GECF Expert Commentary
LNG Shipping Market: Shipping Cost Slightly Declining

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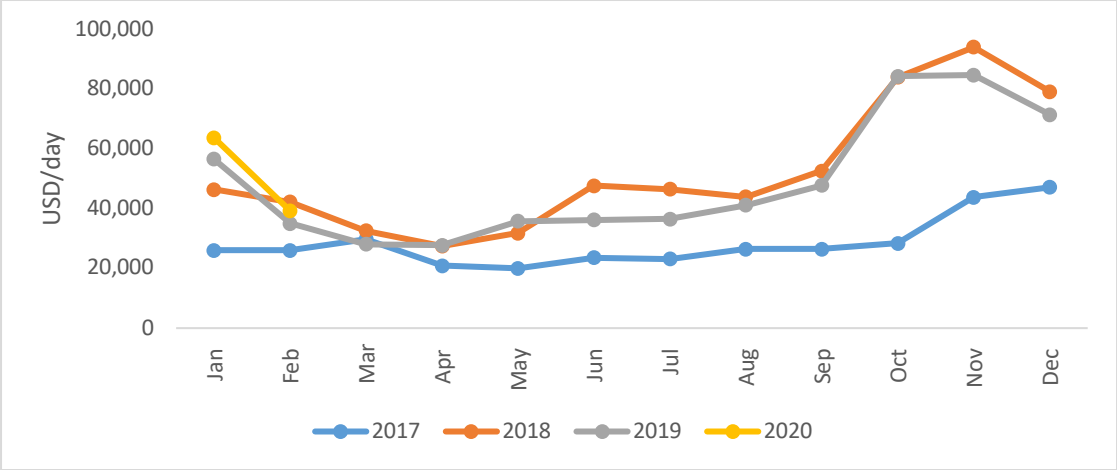
LNG shipping cost comprises mainly of LNG charter rate and shipping fuel price. Over the past few months, it has represented up to 40% of LNG delivered price, depending on trade routes.

In 2019, the average daily LNG spot charter rate for steam turbine carriers fell to 48,800 USD/day, down by 7% y-o-y. The charter rate increased sharply in fall of 2019, driven by the approaching winter season, rising number of LNG cargoes, active usage of LNG carriers as floating storage and concerns about the imposition of the U.S. sanctions on COSCO shipping company from China. As a result, in October-November 2019 the average daily charter rate was at more than 84,000 USD/day. In the early 2020, the charter rate was a little bit higher than a year ago (Figure 1).

Figure 1. Average LNG Spot Charter Rate for Steam Turbine Carriers.

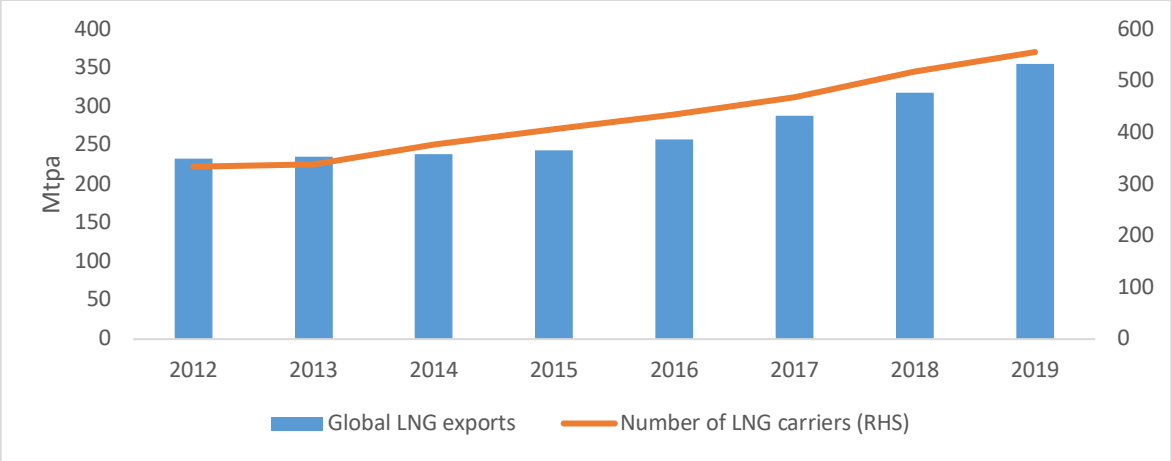


Source: GECF, Argus

Market developments were impacted by two key factors. The first factor was the increasing number of LNG cargoes. In 2019, the global liquefaction capacity grew by 24 mtpa to 444 mtpa, driven by the commissioning of new LNG plants in the U.S., Australia, Russia and Argentina, with the latter joining the exporting club in June 2019. In addition, the global LNG exports grew by 38 mtpa to 355 mtpa. As a result, the total number of LNG cargoes reached 5,598, up by 11% y-o-y, which entailed the higher demand for LNG carriers.

The second factor was the supply-demand balance on the shipping market. LNG charter rate highly depends on the number of available LNG carriers. In 2019, 38 new LNG carriers were commissioned, which is lower compared to the record 50 carriers brought online in 2018. The global LNG fleet reached 556 carriers (Figure 2). Out of this amount, 240 were steam turbine carriers, 102 – Dual-Fuel Diesel Electric (DFDE) carriers and 77 - Tri-Fuel Diesel Electric (TFDE) carriers. Total capacity of all LNG carriers reached 39 mtpa, while the average capacity of LNG carriers equaled to 159,000 cubic meters (70,000 tonnes of LNG).

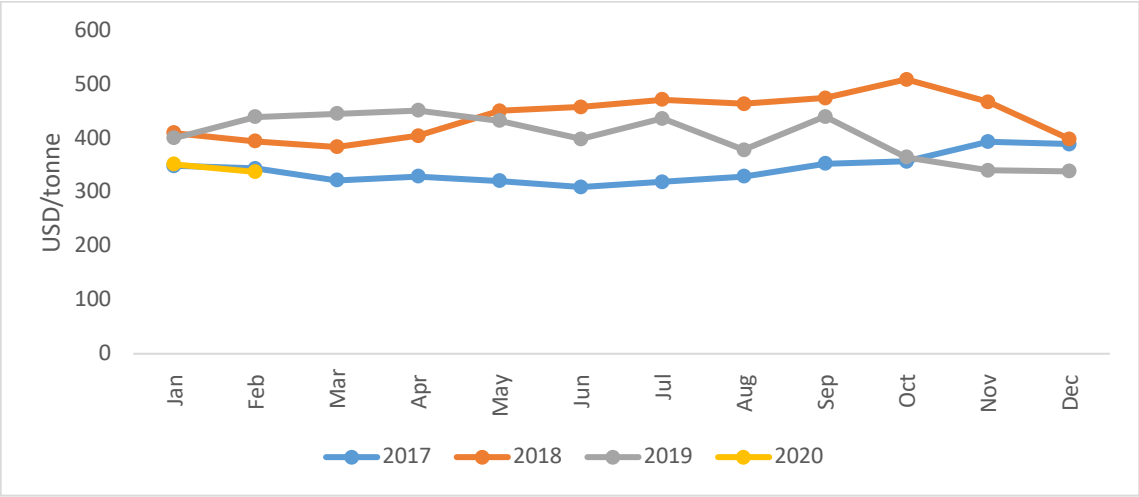
Figure 2. Global LNG Exports vs. LNG Carriers.



Source: GECF, ICIS LNG Edge

Meanwhile, in 2019 the average shipping fuel price fell to 406 USD/tonne, down by 8% y-o-y, mainly due to the decreasing global oil price. In the early 2020, the average price fell to the 2017 level (Figure 3).

Figure 3. Average Shipping Fuel Price



Source: GECF, Argus

The declining LNG spot charter rate and shipping fuel price entailed a drop in shipping cost for LNG spot cargoes. According to the GECF Shipping Cost Model (GSCM) developed fully in-house, LNG shipping cost from the U.S. to Japan fell by 0.24 USD/MMBtu to 1.76 USD/MMBtu in 2019 compared to 2018, while LNG shipping cost from the U.S. to the U.K. decreased by 0.11 USD/MMBtu to 0.85 USD/MMBtu. Despite this decline in the U.S. LNG shipping cost, pipeline gas and LNG supplies from traditional exporters such as GECF Member Countries have remained highly competitive.

In the short term, the commissioning of new LNG carriers, although unlikely to break the record number of 2018, is expected to be high enough to meet the growing LNG demand. However, spot charter rates might be volatile because of the shortage of LNG carriers on the spot shipping market. First, the start-up of various U.S. LNG plants requires more LNG carriers, since LNG deliveries from the U.S. to Asia entails longer trips. Second, current low LNG prices encourage market players to use LNG carriers as floating storage facilities. Third, the 2019 average LNG spot charter rate for steam turbine carriers equaled to the average medium- and long-term charter rates, estimated to stay at 50,000 USD/day and 45,000 USD/day, respectively. In this context, some market players could prefer to secure medium- and long-term charters to avoid possible volatility of spot charter rates, which would affect the availability of LNG carriers on the spot market and entail a rise in spot charter rates.

Meanwhile, the average shipping fuel price is likely to drop because of the combination of two major shocks that have characterized the beginning of 2020: COVID-19 spread and the failure of OPEC members and non-OPEC producers to agree on a further supply cut. While OPEC members and non-OPEC producers are making efforts to find a global solution for stabilizing oil market, the COVID-19 outbreak has largely harmed oil market, with global oil demand drop entailing a free fall of oil prices.

Consequently, the market might expect a further decrease in LNG shipping cost, which could encourage long-haul LNG supply and prop up LNG demand, which has been slowing down mainly because of the Covid-19 spread all over the world.