LNG Shipping Market in 2018: High Volatility of Charter Rates

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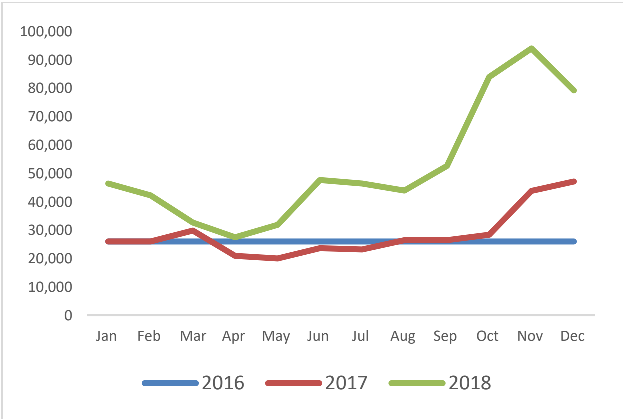
One of the main elements in LNG supply chain is the LNG shipping activity, which has considerable impact on the physical delivery of the product and on the delivered LNG price. In GECF, monitoring regularly LNG shipping industry is considered as an integral part of the LNG industry as well as the pricing of the molecules of LNG delivered to the final destination.

A glance at the development of LNG shipping shows that in 2018, LNG spot charter rates for steam turbine vessels averaged 52,368 USD/day, or 84% higher compared to 2017. As a result of the growing charter rates as well as increasing shipping fuel prices, the shipping cost for spot LNG cargoes rose in 2018. Based on the GECF's Shipping Cost Model, in December 2018, the LNG shipping cost from the U.S. to China increased by 0.48 USD/MMBtu to 2.48 USD/MMBtu compared to December 2017, while the LNG shipping cost from the U.S. to the U.K. increased by 0.26 USD/MMBtu to 1.16 USD/MMBtu.

On the one hand, the increase in charter rates entailed the rising shipping costs and put upward pressure on LNG delivered prices. On the other hand, the increase in charter rates implied a certain level of maturity of the market. The spot charter rates were below 30,000 USD/day in 2015, 2016 and 2017, while the breakeven level is considered to be around 45,000 USD/day. With charter rates exceeding the breakeven level in 2018, the shipping market became more sustainable.

The month-by-month analysis shows that starting from June 2018, the average charter rates began to deviate from the relevant periods of previous years (see figure 1 below). In November 2018, the charter rates reached the multi-year high of 94,000 USD/day, with a daily maximum rate exceeding 100,000 USD/day in the last week of October and the first week of November. 2013 was the last time when the charter rates reached such high level.

Figure 1. Average LNG Spot Charter Rates, USD/day



Source: GECF based on data from Argus

Such bullish trends on the market were driven by the growing number of LNG cargoes and supply-demand disparity on the shipping market.

The global liquefaction capacity increased by 41 mtpa to 421 mtpa, thanks to the commissioning of new LNG plants in the U.S., Australia, Russia and Cameroon. The global LNG trade grew by 29 mtpa to 318 mtpa. As a result, in 2018 the total number of LNG shipments reached 5,044, which was 8% higher y-o-y. That implied the higher demand for LNG carriers.

Meanwhile, the spot LNG shipping market was tightened throughout the year, which entailed the shortage of LNG carriers on the spot market, for the reasons stated below.

First, in mid-2018, the market's stakeholders actively secured short, medium and long term charters. It looked reasonable, since medium term charter rates (50,000 USD/day) and long term charter rates (60,000 USD/day) looked rather competitive against the rising spot charter rates and allowed charterers to avoid the struggle for securing spot shipping in the coming winter season.

Second, the record 50 new LNG carriers were commissioned in 2018, with the global LNG fleet reaching 529 vessels. However, their commissioning was not distributed evenly throughout the year, with many carriers commissioned in late 2018. As a result, in the fall of 2018 the commissioning of new LNG carriers didn't catch up with the growing gas demand in Asia.

Third, the Yamal LNG trains 2 and 3 were commissioned earlier than expected, before the appropriate LNG carriers linked to this project were delivered. Meanwhile, the first cargoes from this project were sold on spot basis, with LNG carriers chartered on the spot market.

Fourth, the start-up of several U.S. LNG plants implied that more LNG carriers are required since U.S. LNG deliveries to Asia entails longer trips.

Fifth, in September - December 2018, soft Asian prices made several LNG carriers act as floating storage facilities.

However, by late 2018 the LNG charter rates retreated from record highs and decreased to 79,194 USD/day in December 2018, with this downward trend continuing in early 2019. This reverse trend was driven by the sluggish demand from Asian markets in winter season and commissioning of 6 new LNG carriers in December 2018, which put downward pressure on the rates.

More stable LNG spot charter rates predicted for 2019 may increase the competitiveness of long-haul LNG trade routes and open up new opportunities for GECF Member Countries to export LNG on spot basis.

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