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Present Situation and Challenges of Asian LNG Market:
Demand Slowdown, Boom & Bust

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

I attended an international conference on natural gas problems in Shanghai in the first half of the third week of October and another in Oxford in the second half. The former was the General Assembly of the International Group of Liquefied Natural Gas Importers, known as GIIGNL, and the latter was the Gas Day conference of the Oxford Institute for Energy Studies. Though focusing on natural gas and LNG problems, participants in these meetings discussed a wide range of relevant topics, giving me a significant chance to review Asian and global LNG and gas problems in a comprehensive manner. In the following, I would like to summarize key points of discussions at the two meetings.

First, I would like to point out that many participants made arguments under the recognition that the natural gas and LNG supply-demand balance is now loose in many regions including Asia. Oversupply is remarkable particularly in Asia that has driven global energy demand growth and served as the gravity center of the international market. In the Asian LNG market, spot price falls under the loose supply-demand balance have coincided with drops in long-term LNG supply contract prices linked to weak crude oil prices. Market conditions have thus changed dramatically from one or two years ago. As for a short to medium-term outlook, a dominant view at the meetings was that the LNG supply-demand balance will remain loose over the next some five years due to low demand growth and growing exports from the United States and Australia. Earlier, it often happened that LNG suppliers had come up with bullish outlooks in rebuttal to the anticipation of a loose LNG supply-demand balance in Asia. But I saw no such rebuttal at the meetings.

Although factors behind the dominant view include supply-side measures including U.S. LNG project startups, I felt through the discussions that demand-side changes including the deceleration or slackening of LNG or natural gas demand have attracted interests. In this respect, the greatest matter of concern in Asia is the deceleration of economic growth. Slack gas demand in China is the greatest matter of concern to many gas industry stakeholders. China's gas demand growth slowed to only 2% in the first half of this year after remaining double-digit growth in the last several years, sometimes even above 20% growth. As earlier predictions of a tighter Asian LNG supply-demand balance had mostly depended on substantial LNG demand growth in China, the present Chinese situation and expected future downside risks are greatly affecting market perceptions. China's demand slowdown has affected not only LNG problems but also the China-Russia gas pipeline issue. After China and Russia surprised the world by agreeing on two large-scale gas pipeline projects last year, their progress is now very uncertain due to oil and LNG price declines and slack gas demand.

Various uncertain factors regarding future LNG demand exist now including not only a demand slowdown in China but also a possible Japanese LNG demand fall accompanying the restart of nuclear power plants, competition between coal and LNG thermal power generation in major Asian countries, and a possible rivalry between LNG and LPG in Asian developing countries. Therefore, LNG should enhance its price competitiveness to respond more flexibly to uncertain factors, as pointed out by many LNG users. European natural gas market participants share a similar point.

Another surprising finding through the discussions is that the European gas market still sees no bright future as a prolonged economic slump, competition from coal and renewable energy's growth under policy support have been combined to leave gas demand slack for a long time. A complicated fact in this respect is that the European Union is trying to enhance its gas supply security by reducing dependence on Russian gas while Russian gas is the most competitive in the European gas market. Furthermore, U.S. LNG could flow into Europe as well as Asia. In response, Russia could enter a price-cutting race to secure sales channels in the European market. There are various problems regarding the future European gas market.

Second, I would like to note that while we now see a buyer's market for gas where gas buyers can enjoy low prices with an oversupply expected to remain over a certain period of time, gas market participants are concerned that the current low gas prices could disrupt a future expansion of gas supply and result in a tighter supply-demand balance in the future. Commodity markets are frequently identified as having cyclic characteristics repeating loosening for lower prices and tightening for higher prices. There is a view that the cyclic characteristics are stronger particularly for LNG that features higher initial investment for development. This means that the LNG market typically repeats boom and bust cycles. If so, the LNG market might have entered a preparatory stage for the next big cycle. In the recent discussions, some participants seriously argued that if booms and busts are too cyclic, neither buyers nor sellers may enjoy any benefit to the detriment of the market's stable or sustainable development.

Then, the problem is what new LNG supply project should be launched amid the current loose supply-demand balance and low prices. Some participants in the discussions argued that gas industry players would have to make strategic investment decisions in anticipation of future supply and demand changes while reducing costs and enhancing competitiveness for each project. An important problem in this respect is how gas consumers or buyers as well as suppliers should be involved in strategic decisions. In the current supply and demand environment expected to last for at least five years, it will grow more important for buyers to make strategic decisions in anticipation of future conditions.

Contact: report@tky.ieej.or.jp

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