Coal Flow Disruptions and the Rising Volatility in Panamax and Cape Markets

The energy sector has undergone significant shifts in recent years. Following Russia's invasion of Ukraine, the European Union has reduced its reliance on Russian pipeline gas, targeting a full phase-out by 2027. Prior to 2022, Russia supplied nearly 40% of the EU's natural gas consumption.[1]

The primary replacement has been seaborne LNG, which now represents approximately 45–50% of marginal supply[2]. However, this supply base is more fragmented. The United States, Qatar, Norway, Algeria, Nigeria and Egypt are all contributing to Europe's energy needs, yet it remains uncertain whether these suppliers can collectively match Russian gas in terms of scale, stability and continuity.

This rebalancing has triggered a scramble for alternative energy sources, reviving interest in "older" fuels such as coal.

Indonesia, the world's largest thermal coal exporter, has increased controls over coal production and exports in favour of domestic power generation. In 2025, the country exported approximately 520 Mt of coal[3], but the government is now targeting a potential reduction of 150–200 Mt per annum through stricter production and export quotas. [4]Indonesia accounts for roughly 30–35% of global seaborne thermal coal supply and around 45% of Asia's demand[5], making any meaningful reduction difficult to replace in the short term.

Coal cargoes are predominantly transported on Panamax vessels, particularly from South Africa, Colombia and the US East Coast. Coal represents a key marginal trade for the segment, accounting for around 35–40% of Atlantic Panamax employment, alongside grains and minor bulks.[6]

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[1] European Council, *Where does the EU's gas come from?*
[2] Eurostat, *EU trade with Russia - latest developments*, International Group of Liquefied Natural Gas Importers (GIIGNL), Oxford Institute for Energy Studies (OIES)
[3] Argus Media, *Indonesian coal output, exports decline in 2025*, Indonesia Ministry of Energy and Mineral Resources (ESDM)
[4] Reuters, *Asia's power mix to be shaken up by Indonesia's coal export stoppage,* IEA
[5] The Coal Hub - *Indonesian coal: profits soar but analysis reveals strength and exposure across top miners*
[6] Breakwave Advisors - *Coal Dry Bulk Flows | U.S. - Europe Market Analysis*

Even a relatively modest reduction of 20–30 Mt in coal flows could have a material impact on Panamax employment. Such a shift may displace 120–150 vessels, encouraging faster trading patterns and shorter fixing windows[7]. While coal represents a smaller share of Capesize demand, approximately 15–20%, it remains critical for vessel positioning. A displacement of just 10 Mt can alter ballast patterns for 40–50 Capesize vessels.[8]

As a result, volatility across both Panamax and Capesize markets is likely to increase, raising earnings risk for owners and freight cost uncertainty for charterers. In this environment, FFAs may play an increasingly important role as a risk management tool.

Looking ahead, we believe the Panamax segment will act as the primary transmission channel for disruptions arising from the realignment of coal flows, with heightened volatility in the Atlantic becoming a defining feature of the freight market.

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[8] Tradewinds - *How changing capesize cargo mix is supporting smaller bulk carriers, SSY research chief explains*

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