
Lower oil price and its impact on natural gas markets

IEEJ 50th/APERC20th pre-Anniversary Joint Symposium

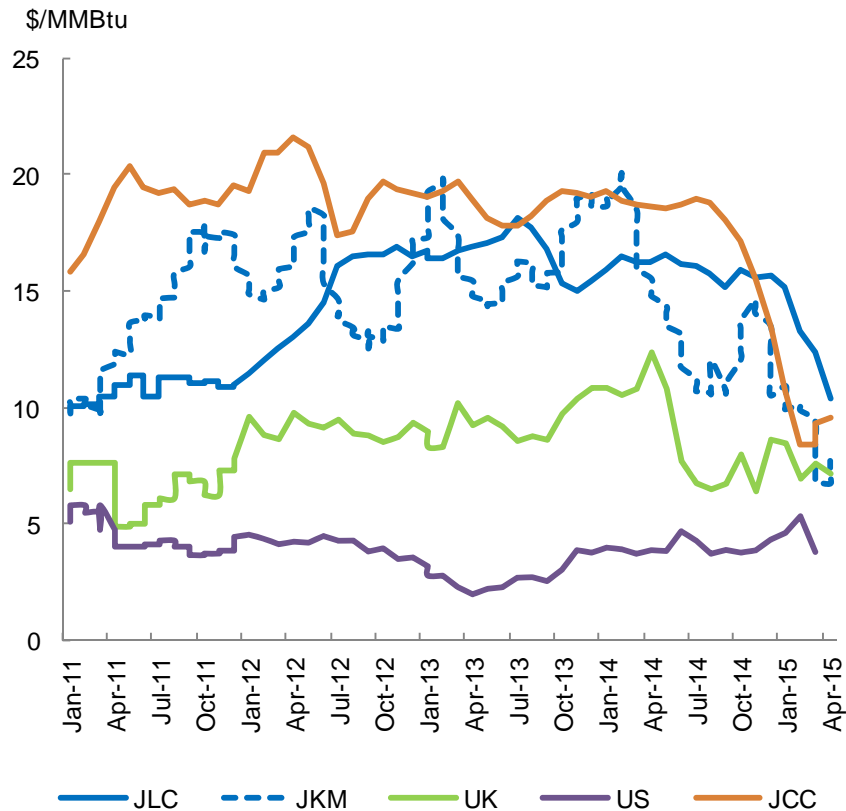
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The Institute of Energy Economics, Japan

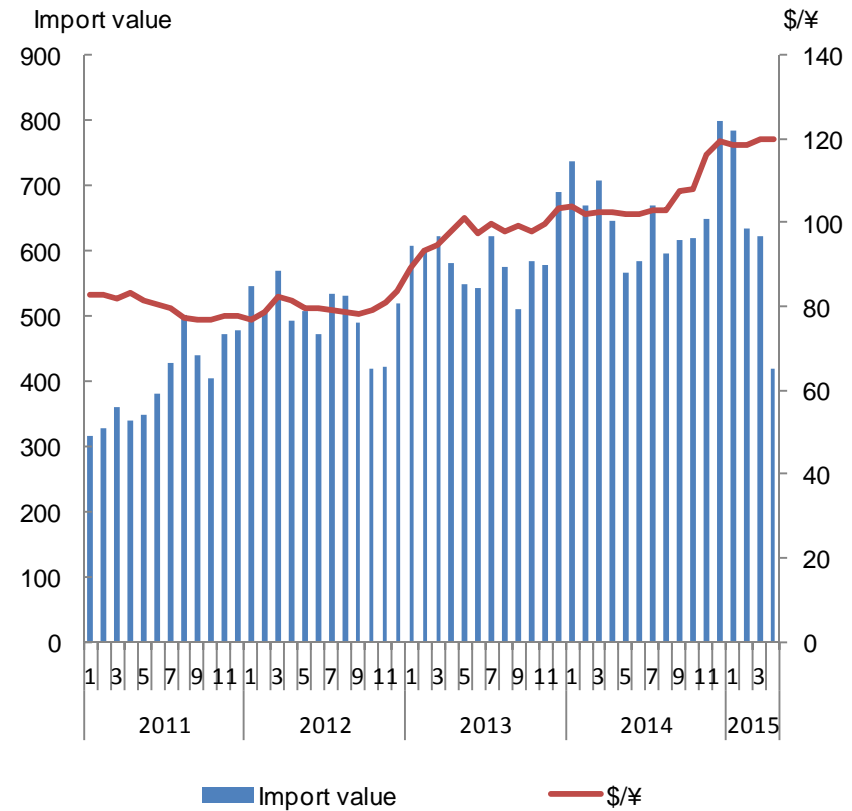
Tetsuo Morikawa

Oil and LNG import prices and value

Import prices



Japan's LNG import value

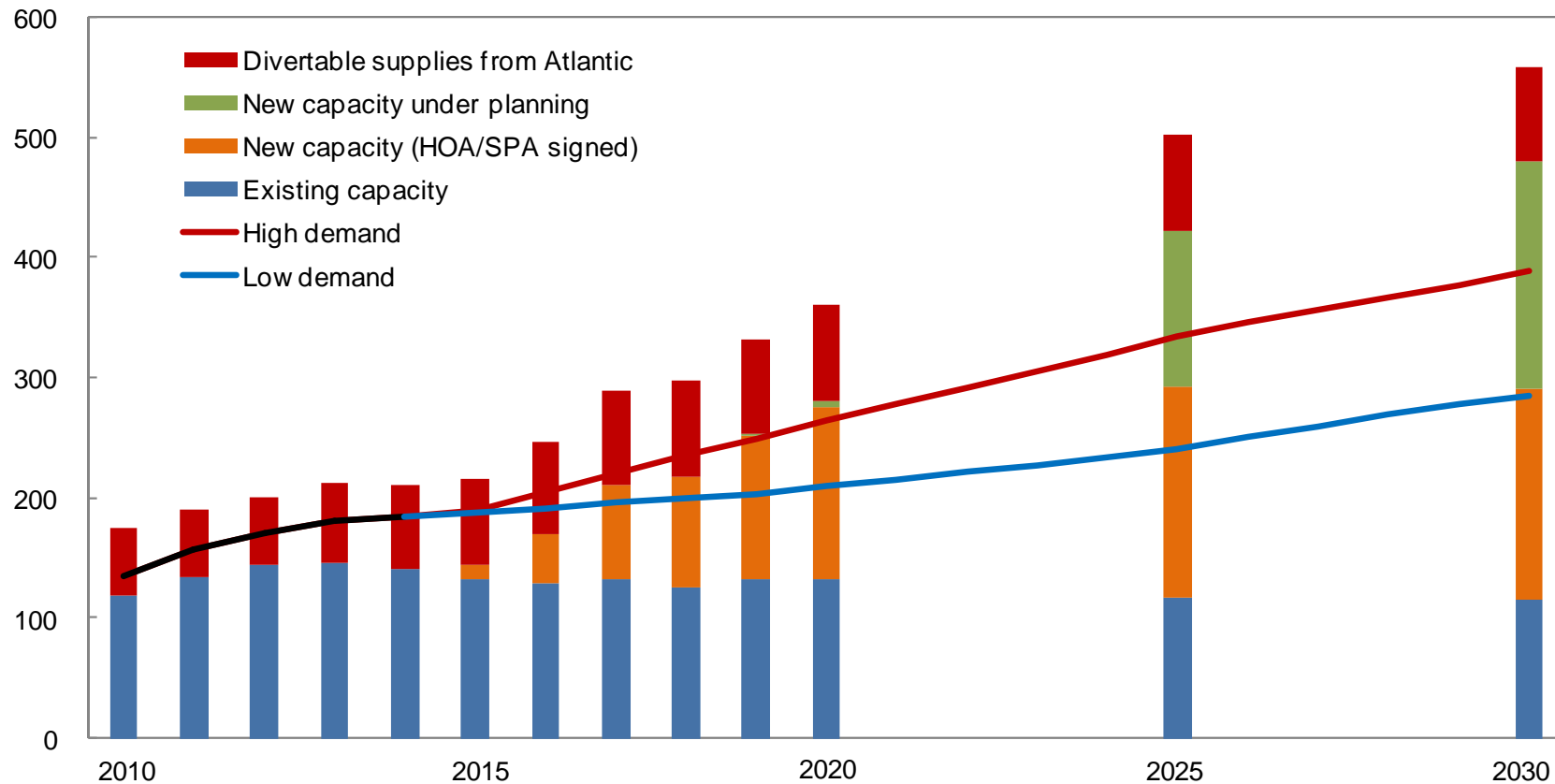


Source: Energy Intelligence, EIA, Custom Statistics

- Lower oil price is decreasing Japan's LNG import price and value
- Asia Premium, especially on spot LNG, shrunk significantly

LNG outlook for Asia and Middle East

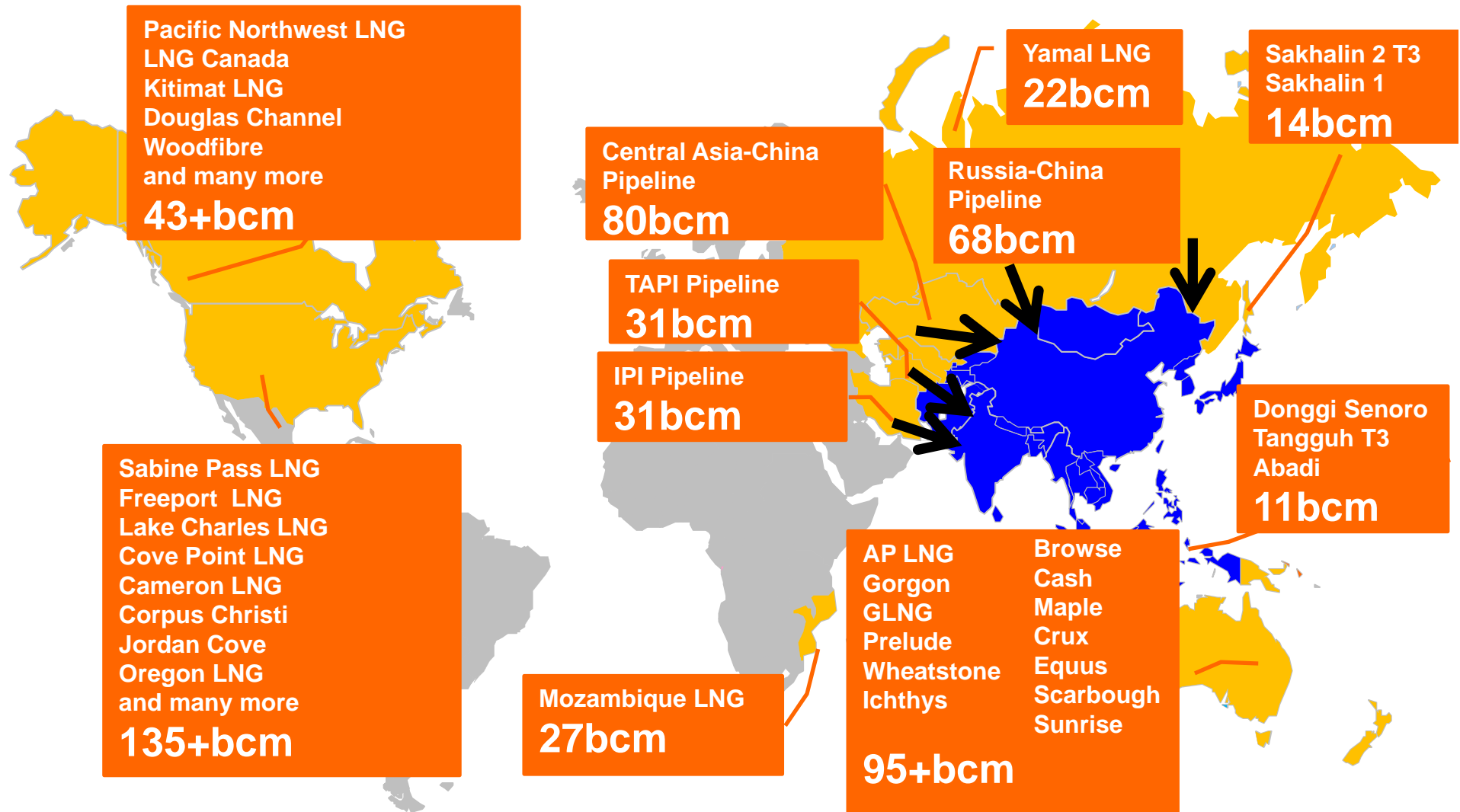
Million Tonnes



Source: IEEJ

- Not only lower oil price but “LNG surge” mainly in Australia and the US putting downward pressure on LNG price in Asia

Major new projects for Asia



- While lower LNG price is good news for importers, new upstream projects face challenges for securing upstream investments



Natural gas pricing options for Asia

	Gas on gas competition pricing Hybrids			Indexation	
	Domestic Hubs in Asia	Henry Hub, NBP	Spot LNG	Oil	Other fuels (Electricity, Coal)
Advantages	<ul style="list-style-type: none"> • Possible to reflect regional market balance 	<ul style="list-style-type: none"> • Already available • Lower prices (for now) 	<ul style="list-style-type: none"> • Already available 	<ul style="list-style-type: none"> • Possibly the quickest solution 	<ul style="list-style-type: none"> • Rational for power generation
Disadvantages	<ul style="list-style-type: none"> • Not yet available • Higher volatility 	<ul style="list-style-type: none"> • Higher volatility • Asia market balance not reflected 	<ul style="list-style-type: none"> • Higher volatility • Limited liquidity (so far) 	<ul style="list-style-type: none"> • Gas market balance not reflected 	<ul style="list-style-type: none"> • Lack of power market liquidity

- Although lower oil price incentivizes LNG buyers to stick to oil-indexation, the rationality issue remains
- Establishing benchmark pricing(s) through hubs in Asia and/or spot LNG pricing most rationale for Asia

How do we develop Asian benchmark price(s)?

Domestic scenario

Gas market liberalization

Domestic wholesale prices (hubs) development

Divergence of wholesale and import prices

Hub price(s) applied to term import contracts

International scenario

Relaxation of destination clause/
LNG surge

Spot LNG market development

Divergence of Oil-indexation and spot prices

Spot LNG price applied to term import contracts

Asian benchmark price(s)

- International scenario seems quicker for benchmark price(s) in Asia
- Flexibility in LNG trade is increasingly important to develop benchmark price