

BiofuelCircle Market Insights

July 2024

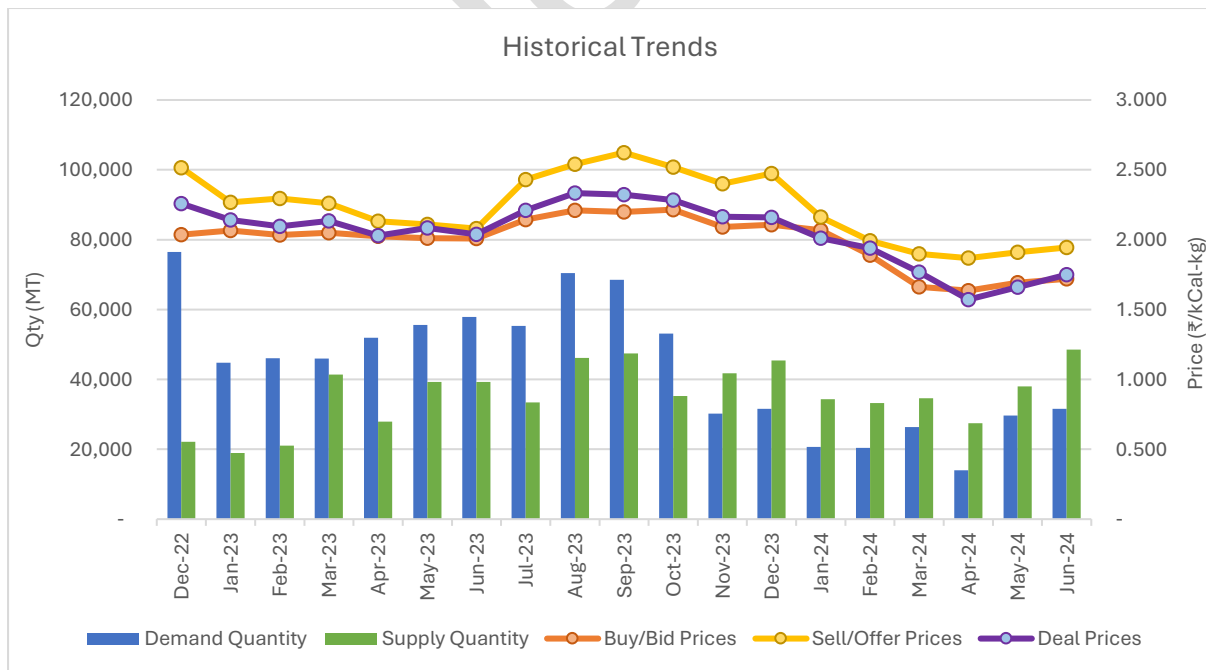
From the Editor’s Desk: rising prices, changing patterns.

Prices of Briquettes have risen steadily, up 11% from their lowest level in April. While this is typical of monsoon months, the reversal happened a month earlier than last year. With Coal remaining stable, the spread with briquettes narrowed further to just ₹0.12 per Kcal-kg. As predicted in our last newsletter, the demand very distinctly shifted away from Standard briquettes to Superior and Premium grades. And yet there was a more than adequate supply of briquettes in, excess of demand for June.

Have these changes happened too quickly? Or is the market giving mixed signals?

Read on for our analysis.

Past Trends: Briquette Prices



This chart shows the pan-India trend on the BiofuelCircle platform, for weighted average delivered prices of Biomass Briquettes, converted to Rs per Kcal-kg over the past months, along with the availability & demand from our subscribers. Weighted average is calculated using quantity sought/ offered/ deals done, averaged over a month.

Buy/Bid prices (orange line) are expectations of Buyers (delivered basis). Sell/ Offer prices (yellow line) are based on responses and sells published by Sellers (again delivered basis). And finally, the Deal prices (purple line) are for deals concluded after platform-

based negotiations between Buyers & Sellers. Demand (blue bars) is the total Buy quantity the month, and Supply (green bars) is the total quantity Offered by Sellers for that month.

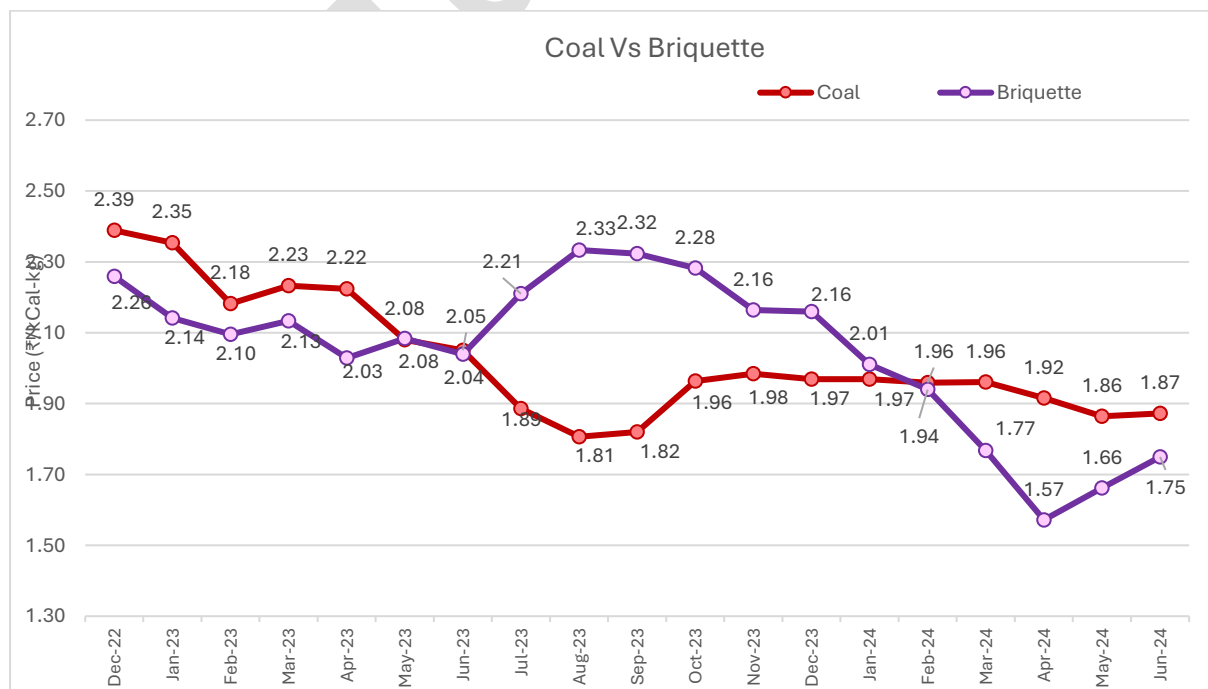
The trend of falling prices that reversed in May 2024 continued into June 2024. Deals done, Buy/Bid prices, and Sell/ Offer were all higher as compared to the previous month. But Deal prices continued to remain closer to Buyer expectations. In Jun 2024, deals done on the platform averaged ₹1.75 per Kcal-kg, 5% higher than the previous month's average of ₹1.66.

The month of Jun 2024 saw a jump in volumes for Premium and Superior briquettes as compared to the volumes for Standard briquettes. The price of Premium briquettes (GCV ~ 3400 to 3800, Ash ~ 8 to 12%) was ₹1.99 per Kcal-kg. Premium briquettes sold in June were 30% of all deals done, and quantity was double that in May. Superior briquettes (GCV ~ 3400 to 3800, Ash ~ 8 to 12%) were sold at ₹1.80 per Kcal-kg on average and formed 22% of the biomass briquette deals. Standard briquettes (GCV < 3400, Ash > 12%) sold at an average price of ₹1.58 per Kcal-kg, nearly the same price as May 2024. The data for June shows a shift in preference towards higher grades.

Sellers' expectation of prices in Jun (at ₹1.95) were slightly higher (₹0.04 over May), but more and more Sellers turned to the platform to offer briquettes for supply. Availability increased by almost 28% over May 2024. Buyer demand also increased slightly by 6% over the previous month. So, while Supply was much higher in June, Buyers followed the price sentiment of Sellers, willing to pay more: ₹1.72 per Kcal-kg on average. And yet we continue to see Deals happening very close to Buyers' prices for three straight months. These observations may seem contrarian, but the behaviour seems to be driven by a sense of urgency amongst Buyers to cover for the monsoon, and Sellers cashing in on the opportunity by remaining open to negotiation.

Price Comparison

The chart below compares the weighted average delivered prices of Biomass Briquettes to those of imported coal (GCV 3400 GAR). We call the difference between these prices as the 'spread.' Coal prices in this chart (maroon line) are sourced from market publications, for Indonesian origin coal (3400 GAR), imported at Kandla and delivered on average 300 km inland. Briquette prices (purple line) are based on deals done on the platform. Both are converted to GCV basis, for meaningful comparison.



Prices of imported coal had seen a fall in May 2024 but stabilized in Jun 2024, reaching ₹1.87 per kCal-kg. The ₹1.82 to ₹1.98 price band continues to hold good.

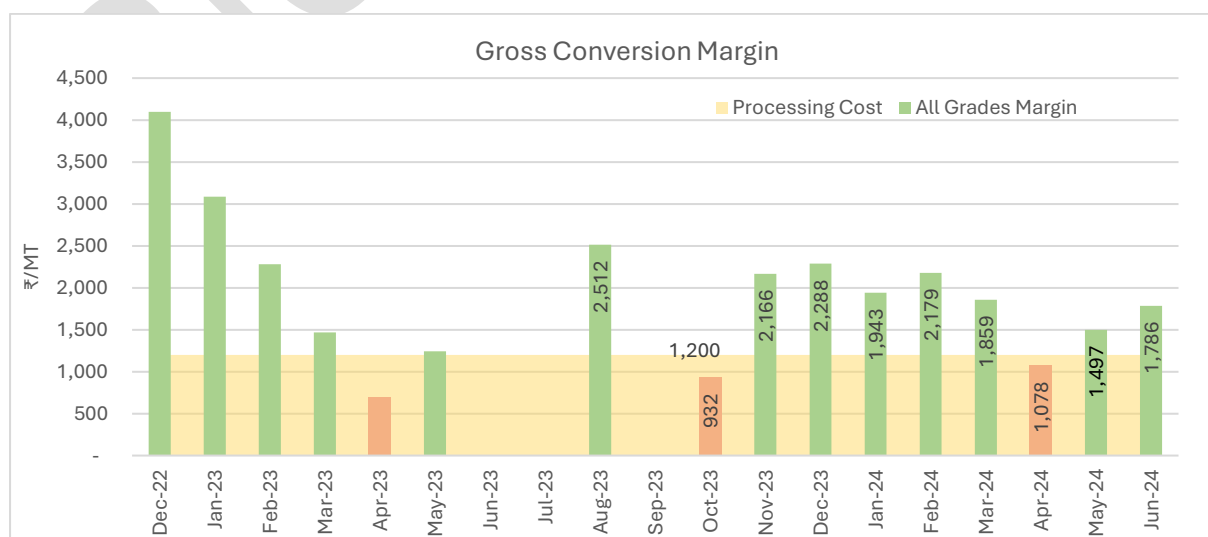
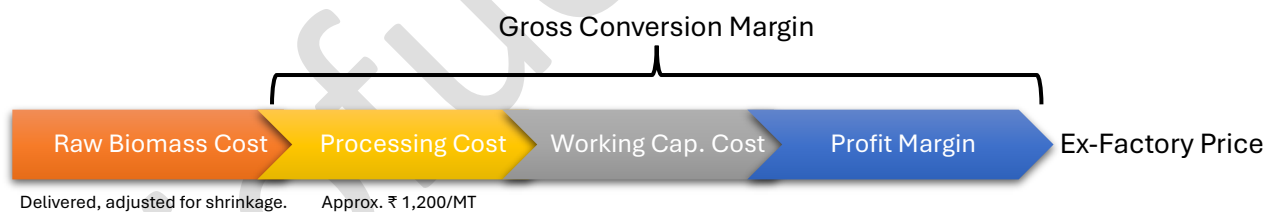
As this month saw an increase in the prices of biomass briquettes, the spread between prices of coal and briquettes narrowed further to negative ₹0.12 per kCal-kg, still in favour of briquettes. When measured in energy terms, briquettes are ~6% cheaper than comparable coal (3400 Kcal/kg).

Global prices for coal showed a decline in the month of June due to reduced demand from two of the largest consumers: India & China. Demand for imported coal in India fell as the monsoon advanced quickly across the country (leading to lower demand for electricity after record high temperatures in May). Also, domestic coal production in India was higher (about 14% more compared to June 2023), and power plants were adequately stocked. Similarly, demand in China also fell, due to increased use of hydel power compared to thermal.

Past Trends: Gross Conversion Margin

This chart shows the pan-India trend on the BiofuelCircle platform, of the difference between weighted average ex-factory price of Briquettes and weighted average delivered prices of Raw Biomass, converted to Rs per Kcal-kg over the past months. Weighted average is calculated using quantity sought/ offered/ deals done, averaged over a month. This chart excludes commodities such as paddy straw, which are directly used for conversion to biogas or bioethanol.

To assess the inherent value of briquettes, we have compared the delivered price of raw biomass, with the ex-factory price of briquettes. Raw biomass prices have also been adjusted for expected shrinkage across various inputs. The difference represents the GCM (Gross Conversion Margin), which includes the processor's cost of conversion, inventory holding cost, and a profit margin. We have tried to benchmark this against an average processing cost of ₹ 1,200/MT (approx. ₹0.34 per kCal-kg) as represented by the shaded region in the graph below. On top of this will be the cost of working capital, which varies from processor to processor.



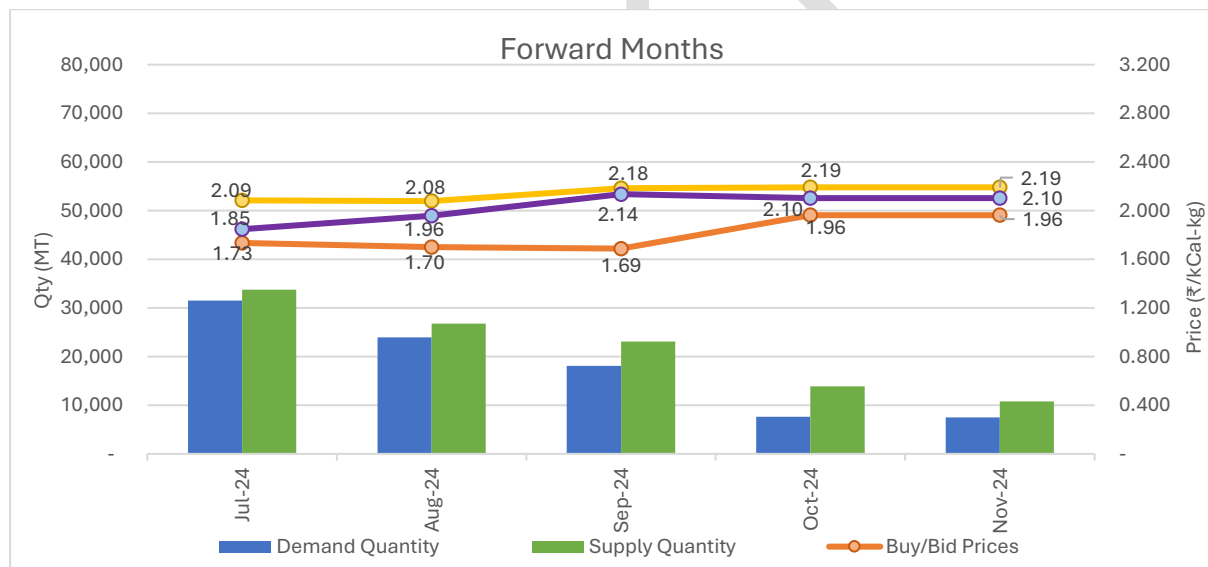
The Gross Conversion Margin (average of all grades) rose sharply in Jun 2024, to ₹1,786 per MT up almost 19% in the space of just a month. As rains cover the country, availability of biomass for Standard briquettes reduces and most manufactures will reach the end of their stocks. On the other hand, Superior and Premium briquette manufacturers still have access to industrial biowaste sources such as Groundnut shell, Saw dust, etc. Prices for these feedstocks have not increased as much in Jun 2024, though we will be watching them closely.

The GCM for Superior and Premium briquettes benefitted from higher briquette prices. GCM for Standard Briquette manufacturers continued to remain under pressure and stayed below our benchmark of ₹1,200 (which we consider as average processing cost for a typical briquette manufacturer).

It is not uncommon for Standard Briquette manufacturers to suspend or drastically curtail operations in the months of July through September.

Forward Months: Briquette Prices

The prices (for Buys/ Bids, Sells/ Offers & Deals), as well as demand & supply quantities in the chart below are for delivery of biomass briquettes in the months to come.



Prices for the forward months show a slow upward trend. Converse to what was seen in the current or near months, deals for future delivery are being done closer to the Sellers' prices. In the months of July and August, the demand and availability are nearly balanced, with supply tipping the scales slightly. Price for July delivery is lower now, at ₹1.85 per Kcal- kg, as compared to ₹2.01 for the same month during May.

There is an overlap seen in the deal prices for Superior and Premium commodities, with the range being between ₹1.40 to ₹2.28 per Kcal for both. In the months beyond August, expectations and deal prices seem to be setting around the ₹2.00 per Kcal-kg level. As expected, beyond two months from now, Sellers are getting the prices they are looking for, despite demand being lower than supply. These are largely due to deals being done in specific commodities i.e., some Buyers have limited flexibility to explore other grades. Buyers continue to seek briquettes around the

₹1.70 to ₹1.75 range, well into the monsoon months, though they are willing to negotiate a higher price. Buying for stocking continued into September & October, though volumes are now lower.

There is a game of catch-up playing between Supply and Demand into the forward months. Requirements from Buyers get adequate responses, as compared to Sellers initiating a Sell position. This looks like a Buyer-led market at the onset of rains.

The monsoon while progressing on expected timelines, was below normal for the month of June. The prediction from the IMD still remains for a normal monsoon for the season.

In Conclusion

Briquette prices are now steadily increasing, with Sellers commanding the price negotiations for forward delivery. Normally there is clear gap between price ranges for Superior and Premium briquettes – this gap has now blurred. GCM has improved to sustainable levels, we expect this to rise further in the near term and get capped closer to the harvest months.

While price of coal has stabilised, the spread with respect to briquettes narrowed by almost ₹0.10 per KCal-kg for a second straight month, though still in favour of briquettes. We expect price-sensitive Buyers who can fire both fuels to start looking at Coal, which may impact demand for Briquettes.

If you are consumer of briquettes or pellets, [Contact your BiofuelCircle representative](#) who can help navigate the supply and price uncertainty of the monsoon. Or log in to the platform to get a quotation.

If you are a Briquette/ Pellet manufacturer, BiofuelCircle can offer term processing deals to contract your production capacity for a fixed conversion fee. [Get in touch with your Support representative](#) to know more.

Let's discuss! Reply back if you are interested.

To learn more, reach out to us at:

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