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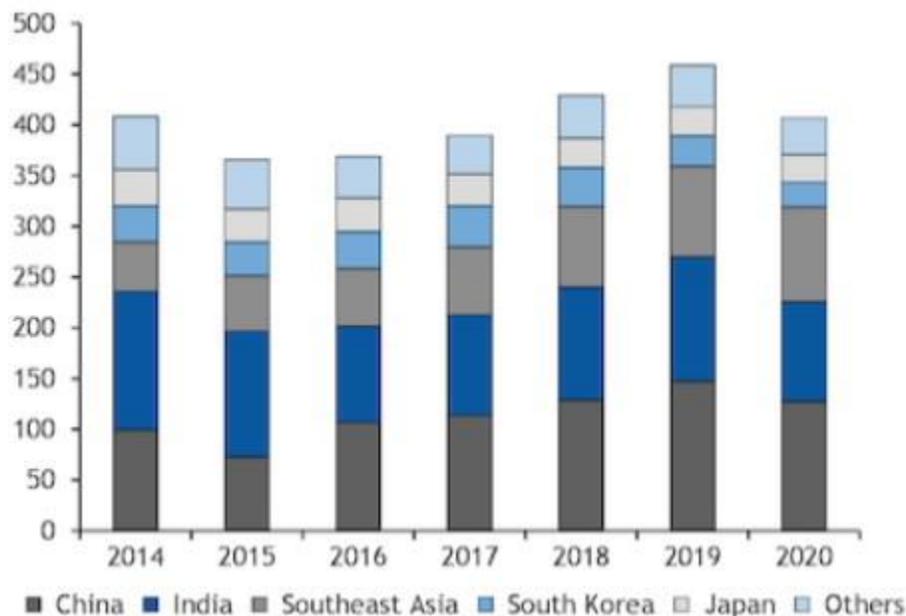
Indonesia bans coal exports without warning

On the first day of 2022, the Indonesian government caught coal exporters off-guard by imposing an immediate ban on thermal coal exports, sending shockwaves through the global energy market. The Indonesian authority cited “critically low stockpiles” at its state-owned utility Perusahaan Listrik Negara (PLN) as the reason and stipulated that the ban will not be lifted until its domestic coal miners have fulfilled their Domestic Market Obligation (DMO).

Under the DMO scheme, Indonesian miners are required to supply 25% of their annual coal production to the local market with the price capped at \$70 per ton, less than half the current market price. The price cap is a deterrent to miners, especially at a time when coal sold overseas fetches about \$170 a tonne. As global coal and other energy prices surged considerably in 2021, many of the country’s coal miners have skirted the obligation, selling coal overseas for larger gains. In addition to banning the export of coal, another [announcement](#) hit the news after Indonesian President Joko Widodo decided to revoke 302 coal mining permits, exerting further pressure on coal exporters.

The unanticipated halt in exports has created turmoil in the Asia-pacific coal supply chain and particularly in countries that heavily rely on coal from Indonesia to generate electricity. Indonesia is the world’s largest coal exporter, with 300 million tons of coal shipped out in 2021. Its largest customers are China, India, Japan and South Korea. According to JK Capital’s calculations imports from the archipelago alone accounted for 3.7%, 11.4%, 13% of China, India and Japan’s thermal coal consumption in 2020, respectively.

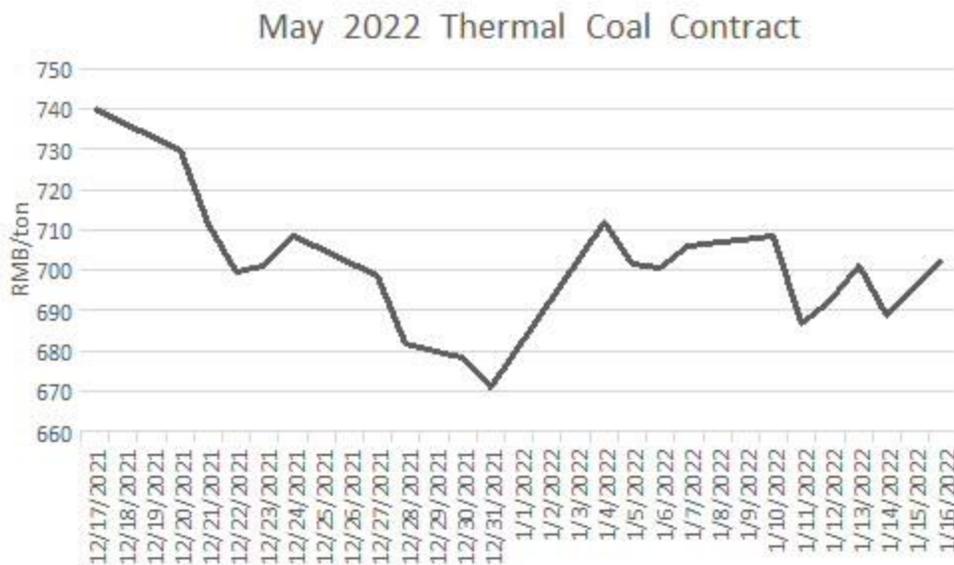
Indonesia Coal Exports (million tons)



Source: Argus

In response to the ban, Japan's ambassador to Indonesia requested an "immediate removal of bans of coal export", stating in a [letter](#) that "a sudden export ban has a serious impact on Japan's economic activities, as well as people's daily life." Similarly, the Philippines also [appealed](#) to lift its coal export ban, expressing that the policy will be detrimental to economies heavily reliant on coal for power generation.

The market's concern for coal supply quickly translated into price action. On the back of the ban, the most actively traded thermal coal futures contract for May delivery in China reached CNY712 (USD112.2) a tonne on 4th January, up 6% from the previous close.



Source: Zhengzhou Commodity Exchange

Signs of relaxation finally arrived when the archipelago allowed 37 vessels loaded with coal to depart on 14th January. According to [Reuters](#), the departed vessels were carrying coals from miners that had fulfilled their DMO, indicating that the ban is far from being completely lifted and supply of coal from Indonesia may remain relatively tight until all miners fulfil their DMO requirement. Moreover, the reluctance of miners to supply coal domestically due to the artificially low price cap, combined with declining investment in the coal sector and increasingly stringent environmental regulations, may create a longer-term supply-demand imbalance in the future.

Skyrocketing commodity prices (including coal) and electricity outages in 2021 have been intensively excruciating for Asian manufacturers amid a global supply-chain logjam. With chip shortage and logistical bottleneck expected to persist in 2022, the last thing the world wanted is large scale blackouts caused by insufficient energy supply, in which case factories will be forced to shut down completely.

To be clear, we have no intention of advocating for an increase in coal consumption or production. In fact, JK Capital has taken a clear stance on coal by establishing a negative screening policy in thermal coal and voluntarily exiting all coal-related positions in early 2021, as part of our comprehensive ESG integration strategy.

Rather, we are simply highlighting the unfortunate fact reflected in the current coal crisis: The world is far from ready to completely get rid of coal. Due to environmental and safety concerns, global coal production has been on a slightly downward trend in recent years. With the expected steadily increase in global energy demand and energy output from renewable energy sources, the importance of energy output from reliable baseload sources such as coal and natural gas shall not be easily overlooked, at least not until the world has installed enough renewable capacity and energy storage infrastructures to fully support our ever-blooming economic activities. Until then, unfortunately, coal would still play a declining yet indispensable role in the global energy mix, and likely with a widening supply-demand imbalance and higher price volatility.

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