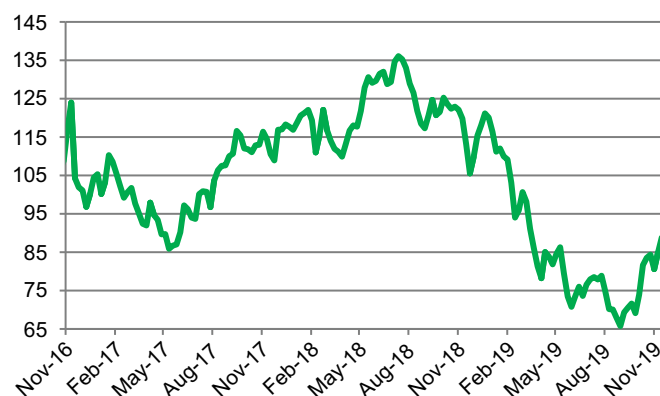
### Richards Bay Marker US\$/FOB



Source: IHS Markit/SSY/globalCOAL

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### Met Anthracite Index



Source: IHS Markit

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### Thermal coal - IHS Markit weekly prices (US\$/t)

FOB markers	Basis	Nov-18	Oct-19	8-Nov	15-Nov
Richards Bay	6,000kc NAR	92.40	67.60	70.58	73.52
South African 5,700	5,700kc NAR	85.53	63.07	65.39	66.59
South African 5,500	5,500kc NAR	63.70	52.03	53.99	55.20
South African 4,800	4,800kc NAR	45.30	42.04	42.61	43.91
Differential (RB vs 5,500)	6,000kc NAR	-22.91	-10.84	-11.68	-13.30
<b>Spreads</b>					
FOB Spread (NEX/RB)*	6,000kc NAR	7.32	-1.66	-6.43	-11.07
FOB Spread (Newc/RB)**	5,500kc NAR	-1.65	-1.85	-3.04	-4.80

FOB spread is differential of Newcastle minus Richards Bay, for both 6,000kc NAR and 5,500kc NAR

\*NEX equals Newcastle Export Index

\*\* Newcastle price minus Richards Bay price

### Met anthracite index

Richards Bay Spot	US\$/t	Index
25-Oct-19	70.20	84.36
01-Nov-19	67.39	80.60
<b>Oct average</b>	<b>67.60</b>	<b>80.87</b>
08-Nov-19	70.58	84.87
15-Nov-19	73.52	88.81

Source: IHS Markit

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**Freight rates**

<b>Week ending</b>	<b>Vessel size</b>	<b>8-Nov-19</b>	<b>15-Nov-19</b>
RBCT/Rotterdam	Cape	7.75	7.75
RBCT/Krishnapatnam	Panamax	12.61	11.19
RBCT/Mundra	Panamax	13.00	13.00
RBCT/Mundra	Cape	10.25	11.95
RBCT/India (East)	Cape	9.60	11.19
Indonesia/Dahej	Panamax (72,000)	9.00	9.00
Indonesia/India (East)	Panamax	7.00	6.35
<b>FOB Barge ARA 6,000 NAR</b>			
ARA	Barge	58.90	57.10

Source: Simpson Spence Young, IHS Markit

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