Coal prices continue to weaken

Power demand remained robust in November

Nov16 power demand increased 7.0% y-y thanks to the continuous recovery from secondary industry, which grew 6.0% y-y (vs. Oct’s +5.0% y-y). Power demand from tertiary industry and residential users maintained a strong growth momentum, with +11.8% and +9.0% y-y in Nov. 11M power demand rose 5.0% y-y, driven by demand from primary industry +5.2%, secondary industry +2.6%, tertiary industry +11.7% and residential +11.4% y-y. Of the total, power demand from secondary industry contributed 70.8%, followed by 13.8% from residential, 13.5% from tertiary, and 1.9% from primary industry.

Coal price dropped RMB10/t w-w; 11M16 China Coal Index up 0.3% y-y

Both of the CCI1 (5500kcal) and CCI2 (5000kcal) index declined RMB10/t to RMB607/t and RMB540/t w-w respectively. Qinhuangdao (QHD) 5800kcal and 5500kcal prices also fell by RMB10/t w-w to RMB633/t and RMB607/t, with cumulative decline of RMB135/t compared with the highest in mid-Nov 2016. The Bohai Bay index stayed flat w-w at RMB593/t last week. Both the mine-mouth prices at Shanxi Datong (6000kcal) and Inner Mongolia Ordos (4500 kcal) were unchanged at RMB455/t and RMB215/t respectively. China Coal index (5000 kcal) in Nov rose RMB52.7/t or 11.2% m-m to RMB522.0/t, the highest monthly price since Apr-2014, and its y-y growth reversed to positive at 0.3% in 11M16 from -4.9% in 10M16. We expect spot price to remain weak given rising supply and the LT coal contract price at RMB535/t.

Daily coal consumption decreased; inventory down at ports

Coastal IPP inventory days increased to 16.1 days (last week: 15.6 days), with inventory down 3.4% w-w and daily coal consumption down 6.3% w-w. Inventory decreased 6.9% w-w to 6.8mt at QHD, and it dropped 16.7% w-w at Huanghua port. QHD port output increased 22.5% and railway inflow declined 6.7% w-w. The queue declined to 54 vessels from last week’s 74, with another 10 vessels scheduled to arrive next week.

Imported price discount narrowed; freight slightly rebounded

Imported coal was at 9.5% discount to domestic coal price (last week: 10.5%). The dry bulk freight rate from QHD to Guangzhou Port rebounded by 4.2% w-w to RMB30.0/t.

Domestic coal production further recovered in Nov; import coal volume rose

While domestic coal production in 11M16 fell 10.0% y-y (-10.7% y-y in 10M16), Nov16 coal production grew by 1.7% m-m to 308mt, a record high since Jan16. Nov imported coal volume hit 27.0 mt, a 2-year-high, or 66.6% y-y or 25.0% m-m (Oct: 54.6% y-y and -11.7% m-m). 11M16 imported coal volume grew 22.7% y-y, up from 10M16’s 18.5% y-y. Import coal accounted for 7.0% of total China coal consumption in 11M16, increasing from 2015’s 5.3%. We estimate imported coal volume to fall with domestic coal price decline.

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Exhibit 1: Monthly power demand in China

![Monthly power consumption and growth](chart)

Sources: China Electricity Council; BNP Paribas

Exhibit 2: Power demand breakdown

![Power demand breakdown](chart)

Sources: China Electricity Council; BNP Paribas

Exhibit 3: Power demand growth rate in local areas

![Power demand growth rate](chart)

Sources: China Electricity Council; BNP Paribas
Exhibit 4: Power generation growth

(y-y %)

Sources: China Electricity Council; BNP Paribas

Exhibit 5: Power generation breakdown

(b kwh)

Sources: China Electricity Council; BNP Paribas

Exhibit 6: FAI in power categories

(RMB b)

Source: China Electricity Council
Exhibit 7: CCI1 and CCI2

Sources: Sxcoal; BNP Paribas

Exhibit 8: Bohai coal index price

Sources: Sxcoal; BNP Paribas

Exhibit 9: Datong mine-mouth price

Sources: Sxcoal; BNP Paribas

Exhibit 10: Inner Mongolia Ordos mine-mouth price

Sources: Sxcoal; BNP Paribas

Exhibit 11: Coal inventory at QHD Port

Sources: Sxcoal; BNP Paribas

Exhibit 12: Coal inventory at Huanghua port

Sources: Sxcoal; BNP Paribas
Exhibit 13: QHD Port vessels waiting queue

Exhibit 14: QHD Port – estimated arrival of new vessels

Exhibit 15: International coal prices

Exhibit 16: Price gap between imported and domestic coal

Exhibit 17: Coal inflow and outflow at QHD Port

Exhibit 18: Daqin railway monthly coal transportation volume
Exhibit 19: China coal index

Exhibit 20: Domestic coal freight

Exhibit 21: Imported coal volume

Exhibit 22: Imported coal as a % of domestic coal demand

Sources: NDRC; BNP Paribas

Sources: Sxcoal; BNP Paribas

Sources: Sxcoal; BNP Paribas

Sources: Sxcoal; BNP Paribas
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APPENDIX

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<th>Disclosure (as applicable)</th>
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