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Coking coal’s on a high, but how long will it last?

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The price of the nation’s second-biggest export, coking coal, has surged in recent months, providing at least a temporary boost for Queensland and federal coffers and those of mining giant BHP Billiton.

But the industry and analysts are divided on whether the gains of 40 per cent in the past month to a three-year high of $US139 a tonne are sustainable.

The world’s biggest coking coal exporter, BHP, says it is not counting on these prices for the steelmaking ingredient to last until the end of the year.

Coking coal prices, which were less than $US80 a tonne between September and March, have shot higher as China cut annual statutory working days for coalmines from 330 to 276 to ease overcapacity while scheduled maintenance hit Australian production and Chinese steel demand continued to grow.

The surprising extent of the gains is illustrated by the fact that consensus market forecasts for 2016 remain at $US80 a tonne, according to FocusEconomics, while the latest federal budget is counting on prices of $US91 a tonne for 2016-17 — a forecast most observers thought was overly optimistic.

BHP Mitsubishi Alliance asset president Rag Udd, the miner’s top coal executive, said the company thought steel demand would be the long-term price driver of coking coal, not “temporary supply side restrictions”.

“We continue to believe that longer term the market remains somewhat oversupplied, so we’re continuing to reduce our costs and working hard to ensure our mines are as productive as possible,” Mr Udd told *The Australian*.

“Recent price increases have been largely driven by a range of policy and seasonal factors, as well as restocking efforts, which we don’t think will be sustained through to the end of 2016.”

The importance of coking coal for the miner is shown by the fact that every $US10-a-tonne move in the average annual price of the commodity, other things being equal, adds $US420 million to earnings before interest, tax, depreciation and amortisation.

The chief executive of explosives maker Orica, Alberto Calderon, said he thought there was potential for prices to remain around $US120.

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“It is a small business for us but it has interesting long-term fundamentals, with India not having metallurgical coal (like it has iron ore),” said Mr Calderon, a former BHP executive.

Analysts are mixed on the prospects for coal but believe it has better supply fundamentals than iron ore, where new production continues to come on.

ANZ senior commodities analyst Daniel Hynes said the recent price surge had come after Chinese steel demand picked up in the second quarter, just as coal producers, particularly in North America, were starting to reduce output.

“It’s catching up to earlier gains in other commodities, but the speed of the gain raises the possibility prices will ease back in the shorter term,” Mr Hynes said.

“Still, the price was unsustainably low during the first half of the year, so prices should hold up relatively well.”

Stanmore Coal, the junior which late last year paid $1 for the mothballed Isaac Plains coking coalmine in Queensland once valued at $860m, has timed its May production restart exceptionally well.

This week, its shares have surged 50 per cent to 46c, giving it a market value of $100m.

In an August report, Macquarie analysts said they expected the price of coking coal to hold up for the next couple of months but that the fourth quarter would be a challenge.

“We think the Chinese government will find it increasingly difficult to control output levels as margins continue to improve,” Macquarie said.

“However, on a relative basis, metallurgical (coking) coal looks less vulnerable than thermal coal, since it is much more levered to Shanxi province, where production restrictions have been best enforced, and also because there isn’t as much supply flex in the seaborne market.”

Key to the sustainability of high prices will be whether the North American coking coal mines that tend to be the marginal producers in the seaborne market quickly fire up and put more coal in the market to compete with Australian exports.

Some producers say that prices of $US100 a tonne will start up this North American production, but Macquarie disagrees.

“Much of the capacity that has been shut down in the US and Canada in the past couple of years is not coming back any time soon, so for prices to take a leg lower, one is betting directly against Chinese government policy succeeding,” Macquarie said.