Trammo
Pat Panzarino
Presentation to NCCI 2016
A Trader’s View of The Market.
GLOBAL INDEPENDENT RELIABLE
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 headquarters 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
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1960</td>
<td>Founded as trader of Ammonia</td>
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<td>1965</td>
<td>Worldwide fertilizer merchandising and trading</td>
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<td>1967</td>
<td>1985 Purchases Sea-3, Inc.; propane import and marketing terminal in New Hampshire, USA</td>
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<td>1970</td>
<td>Worldwide LPG trading</td>
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<td>1978</td>
<td>1986 U.S. domestic sulphur removal and marketing system</td>
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<td>1970</td>
<td>1987 Petrochemicals merchandising and trading by the Trammochem division</td>
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<tr>
<td>1980</td>
<td>1989 Purchases Meredosia, Illinois, USA ammonia terminal</td>
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<td>1990</td>
<td>1992 Establishes Joint Venture with Sinochem for entry into the Chinese fertilizer market</td>
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<tr>
<td>1992</td>
<td>1995 LPG merchandising and trading in the USA</td>
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<td>1995</td>
<td>1999 Sulphuric acid merch. and trading</td>
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<td>2000</td>
<td>2000 Sea-3 of Florida propane import and marketing terminal begins operation in Tampa, Florida, USA</td>
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<td>2002</td>
<td>2000 Olefins merchandising and trading by the petrochemicals group</td>
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<tr>
<td>2005</td>
<td>2008 Establishes Trammochem Asia PTE in Singapore for merchandising and trading petrochemicals in Asia</td>
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<td>2010</td>
<td>2009 Establishes Transammonia Shanghai for domestic merchandising and trading in China</td>
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<td>2011</td>
<td>Establishes rice trading desk. Trammo is a member of GAFTA.</td>
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<td>2012</td>
<td>Commences Coal Trading activity</td>
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<td>2013</td>
<td>Transammonia changes its name to Trammo to more accurately represent the broad spectrum of products in which it does business</td>
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<tr>
<td>2014</td>
<td>$12.2 billion in Sales</td>
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<td>2015</td>
<td>TA Bulk Carriers enters the commodity shipping business</td>
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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

• “Your 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
  - Freight 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!