

## Some Notes on Coal: 5/27/2013

By Eric Coleman

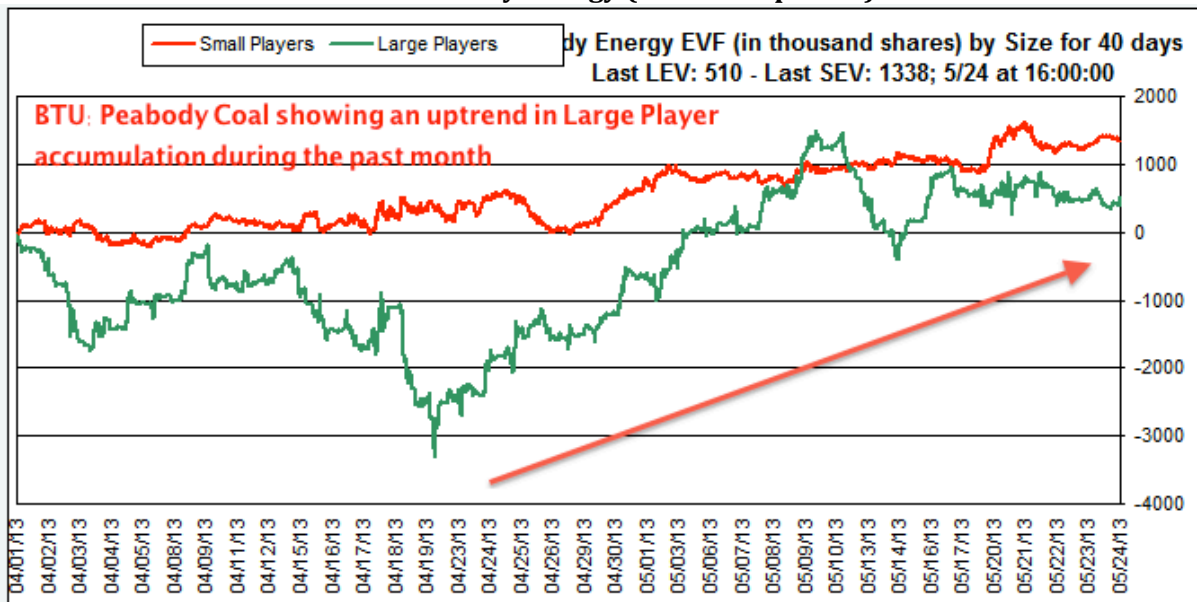
### Summary:

Coal miner shares remain relatively depressed, despite the current rally. High short interest and bearish sentiment are prevalent; nonetheless, some signs suggest that sellers are becoming exhausted. The coal miners are *not* an area of market leadership. The sector has been in a bear market since 2011. I am looking for signs that the bear trend is on the cusp of reversing, especially in the context of sector rotation.

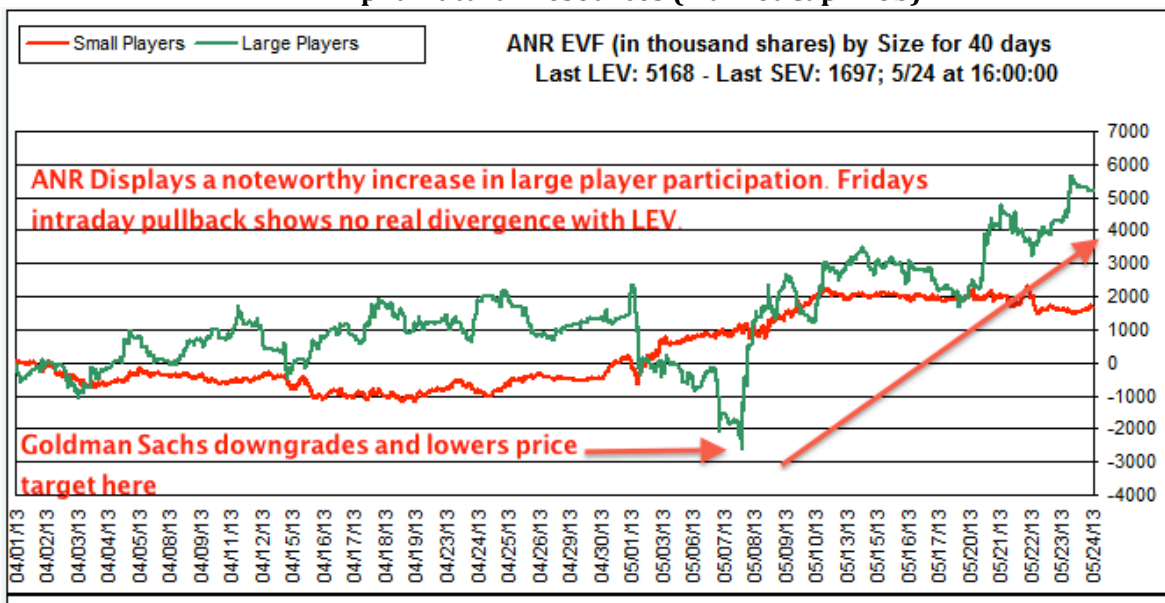
### Effective Volume Charts:

A review of some of the largest coal miners reveals steady large player accumulation. BTU ANR WLT ACI

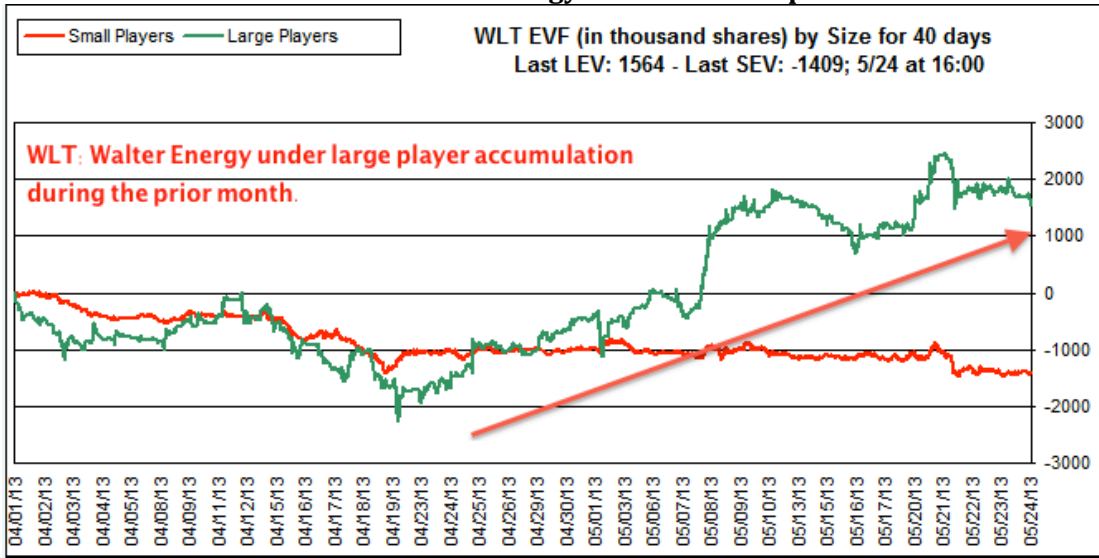
#### BTU: Peabody Energy (Market Cap. 5.5b)



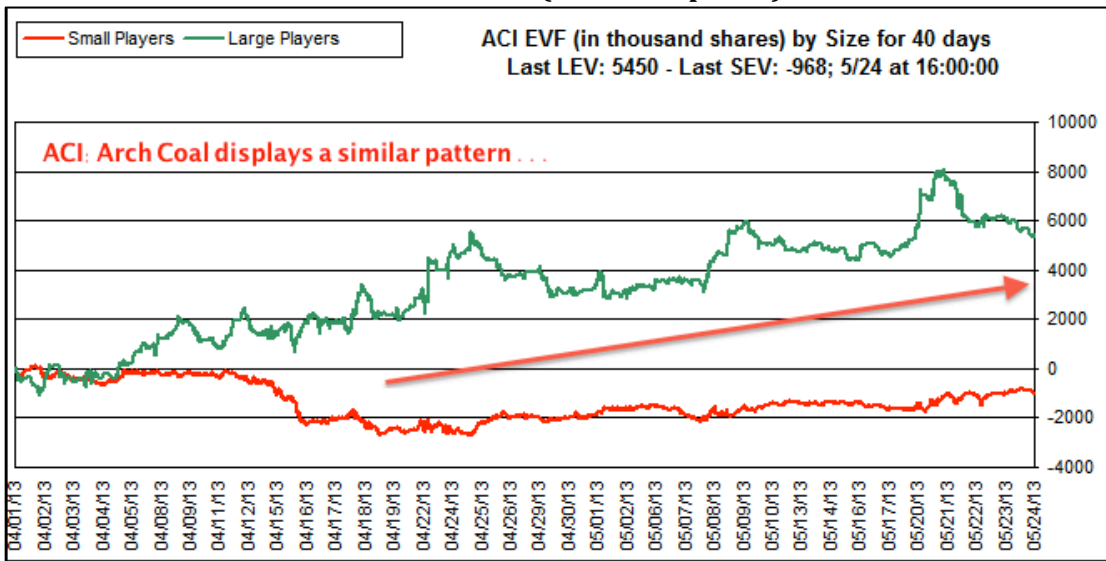
#### ANR: Alpha Natural Resources (Market Cap. 1.6b)



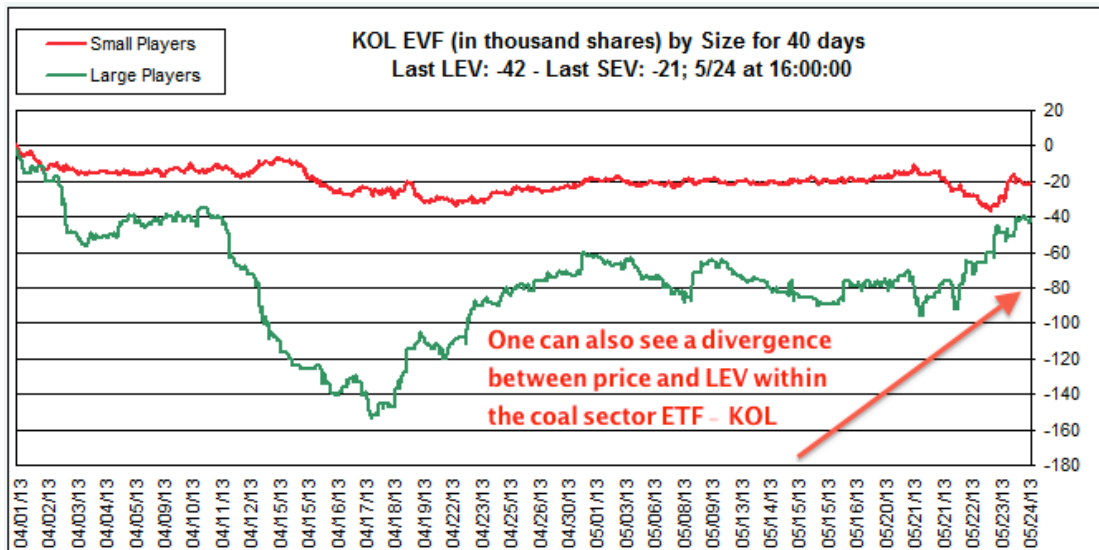
### WLT: Walter Energy 1.2b Market Cap



### ACI: Arch Coal (Market Cap 1.1b)



### KOL: Coal Sector ETF



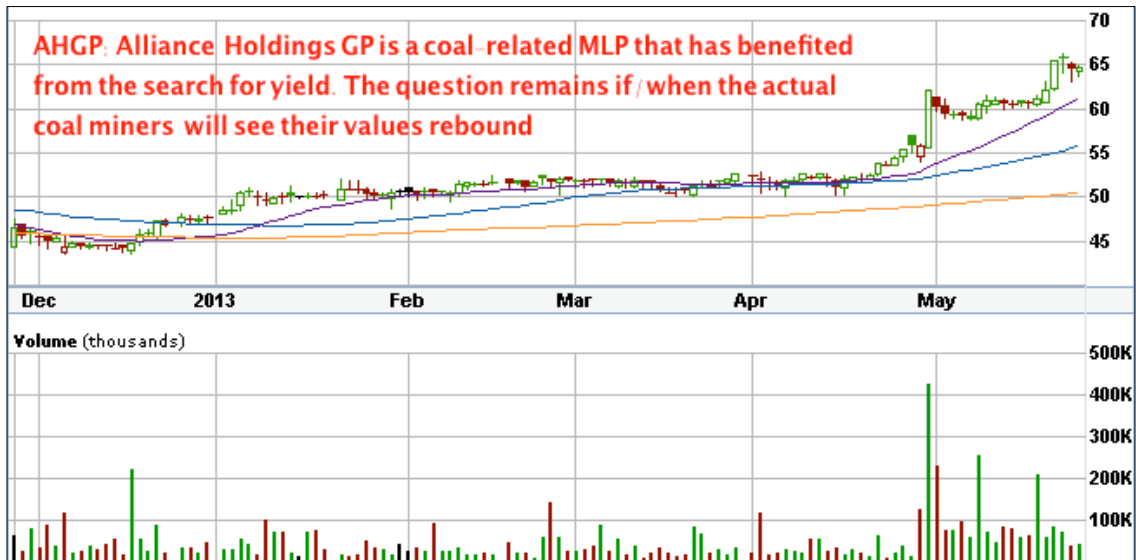
## Insider Activity:

Walter Energy witnessed over \$1 million in open market insider purchases over the last month. Insider support does not necessarily portend a rebound in share price, but is interesting to note. ACI experienced insider purchasing over the last year, but the notional value of those purchases is relatively small.



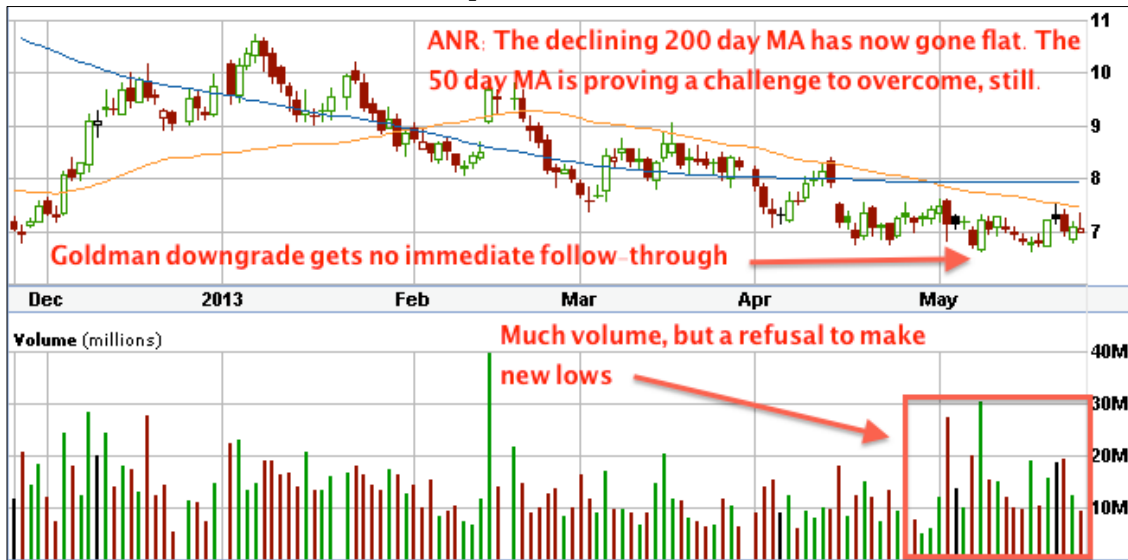
## Coal & M.L.P.'s

While coal-mining companies remain depressed, AHGP has exceeded all-time highs. Clearly, this partnership has been benefited from the search for income as miners languish.



## A Look at some charts: ANR & BTU

### ANR: Alpha Natural Resources



### BTU: Peabody Energy

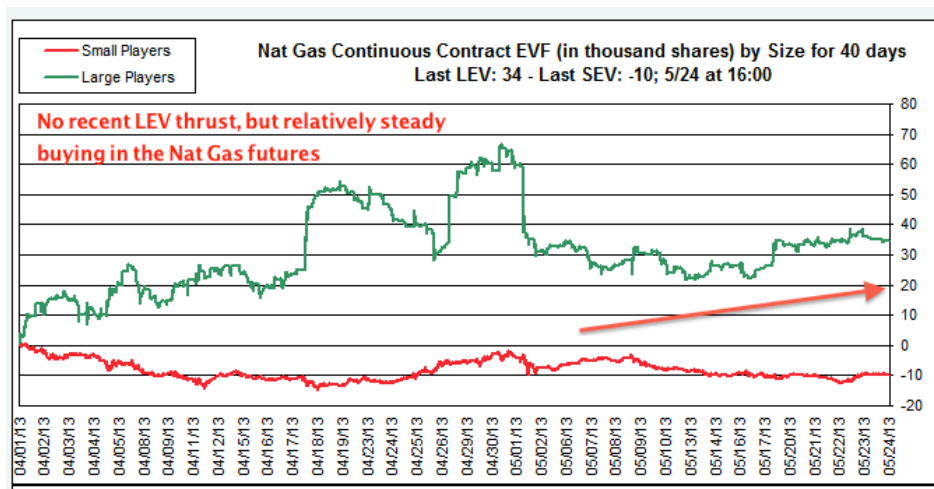
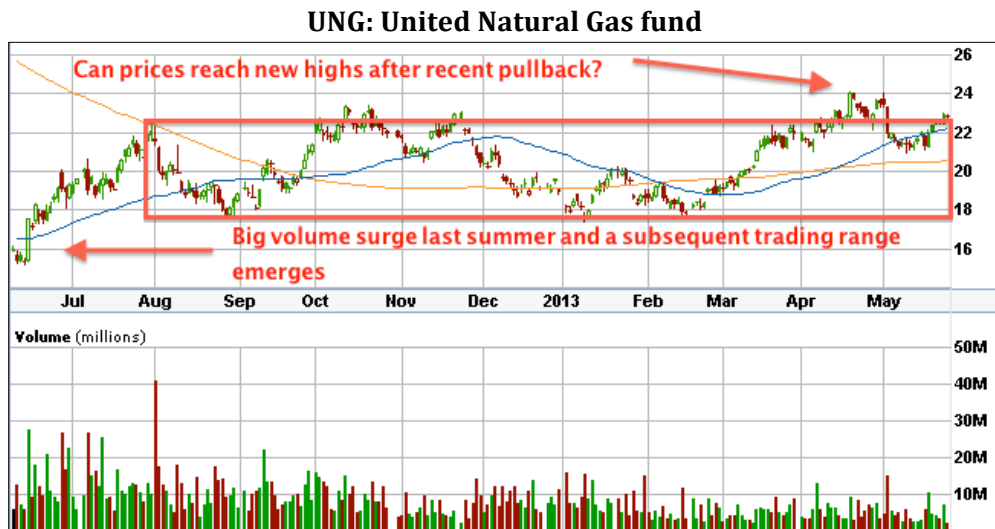


Coal companies may be involved in different types of coal, which serve different purposes. For example thermal coal is typically used in power generation while metallurgical “met” coal (coking coal) is used in the production of steel; consequently, the fortunes of various coal companies may be impacted by their exposure to certain end markets. Thermal coal markets are impacted by the price of competing sources of energy such as natural gas and met coal markets are impacted by domestic and international demand for steel.

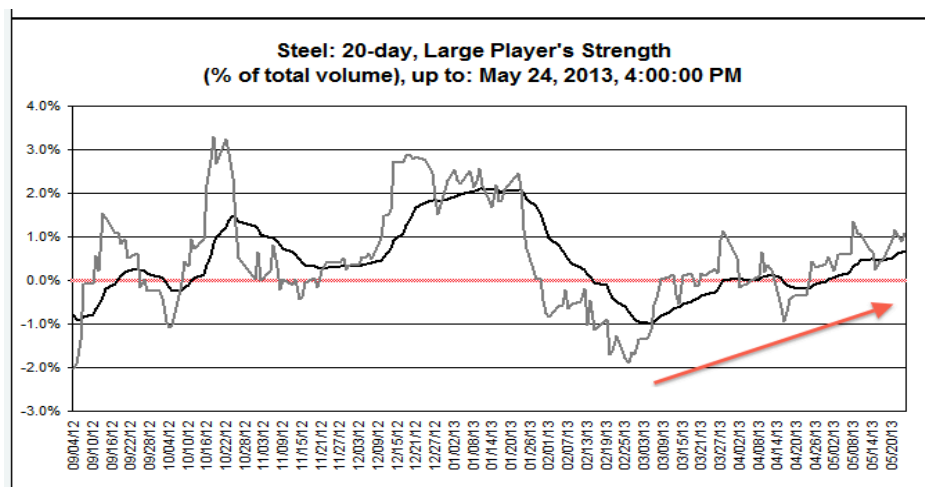
As the bear market in commodities and specifically coal draws on, questions remain regarding possible catalysts. A review of some recent effective volume charts highlights some interesting activity.

## Natural Gas & Steel:

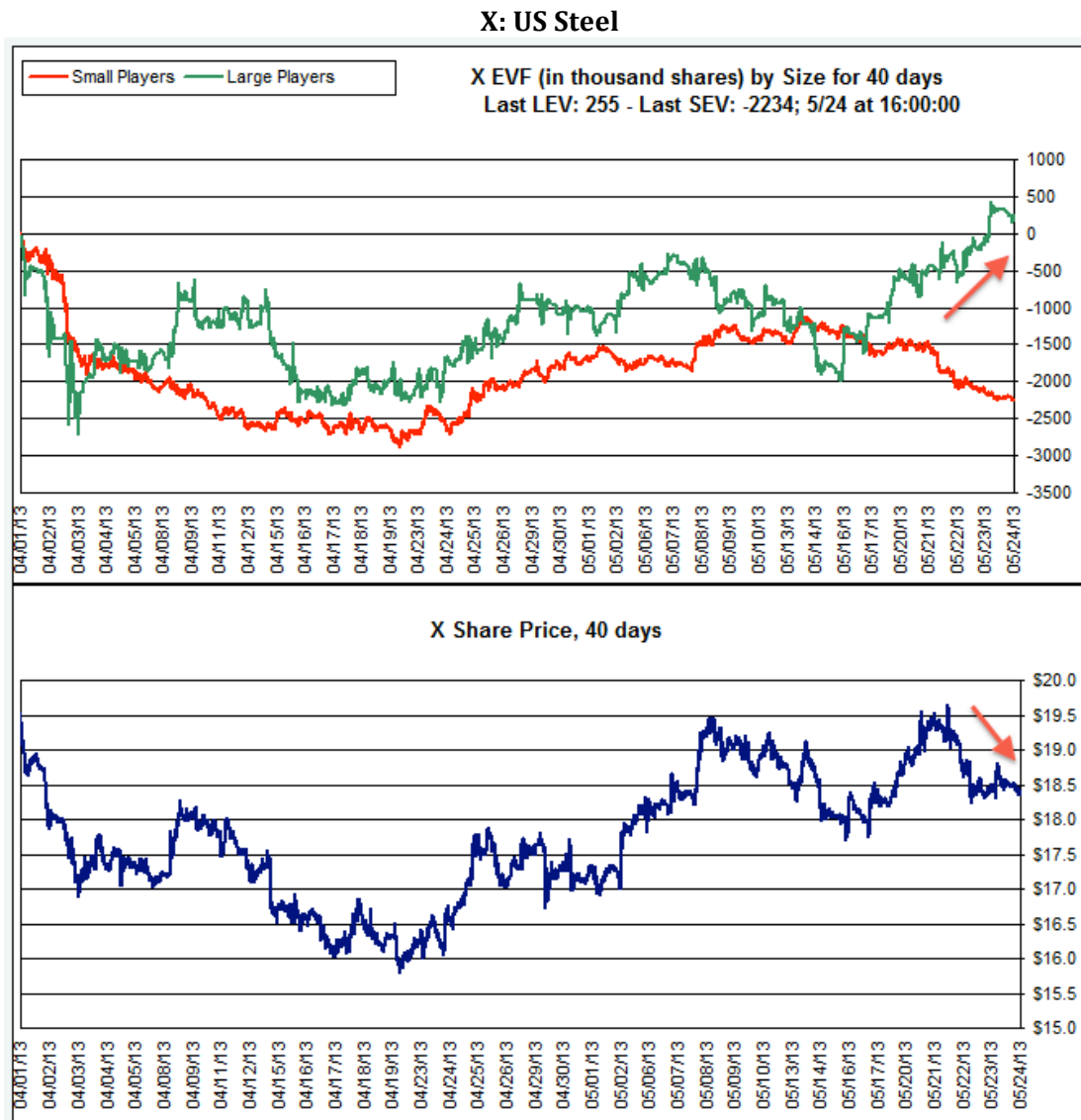
First, one sees that natural gas formed a relatively long range after surging from a bottom in mid-2012. This surge followed a lengthy bear market. Will higher natural gas prices be a catalyst for a thermal coal rebound?



Steel stocks are also displaying some interesting LEV trends. Will emerging market demand and/or automobile demand become a catalyst for met coal?



US Steel (X) exhibits a small divergence in LEV with price over the past couple days:



### Industry Group Ranking shows some improvement:

The Energy-Coal sector-industry group ranking improved over the prior 4 weeks from 189 to 138. This is out of a total of 197 sector/industry groups. (Courtesy of MA Delaney)

### Conclusion:

Coal stocks experienced precipitous declines over the past couple years. The commodity sectors typify boom/bust cycles. EV charts are showing some interesting patterns that I found noteworthy. The industry-group ranking also displayed improvement despite the pullback in certain names. Natural gas prices, improved steel demand, or even M&A activity could spark a trend reversal for this lowly sector. BTU, ANR, and WLT all reported better than expected earnings in the most recent quarter, too. WLT insiders engaged in rather large open market purchases, a possible sign of optimism. Clearly the sector remains distressed. While the possibility of a rebound exists and this participant sees some encouraging technical/EV signs, these stocks may stagnate or witness another selling wave, especially if the market corrects in the near-term – there is always risk and due diligence is always required.