

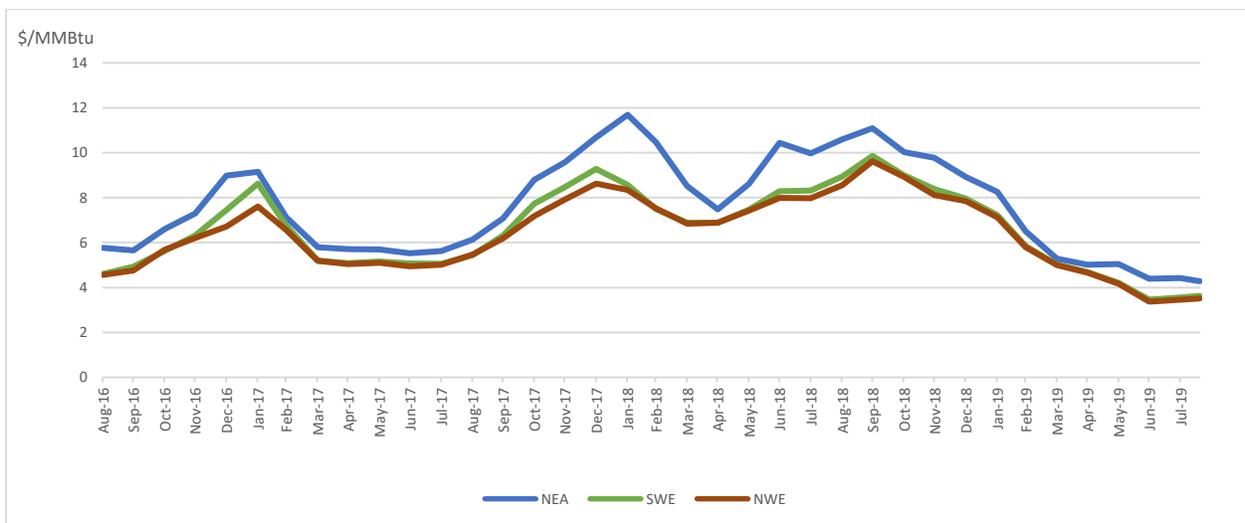
New Architecture of the Global LNG Market: Investment Decisions in an Oversupplied Market

Kamran Niki Oskoui, Ph.D., Market Research Analyst, Gas Market Analysis Department (GMAD)

There are many polemics around an oversupplied LNG market. Many experts indicate inevitable LNG glut on the market with volumes not knowing where to land. This article will examine some key figures and facts that will help understand the LNG trade that is on a continuous unprecedented ascending trend, driven by the growth in Asian LNG market, but also by the hastened growth of LNG supplies coming majorly from Australia, USA and Russia. Meanwhile, the demand for LNG is not responding in a similar way to enable a balanced market at an acceptable price to all. Such situation resulted in prices under a downward pressure, reaching their lowest level and restricting arbitrage opportunities across the basins.

A recent retrospective analysis shows that in August 2019, LNG spot prices in the North East Asia (NEA) market fell by more than 60% to \$4.3/MMBtu from an average \$10.6/MMBtu in August 2018. Likewise, spot LNG prices in most European hubs stood below \$4/MMBtu in August 2019 from almost \$8.9/MMBtu in the same month last year (Figure below). These ongoing trends of declining prices, which started since October 2018, are a result of the much-anticipated oversupply in the global LNG markets. In fact, despite the bullish trends of LNG markets in the first nine months of 2018, market fundamentals have totally changed since the last quarter of 2018. While LNG demand has slowed down, especially in Asian market, increasing LNG from Australia (13.4 Mtpa), the U.S. (14.3 Mtpa), Russia (11 Mtpa) and Cameroon (2.4 Mtpa) resulted in a big supply in last quarter of the year 2018. The majority of this 41 Mtpa of additional capacity ramped up in the last quarter of the year. However, taking into account the overall developments during the year 2018, global LNG market experienced almost 10% growth in terms of traded volumes, meanwhile LNG prices have increased across all regional markets. Spot LNG price averaged \$9.8/MMBtu in NEA, almost 33% higher than a year before. LNG prices in South West Europe (SWE) and North West Europe (NWE) averaged \$8.17/MMBtu and \$8/MMBtu, representing 25% and 33% growth respectively, when compared with average prices in 2017. Therefore, the year 2018 did not experience the so-called glut in LNG market, as expected by many experts.

Figure 1:Trend of LNG spot prices



Source: GECF, Argus

Nevertheless, oversupply in LNG seems to be felt in 2019 reflected by very low prices. The bearish trend which started late 2018, continued during 2019. Higher inventory building and ramp-up of nuclear power plants amid warmer than normal winter resulted in lower LNG demand by Asian legacy buyers including Japan, South Korea and Taiwan since October 2018 to August 2019. In addition, the LNG demand growth in China has lost momentum due to gradual easing of Coal-to-Gas switching, higher LNG prices and growing domestic production. The weaker-than-expected growth of Asian LNG demand has been reflected in declining spot LNG prices in Asia and redirection of flexible LNG cargoes from Asia toward the European market. Europe as a sink market could absorb a portion of LNG supplies; however, spot LNG prices in both Pacific and Atlantic basins have reached to the lowest level since 2010. On the supply side, around 19 Mtpa of new LNG capacity commercialized from January to August 2019, while market is facing a challenge to absorb ample supply. Thus far, increasing LNG imports into European market resulted in substantial LNG trade growth during first 9 months of 2019. From January to August 2019, global LNG trade averaged 233 Mt, representing an increase of 27.5 Mt or 13% growth when compared with the same period last year.

The major difference between LNG trade growth in 2019 and 2018 is realized in the trends of spot LNG prices. Indeed, despite 2018 when market balanced with higher volumes of LNG traded and higher level of prices, in 2019 market is expected to settle in higher traded LNG volumes but in low prices. This implies that the anticipated oversupply in the LNG market is materializing with big effect on the prices.

The main question is that “how long the current oversupply in the LNG market will persist?”. The significant number of final investment decisions (FIDs) which have been taken in 2018 and 2019 implies that the current glut in the market is expected to fade after 2020. In 2018, around 21 Mtpa of LNG capacity took FID. In addition, as of today, five LNG projects with total capacity of 64

Mtpa have taken FID since January 2019. All these incremental capacities will ramp up beyond 2020, when it is projected that between 2020 to 2025 LNG demand growth will exceed incremental supply.

In this context, GECF Member Countries continue to respond to the calls of LNG market through investments in LNG projects. In 2019, Arctic 2 LNG project in Russia with 19.8 Mtpa capacity took FID. In addition, three GECF Member Countries including Qatar (Qatar's LNG expansion), Nigeria (Nigeria's NLNG Train 7) and Russia (Russia's Baltic LNG, Sakhalin-2, Obssky LNG and Vysotsk Train 2) are targeting FID with total capacity of 65 Mtpa by 2019 and 2020. This reveals the huge capabilities of GECF Member Countries to continue to play a key role in ensuring security of supply at a time when LNG market is projected to face supply shortage.