

VIEWPOINT: GLOBAL LNG OVERSUPPLY OVER THE NEXT DECADE? WHERE WILL IT GO?

The global LNG sector has enjoyed a prolonged period of growth in conditions where demand has equalled or exceeded available supply, driven largely by the markets of Asia. However, the dynamics of the sector appear to be set for change and the fundamentals indicate that this could be extensive and long term rather than a short term phenomenon. Below, we explore these fundamentals and consider what changes are most likely and the potential impact these changes could have on industry players.

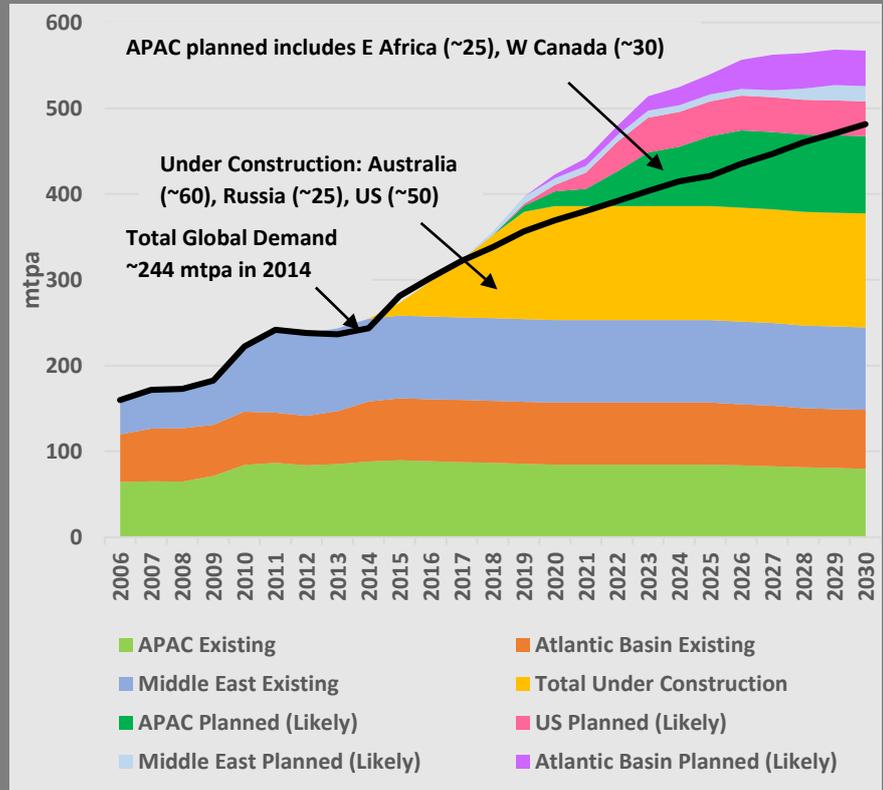
Global LNG Supply

There is 140 mtpa of new LNG supply from projects currently under construction and due to come online before 2020, adding to an existing global supply of around 250 mtpa.

In addition to this, there is over 350 mtpa of new capacity that is still undergoing planning and development and expecting to come online before 2030. This consists of around 100 mtpa of new supply or expansions of existing projects in each of the Asia Pacific (APAC) and Atlantic Basin regions, plus approximately 100 mtpa being planned in the US and around 50 mtpa being planned in the Middle East. Clearly not all of these projects will go ahead before 2030.

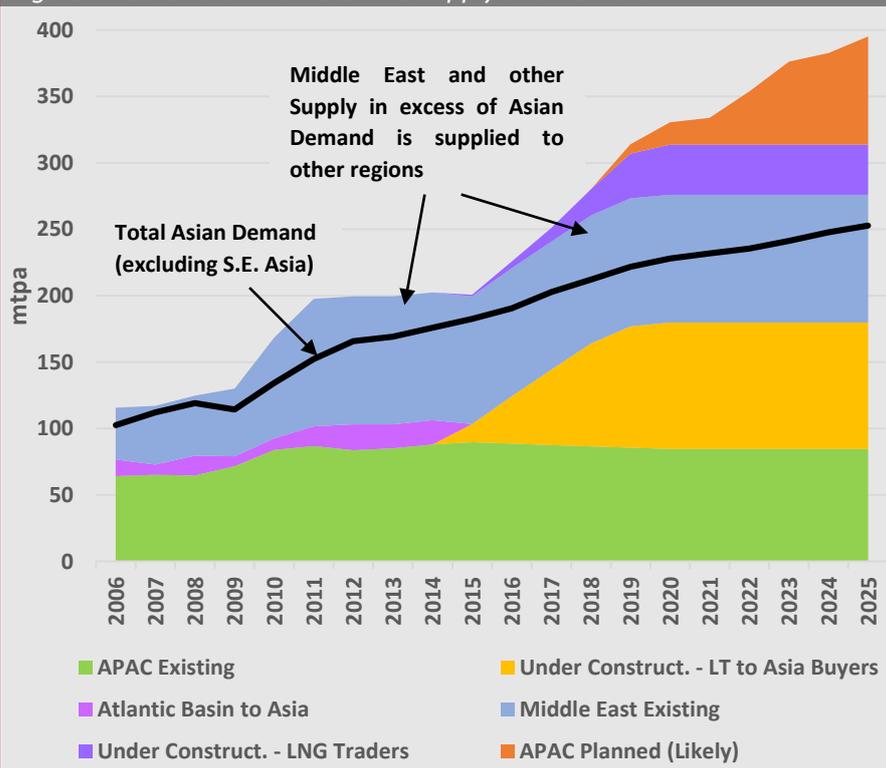
However, even when considering projects that are more likely to be developed than others, there is considerable competition for the available market between these projects, which will likely lead to delays in investment, as shown in Figure 1.

Figure 1: Global LNG Supply and Demand



Global LNG Demand

Figure 2: Core Asian Markets LNG Supply and Demand



Demand for LNG in core markets in Asia (Japan, S. Korea, Taiwan, India, China) has increased rapidly since 2009. This, along with record high prices in Asia driven by oil indexation in long term agreements, has led to an increase in supply from the Atlantic Basin. However, it is really supply from the Middle East – 80% of which is from Qatar – that has met the increase in demand.

Looking forward, with around 100 mtpa of new supply already sold under long term contracts to buyers in Asia, and less additional demand than previously expected from China and India, there is likely to be a lot more LNG from Qatar and from LNG traders' portfolios which will now be supplied to other markets.

By 2016, this is expected to represent around 35 mtpa rising to over 80 mtpa by 2020, but then falling back to 60 mtpa by 2025 as Asia demand begins to soak up the excess. Note,

this is in addition to around 60 mtpa of existing Atlantic Basin supply, and does not include potential new APAC supply currently being planned. Given the global supply/demand picture, we think that new APAC supply (e.g. Mozambique, Tanzania) may be difficult to justify in the medium term at least – this is explored further below.

Implications for the LNG Sector

1. What potential impact on Europe's gas markets?

European LNG imports were around 33 mtpa in 2014, but we are expecting this to double by 2020 and continue growing to take in some of the excess supply. With the majority of existing Atlantic Basin supplied under long term contracts to Southern Europe, the majority of additional LNG will be supplied to liquid markets in NW Europe, where there is also sufficient import capacity. The abundance of supply means there is a strong case for developing additional LNG import terminals in Europe and diversifying further from the major pipeline gas suppliers, particularly in countries with limited inter-connection.

2. Where else will excess LNG supply go?

With LNG imports in the US and the Middle East likely to remain of limited volumes, outside the core markets of Asia and Europe the main LNG import regions are S.E. Asia and South America. With the development of a number of new LNG import projects, LNG demand in S.E. Asia is projected to increase from 7 mtpa in 2014 to around 20-25 mtpa by 2020-2025. In South America demand is projected to increase from 20 mtpa in 2014 by 5-10 mtpa by 2020-2025 and plateau or fall away after this as local gas production increases. This still leaves around 20-35 mtpa of additional LNG supply available to Europe in the period 2020-2025 even without any further Atlantic Basin supply coming online, including several more US projects which are in the final stages of development.

3. Is LNG becoming a true commodity?

Many industry players expect total global LNG trade to overtake total global pipeline gas trade by 2030. With short term or spot trade now making up 25% of total LNG supply (double that of a few years ago), we can start to see a trajectory for LNG that is akin to trade in the more liquid oil markets. High prices for LNG has in part led to the relatively slow uptake of LNG in new markets. This is rapidly changing with many new countries considering developing LNG import terminals to alleviate gas shortages or to replace more costly oil imports for power generation. With the drop in crude oil prices and diversification away from oil-indexation, LNG is becoming more affordable. The abundance of LNG supply over the next decade will lead to higher volumes of short term trading and an increase in the momentum of change from oil-indexed prices to gas market indexation.

Overall, it now appears that the strength of market fundamentals are sufficient to drive major and sustainable change in the global LNG sector. Sustainable change in the gas sector requires significant investment in infrastructure and so the challenge for prospective developers is to ensure that their project stays at the head of the curve. In the liberalised environment generally prevailing across Europe, this will require more than industry-leading technical skills (although this too will be important) but also an understanding of the market and regulatory environment and how regional political developments might affect future market developments.

QED specialises in advising industry players and governments on the development of LNG import projects (conventional and FSRU) and securing LNG supply at competitive prices. Members of the QED team have led the development and implementation of conventional and FSRU-based LNG import terminals and LNG to power projects in several countries including Singapore, Spain, India, Chile, UK, Israel, Malta, Pakistan and Kenya. Most recently, LNG arrived in Pakistan on 27th March 2015, less than a year after QED advised the government on the development on their first import project and the signature of a long term tolling contract for a FSRU-based project. Our team consists of individuals with considerable technical, commercial and financial expertise who worked at senior levels in blue-chip organisations, both within industry and in professional advisory services. Please feel free to contact us to discuss our views and how we can support you to add value to your own LNG propositions.