

Outlook for Gas Markets

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Outlook for Gas Prices in 2015-2016

1. The natural gas import price for Japan in May 2015 stood at \$8.9/MMBtu against the wholesale prices of \$2.9/MMBtu in the United States and \$6.9/MMBtu in the United Kingdom. The spot LNG price for Northeast Asia in July is estimated to be \$7-8/MMBtu.
2. As the LNG import price for Japan declined from early 2015 in response to the oil price plunge, Japan's LNG imports in value in the January-May 2015 period decreased by as much as 17% from a year earlier to JPY2.7 trillion. The price fall contributed to reducing the import value, despite weaker yen especially since the second half of 2014.
3. While the spot LNG price is expected at \$7-8/MMBtu, Japan's average LNG import price is projected at \$8.8-9.1/MMBtu in the second half of 2015 and \$9.3-9.7/MMBtu in 2016 as crude oil prices rise moderately (Japan's crude oil import price is projected to range from \$63/bbl to \$73/bbl in the 2015-2016 period).
4. The futures forward curves remain stable in a \$2.8-3.4/MMBtu range for the U.S. Henry Hub and in a \$6.5-7.4/MMBtu range for the U.K. NBP.

Natural Gas Situation in 2015-2016

5. Global LNG demand will grow to 246 million tonnes in 2015 and to 272 million tonnes in 2016 due partly to a slight rebound in Europe. While Egyptian and Angolan exports will remain suspended, global supply capacity will expand to 254 million tonnes in 2015 and 287 million tonnes in 2016 due to the expansion or start of new LNG projects including Algeria's Gassi Touil, Papua New Guinea's PNG LNG, Indonesia's Donngi Senoro, Malaysia's Petronas LNG and Petronas FLNG, Australia's QC LNG, Australia Pacific LNG, GLNG and Gorgon LNG, and the United States' Sabine Pass. With the rapid supply growth, buyers' market situation will be accelerated.
6. In line with the oil price decline since 2014, LNG prices for Asia have dropped. But LNG prices will rise irrespective of LNG/natural gas supply and demand conditions if crude oil prices increase again. The irrationality of oil-indexation is still left unresolved. From the viewpoint of rationality, it is desirable that LNG/natural gas prices are determined in relation to supply and demand balances.
7. In the January-March 2015 quarter, natural gas demand grew by 2% year on year in member countries of the Organization for Economic Cooperation and Development (OECD) Americas and by 4% in Northeast Asia. Japan's demand has remained at record levels as the restart of nuclear power plants has been delayed. After declining in 2014,

European demand scored a 13.0% year-on-year increase in the January-March 2015 quarter due primarily to weather factors. But it is premature to conclude that European demand has bottomed out, amid potential turmoil of European financial markets and economies.

8. Despite low Henry Hub gas and West Texas Intermediate oil prices, improvements in shale gas productivity have contributed to increasing U.S. natural gas output. Four U.S. LNG export projects have won approval for exports to non-FTA countries and for the construction of natural gas liquefaction facilities, covering annual export capacity totaling some 52 million tonnes. Canadian projects are making relatively slower progress. But final investment decisions may be made for some projects in 2015 and 2016.
9. In Europe where a gas demand slump has been prolonged, concerns about natural gas supply security have been growing again since the Ukraine crisis. As announced in February 2015, the Energy Union plan called for enhancing natural gas supply security. Leaders from the G7 countries at their summit in June sought to enhance the resilience and flexibility of the natural gas market.
10. Russian natural gas exports in 2014 plunged by 12% to 193 billion cubic meters. As relations between Russia and the European Union cannot be expected to improve, Asian gas market is increasingly important for Russia. Given the oil price plunge since the second half of 2014, however, Russia is expected to give greater priority to gas supply to China via Western route, rather than Eastern that requires huge investment. Expanding LNG/natural gas supply to other Asian countries including Japan is also an issue for Russia.
11. China's natural gas demand growth, though still firm, has been decelerating due to a macroeconomic slowdown and a decline in the price competitiveness of natural gas. Competitive pipeline gas imports have been increasing remarkably, while operating rates of LNG import terminals have remained low. There is no sign yet of any LNG import increase triggered by a decline in spot LNG prices.
12. LNG trade via spot and short-term contracts in 2014 totaled 69.58 million tonnes, accounting for 29% of total LNG trade. Spot trade is estimated at about 24 million tonnes. Since Japan is the world's largest LNG importer via spot and short-term contracts, these contracts are growing important for Japan from the viewpoints of flexible supply and procurement cost cuts.