




MARKET TO WATCH: GAS-TO-COAL SUBSTITUTION COULD MOVE FREIGHT MARKETS

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Disruption to LNG and oil flows has led to a shift in power generation. Gas has become less competitive, and coal usage is increasing. This is already feeding through into coal markets and may begin to affect freight.

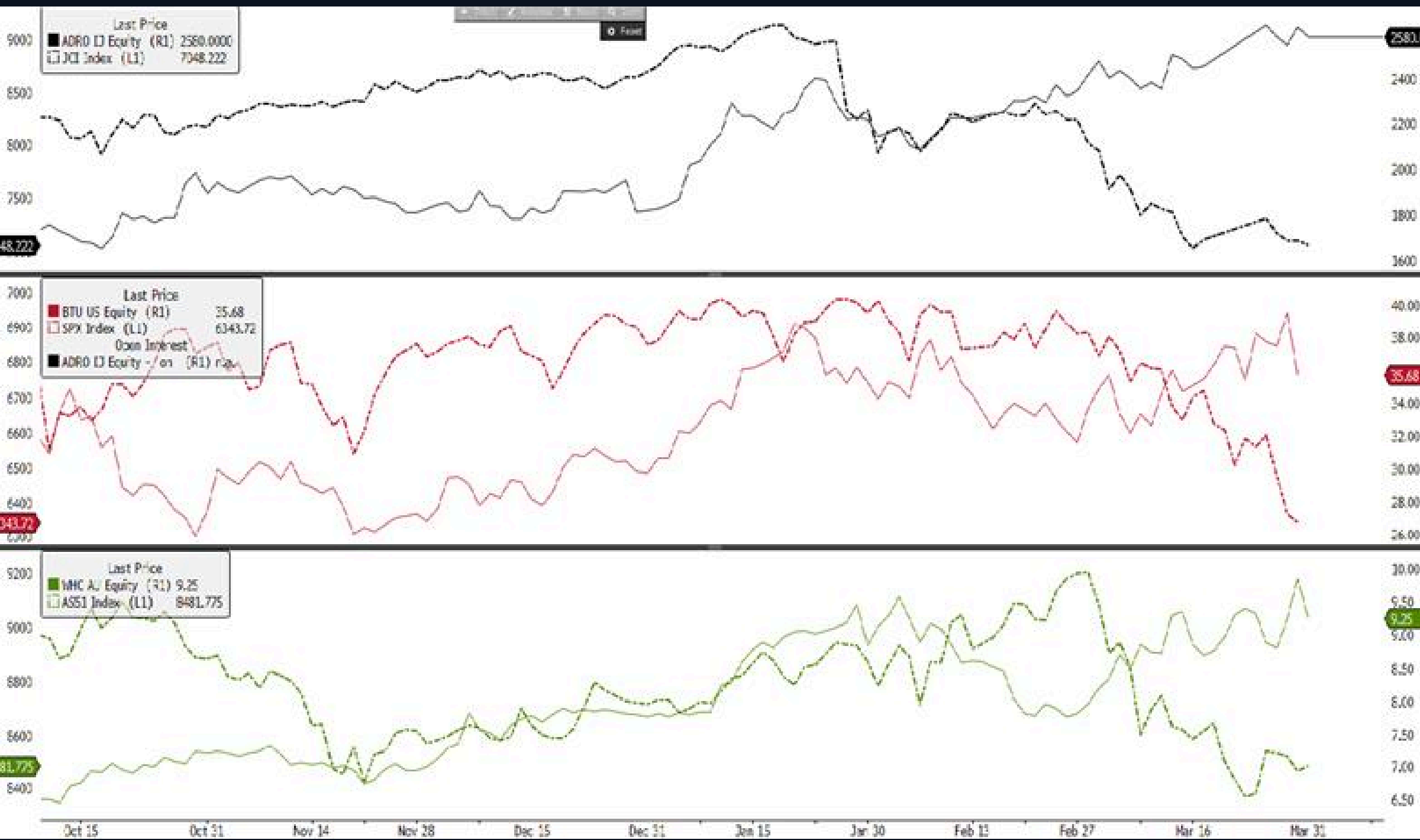


FACTOR	METRIC	IMPACT
LNG Capacity Loss	~80 mtpa	-20% of global supply
Coal Equivalent	160m – 250m tonnes	Required to replace lost Joules
Efficiency Factor	~1.5x	Higher coal volume needed due to lower thermal efficiency vs. gas

Scale of the Shift

Many countries are restarting older coal plants to replace lost Middle East energy. Once these plants are brought back online, they are politically difficult to be shut again in the near term.

This suggests the increase in coal demand is not short-term.



Coal Companies up ~25%

Coal equities are showing clear alpha, with Whitehaven, Peabody and Almatr (Adaro) all up around 25% since the start of the Iran conflict, while their respective indices have moved lower over the same period.

This divergence highlights that the strength is coming from coal-specific fundamentals rather than broader market direction, with the sector outperforming despite weaker equity conditions overall.

Asian Countries Increase Coal Burn

Asian power generators are lifting environmental restrictions to prevent grid collapse. Coal remains around 40–50% of Asia's power mix and therefore, an easier energy substitution.

Country	Action
Japan	Japan has lifted 50% restrictions on older coal-fired power plants for at least one year to stabilise electricity supply.
South Korea	South Korea has removed seasonal utilisation caps on coal plants to reduce reliance on LNG.
India	India has instructed imported coal plants to run at full capacity to meet rising summer power demand.
China	China is increasing domestic coal production to offset higher seaborne energy costs and reduce import reliance.
Bangladesh	Bangladesh is curtailing gas supply to power and industrial sectors in favour of coal-fired generation.

METRICS	DIRECTION	IMPACT
Dark Spread	Widening	Coal generation economic at margin
Spark Spread	Compressing	Gas generation squeezed by TTF rise
API2 vs Richards Bay (ARA)	RB premium rising	Colombian tonne more competitive on delivered cost

The European Switch

The 75% rise in TTF (Gas) prices has fundamentally broken the "Spark Spread" (gas-to-power profitability). European utilities are now forced into the "Dark Spread" (coal-to-power), where margins remain viable despite carbon costs.

THE ATLANTIC BASIN

WINNERS

The conflict has created a geographic "split" in coal competitiveness. Logistics (freight and safety) are now more important than the cost of the coal at the mine.

The "Colombia Advantage":

- **Direct Route:** Puerto Bolivar to ARA (Antwerp–Rotterdam–Amsterdam) is a "clean" North Atlantic run.
- **No Red Sea Risk:** Unlike South African coal (Richards Bay), Colombian tonnes do not face the Suez/Red Sea war-risk premiums or the 14-day detour around the Cape of Good Hope.

Origin	Routes	Risk Status	Competitive Rating
Colombia	Direct Atlantic (C7/ P_1A)	Low Risk	High (Marginal supply for Europe)
South Africa	Red Sea/Suez	High Risk	Low (Freight/Insurance risk too high)
Australia	Pacific Trans-Shipments	Medium Risk	High (Dedicated to Asian demand)

Route	Description	Index Weight
C10	East Australia → NOPAC	~35%
C17 / C16 (proxy)	Richards Bay / Indian Ocean	~12.5%
C7 / C8	Colombia → Europe	~15%
Total	Coal-linked exposure	~62.5%

The Market is Yet to React

Freight is not forward-looking and typically reacts after the physical market moves. There is usually a lag between changes in commodity demand, cargo being secured, vessels being fixed, and the impact showing in indices and FFAs.

In this case, it would be reasonable to expect that there is a two month lag before it is reflected in freight pricing.

Coal-related routes make up a significant share of the Capesize index, so any sustained increase in coal volumes is likely to feed directly into index levels once that physical activity begins to come through.

Summary for Traders

- **Why isn't it moving yet?** Shipping lags the commodity. The index reacts to fixtures after cargo is secured. FFAs will move when hedging pressure shifts from post-cargo securing to pre-vessel fixing.
- **The Q2 Flashpoint:** C7 and C8 will likely see the most extreme spikes given Germany's immediate gas squeeze and the 14-day detour required for rival South African (Richards Bay) tonnes.
- **Watch the Fixtures:** Colombian loading at Puerto Bolivar will be the flashpoint.
- **The Risk:** P6 (Pacific Grain) is the primary offsetting risk. If Beijing redirects soybean purchasing to Brazil, P6 rates will soften, partially masking coal-driven gains.

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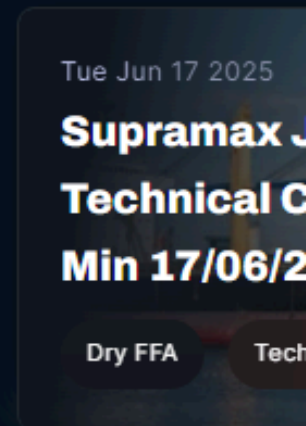
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38.2% 118.20
33.2% 108.00
31.6% 95.19

36.7%

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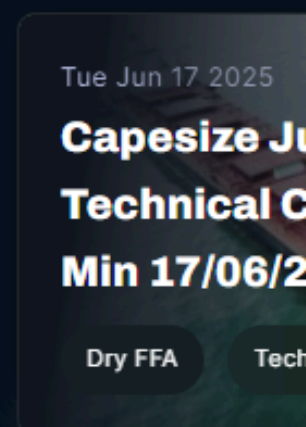
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