



Trammo

Pat Panzarino

Presentation to NCCI 2016

A Trader's View of The Market.

GLOBAL
ГЛОБАЛ

INDEPENDENT
ИНДЕПЕНДЕНТ

RELIABLE
БЕГЛАВНО



Agenda

- Gratuitous Trammo Inc. promotion
- Quotes I Like
- Impacts
- Global Coal Factoids
- Developments since 2012 and...most recent surprises
- Possible future trends/conclusions
- Metrics...what should You watch?



Trammo Group

- Private company founded in 1965 with corporate head quarters in New York
- 450 employees in 32 different locations
- Worldwide trade volume in excess of 43 million metric tons
- Turnover in 2014 of US\$ 12.2 billion ranking Trammo as one of the largest private companies in the USA
- One of the World's leading fertilizer and industrial commodities trading companies in both in volume and revenue



Organizational Structure

Trammo, Inc. *(New York)*

Fertilizers & Commodities Division

Trading in fertilizers, raw materials, energy related products, soft commodities and dry bulk freight

Chemicals Division

Trading in petrochemicals

Ammonia Division

Trading in ammonia

Gas Division *(incl. SEA-3)*

Trading in & distribution of LPG



Worldwide Offices



32 Offices

9 Agents

1 Joint Venture



Group Timeline

**\$ 12.2 billion
in Sales**

1960

1965
Founded as
trader of Ammonia

1967
Worldwide fertilizer
merchandising
and trading

1970

1978
Worldwide LPG
trading

1980

1985
Purchases Sea-3, Inc.;
propane import and
marketing terminal in
New Hampshire, USA

1986
U.S. domestic sulphur
removal and
marketing system

1987
Petrochemicals
merchandising
and trading by the
Trammochem
division

1989
Purchases Meredosia,
Illinois, USA ammonia
terminal

1990

1992
Establishes Joint
Venture with
Sinochem for entry
into the Chinese
fertilizer market

1992
Adds methanol
trading to the
chemicals group

1995
LPG merchandising
and trading in the
USA

1999
Sulphuric acid merch.
and trading

2000

2000
Sea-3 of Florida
propane import and
marketing terminal
begins operation in
Tampa, Florida, USA

2000
Olefins merchandising
and trading by the
petrochemicals group

2008
Establishes
Trammochem Asia
PTE in Singapore for
merchandising and
trading
petrochemicals in Asia

2009
Establishes
Transammonia
Shanghai for domestic
merchandising and
trading in China

Petroleum Coke
merchandising and
trading by the
Fertilizer division

2005

2010
TA Bulk Carriers enters
the commodity shipping
business

2011
Commences Coal
Trading activity

2013
Transammonia changes
its name to Trammo to
more accurately
represent the broad
spectrum of products in
which it does business

Establishes rice trading
desk. Trammo is a
member of GAFTA.



Quotes I like ...

- “Be the change that you want the world to be”
Mahatma Ghandi
- “Good judgment comes from experience, and a good deal of that comes from bad judgment”
Will Rogers
- “You frequently meet your fate on the road you took to avoid it”
Chinese - anonymous



Quotes I like...

- “This market is driving me to drink”
Pat Panzarino
- “That’s not a particularly long drive in your case
Pat”
Frank Kelly / RES Fuels



Factors Impacting The Global Thermal Coal Trade

- Coal Prices/Costs vary by producing basin
- Currencies versus USD
- Vessel Freights / Proximity to markets
 - Impact of other bulk commodities
- Governmental actions...
 - Import / export tariffs, duties
 - Balance of trade considerations
 - Most Favored Trading Status to Trading Partners
 - Preference / subsidies given to competing fuels
 - ✓ Biomass
 - ✓ Solar, Wind, Hydro



Global Coal Factoids

- US coal exports 74 mm in 2015/imported 11... 23 mm tons lower than 2014...50 mm tons less than record 2012
- Indonesian production declines from 474 mm MT in 2013 to 322 in 2015...exports from 402 to 215 while domestic consumption grows to 102 mm tons
- Australian Thermal 190 mm MT/170 mm Coking in 2015 (projected +65 mm Mt by 2020)
- South Africa exports record 75.4 mm Mt in 2015 /59% to Asia but not China...but as of March down 21% to an 8 month low



Global Coal Factoid

- Russian production in 2014 approximated 355 mm with exports totaling 120 mm thermal in 2014 and 22 mm coking...exports have tripled over the past decade
- Colombia production approximates 87 mm Mt up 4.5% YTD but expected to climb to 105 mm by 2020...2015 exports totaled 80.6 mm Mt
- China production of 3.6 B MT in 2015 but declined 9.7 % in 1 H Cal'16 to 1.63 B...imports up 8.2 %



Developments Since 2012

- API2 falls from \$134/Mt in 2012 to upper \$40's in 2016
- 2 B tonnes of liquidity enables both Buyers and sellers to hedge positions via API2 Swaps
- API2 plus vessel freight determines FOB prices for Illinois Basin NOLA, US EC exports
- European Generators pioneer transacting on long term API2/4 indexed basis
- Use of FFA swaps linked to BDI enables freight to be hedged
- China and India increase imports and global coal market surges



Developments cont'd

- Chinese economy cools and imports decline dramatically in mid 2013...no other markets can replace lost demand
- Europe and other Asian markets react in similar fashion
- Global economy cools
- Producers gradually trim production which picks up in earnest in 2015..those with government support and currency advantage grab market share



Most Recent Developments

- Unexpectedly 4-5 mm tonnes of Colombian moves to India, Korea, Japan and Thailand as favorable freight window emerges
 - Frgt window closes and trade ceases
- Business becomes more Asia centric
- API4 moves significantly to \$50/\$60 backwardation due to quality optimization
- API2 moves from mid \$40/Mt contango to \$50/\$60 backwardation...volatility increases 😊



Most Recent Developments

- China unexpectedly increases imports for past 3-4 months off back of domestic mine closures and aggressive pricing action by state mining concerns...short term reaction to government controls or sustainable trend?
- China ZCE Index with its huge liquidity emerges as a credible hedging tool for Asian trade (Indo and Aussie)



Possible Trends and Conclusions

- Continued decline in US thermal exports to 12 mm Mt?
- Perhaps a fragile future for US coking coal exports view China's rationalization of steel production
- Continued decline in European coal demand
- Evolution of self-sufficient domestic Indian production in 2-3 years
- Emergence of regular Colombian trade route to Asia...positive impact of Canal expansion
 - Greater US imports view CAPP production declines?
- More Indonesian production stays home



Possible Trends and Conclusions

- Japanese nuclear plants continue to restart
- Certainly fewer, but larger producers globally
- Fewer Traders ☹️
- Companies “stick to their knitting”...ie. Reported EdFT selling trading operation could be start of a trend among Generators
 - Anglo, BHP focus on core strength in Iron Ore
- Private Equity displaces public ownership
- Globally, voters opt for fiscal responsibility and reject renewable subsidies
- US elections result in shift away from fracking?



Metrics what should you watch...

- Sure, follow the coal price sheets Dan Vaughn, the Evo Folks and others provide
- Weather
- Your competitors...
- Nat Gas
- Power



Natural Gas

- Dry Gas production trend
- Drilling trend vs crude oil price
- Basin's daily take away capability
- Producing Region vs Henry Hub ie the Basis
 - (with recent CSX Rate changes, CAPP now has significant Basis between producing districts)
- The 12 month NYMEX Strip or impact of the Contango Storage Trade (together with weather is a good predictor of market demand/price trends)
- Rep. B Sanders wants to force a anti-fracking platform plank on Sec. Clinton !!



Power

- How does your customer make their money?
 - Selling power or regulated return on capital expenditures?
 - Generators with favorable Regulated Rates of return will make more money from capital enhancements and considerably less from power sales
 - Bias towards Capacity Payments for coal units
 - Has your customer turned into a Fossil Peaker?
Google the Duck Curve...load vs time of day demand and the required ramp rate due to the impact of renewables



Thank you!

