Stock prices and demand for coal are surging amid a green energy transition

Globe and Mail, Oct 8, 2021

Renewable energy is a growing sector that sits well with investors who want to align their portfolios with environmental solutions to global warming. But have you seen what coal has been doing? Welcome to one of the great conundrums in today's market.

Funds that conform to environmental, social and governance (ESG) principles are seeing a massive influx of investor dollars. Yet companies involved with fossil fuel extraction are being rewarded with spectacular gains this year, as demand for traditional energy surges against a backdrop of tight supplies that could last for months. "The winter heating season still hasn't started, but this turn of events is already lifting inflation and adding downside risks to economic growth across Europe and Asia," Omar Abdelrahman, an economist at Toronto-Dominion Bank, said in a note this week.

Coal, a notoriously dirty fuel that is being phased out in much of Europe and North America as countries attempt to curb their carbon emissions, is enjoying a particularly strong resurgence amid strong demand in China, where dwindling supplies have led to power rationing. The price of Australian Newcastle thermal coal, a global benchmark, has soared close to 200 per cent this year. That's underpinning a rally in the share prices of companies that have a close association with the commodity.

Arch Resources Inc., the St. Louis-based coal producer, has seen its share price rise 120 per cent this year. Switzerland-based Glencore PLC, a diversified commodities powerhouse that is one of the world's largest producers of coal, is up 54 per cent. And Vancouver-based Teck Resources Ltd., whose steelmaking coal business drives more than 40 per cent of the company's revenue, is up 41 per cent.

Coal, whether thermal or metallurgical, is not alone among fossil fuels here. Crude oil is trading close to multiyear highs. British and Dutch natural gas prices soared as much as 500 per cent this year, before the rally lost some steam on Wednesday when Russia – a major gas exporter – said it was prepared to stabilize the market.

As a result, traditional commodity producers are now hot properties. Energy companies and miners are among the top performers within the S&P/TSX Composite Index this year. Birchcliff Energy Ltd., for example, is up more than 270 per cent.

The part that may sting environmentally conscious investors? The iShares Global Clean Energy ETF, an exchange-traded fund that also serves as a decent proxy for companies involved in wind and solar energy production, is down almost 24 per cent over the same period. That raises the question of whether coal and other fossil fuels could regain favour among investors looking for strong returns. At the very least, investors may recognize that the transition toward renewable energy might not be smooth.

“The one thing that is a consistent aspect of commodities is that they go up and down. And this is just another part of that cycle,” said Jamie Bonham, director of corporate engagement at NEI Investments, a Toronto-based asset manager that focuses on responsible investing.

In the longer term, he believes, the gains made by coal and other fossil fuels this year are nearly irrelevant next to a complex energy transition that will take time to complete. “Anyone who is making net-zero commitments, as investors are increasingly doing, has to think beyond where prices are going right now because of a certain demand crunch. It’s a distraction, but it shouldn’t affect where we’re going,” Mr. Bonham said in an interview.

He added: “Who, based on this rise in prices, is going to build a new coal-fired plant in North America? Absolutely no one.”

Still, the case for environmentally sound investments looks a lot more compelling when stocks associated with wind and solar power generation are performing well, and fossil fuels are struggling. With coal now gleaming, you have to wonder whether some dollars once destined for ESG portfolios might land somewhere else.