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## **Gas Market Outlook for 2023**

Shifts in LNG Markets and Increasing Importance of Stable Procurement

### **Executive Summary**

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#### Key Points of the Report

1. The average LNG import price in Japan is expected to be around USD 17.3 in 2022 and USD 16.8 in 2023, up from USD 10.13 per million BTUs in 2021. Spot LNG prices to Northeast Asia is expected to average USD 34 in 2022 and around USD 36 in 2023.
2. Global LNG trade, which increased by about 5% from 372 million tonnes in 2021 to estimated 390 million tonnes in 2022, is expected to increase to 430 million tonnes in 2023. The tight supply and demand balance is expected to continue throughout 2023. Global natural gas demand, which recovered from a 2% decline in 2020 and increased by 4.5% in 2021, is expected to remain flat or decline slightly in 2022. The pace of growth is expected to be lower than the previous outlook after 2023, subject to uncertainty, influenced by the war in Ukraine and gas prices, and the impact of the pandemic.
3. Since 2021, gas prices in Europe and Asia have soared to record highs. Especially since July 2021, spot gas prices have stayed higher than crude oil equivalents. In 2022, due to the turbulent global situation, the gas and LNG market became even more destabilizing.
4. Negotiations on sales contracts are more active to secure LNG supply over the medium- to long-term. Investment in new LNG production projects and the realization of policies to support them are expected play important roles.

#### Global LNG Trade Developments

5. The global gas prices, including those in Europe and Asia, are at high levels even though they have come down from their peaks in August 2022. European TTF prices were exceptionally higher than others in the second half of 2022. Asian spot LNG prices tended to follow higher TTF to rise. The European Union moved to set a cap on TTF.
6. The global LNG market is estimated to have grown by just 5% in 2022, factoring in problems with some production facilities. The global LNG market

is expected to grow by 9% in 2023, assuming no facility and other troubles. There are also uncertainties over potentially suppressed demand due to economic stagnation and high prices, as well as outages at LNG production facilities and changing global situations relating to international conflicts.

7. Global LNG trade was up 4.7% year-on-year at 290 million tonnes during the first nine months of 2022. From January to November, Japan's LNG imports were 65.94 million tonnes, while China's were 56.93 million tonnes, making Japan the world's largest importer again. The United States exported 70.41 million tonnes, following Qatar's 72.55 million tonnes and Australia's 72.35 million tonnes during the same eleven months. Slowdown in LNG production was observed in Malaysia, Nigeria and Trinidad.

#### Global LNG and Gas Market Trends

8. In the OECD, China, and Indian gas markets, which account for 3/5 of the global gas demand, North America almost dominated the increase in 2022. Increases in North America and declines in Europe largely offset each other. China saw a decrease in gas consumption by 2.0% (5.5 bcm) and India by 4.33% (1.9 bcm) in the first quarter of 2022. The decrease is significant for power generation in both countries. Both countries are expected to return to a recovery track in gas demand in 2023.
9. Europe has increased its share in the global LNG market. The region (the European Union and the United Kingdom combined) has increased its imports. On the other hand, Japan's and China's purchases have declined. In particular, LNG produced in the United States has shifted from Asia to Europe, including incremental production. Europe and China and other Asian markets are expected to share the incremental LNG trades in 2023.
10. Exports of Russian pipeline gas to the European Union has declined sharply since 2020, from more than 10 million tonnes per month until 2019. Russian pipeline gas supply declined further in 2022 under the deteriorating situation in Ukraine, due to intentional supply cuts from the Russian side.
11. The share of the European Union and the United Kingdom combined in the LNG exports from the United States increased from 26% during the first three quarters of 2021 to 63% in the same period of 2022. The share of Asia in the LNG exports from the United States declined from 50% to 23%. As U.S. LNG export has come close to those of Qatar and Australia, U.S. Gulf of Mexico has become one of the most important LNG Hubs in the world. It is also noteworthy that Henry Hub prices experienced the highest level after the Shale Revolution in 2022.

12. The high prices of LNG and natural gas for the time being and the recognition of supply shortages are expected to encourage LNG procurement activities, as well as LNG project development and construction activities. On the other hand, among LNG production projects of past investment decisions, the realization of Russian projects has become uncertain. While the LNG carrier ship construction market is already booming, it is also necessary to consider optimized use of the fleet to secure ships at the required time.

#### Japan's Domestic Gas Market

13. Since the full liberalization of Japan's gas retail market in April 2017, supplier switching has continued, mainly in metropolitan areas. The three major companies, which accounted for 60% of both sales volume and the number of customers in the country, legally separated the pipeline divisions in April 2022.

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