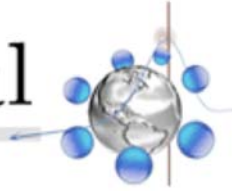


Energy and Capital



Why Coal prices could double

Coal, whose surging price has outpaced crude oil and natural gas, could double this year.

When heavy rains and flooding cripple two million metric tons of thermal coal production at an Ensham mine in Queensland, Australia, coal prices go nuts. But when crippling China snowstorms, floods in Queensland, Australia, stronger Asia demand, slower Indonesian growth, power crisis in South Africa wreak havoc, will it be any shock if coal prices double this year?

All the while, coal demand continues to spike as global electricity use grows, and isn't expected to slow. Thermal coal prices in Newcastle, Australia, for example, soared 73% in 2007, beating the crude oil run. This year, coal futures have already jumped 42% to about \$80 a ton.

Supply pressures alone already forced Citigroup, for instance, to forecast \$100 thermal coal prices for 2008-2009, from the current price of \$55 / ton, while the price of coking coal could rocket to \$200 / ton from \$95. Other developments that may boost coal prices, include higher exchange rates, says Forbes. "Production costs have been rising 14% per year, and further cost inflation is expected, if at a slower rate."

Plus, consider this. According to MarketWatch.com, "China will sharply increase coal imports in the coming months to build its reserves. Coal demand from China, the world's largest coal consumer, will be very strong in February and March" seeing, for one, that it banned coal exports until March 2008.

Better still for the coal bulls, the export market into Asia and Europe is extremely strong. Supply can't keep up with demand.

How to Profit from Soaring Coal

Yes, there's a drawback to coal. Coal is dirty and toxic. As consumption rises, we'll see negative sentiment, the legal issues, you name it. But it won't slow down demand. It's like cigarettes. There's huge demand, and people know it's bad for their health. Yadda... Yadda... Yadda... But it hasn't slowed demand.

Arch Coal (ACI), for one, has been in a strong uptrend after posting net income of \$81.3 million, or 56 cents per share from \$79.5 million, or 55 cents a year earlier, dwarfing analyst predictions for 47 cents. Revenue was up to \$644.4 million from \$618.4 million, bettering \$641 million forecasts.

And most of it's because of stronger coal prices.

But if you want broader exposure to coal, there's the Market Vectors Coal ETF (KOL), which provides exposure to a tight supply and demand market. That doesn't mean it's not volatile, though. The fund's big weighting is in the U.S. followed by China, and Indonesia with major holdings in China Coal Energy, CONSOL Energy, Bumi Resources, Peabody Energy, and China's Shenhua Energy.

Again, we expect to see volatility in the ETF. Be cautious if you buy.

With a real possibility that coal could be the new gold... black gold, take a look at KOL, ACI, and Teck Cominco (TCK), which now has a \$50 price target.

Welcome to the Coal Bull Market,