

Special Bulletin

A Japanese Perspective on the International Energy Landscape (329)

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## **Factors Emerging to Greatly Influence Asian Gas/LNG Market**

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From June 18 to 22, I visited Singapore to attend two international conferences. The first of the two conferences was the International Conference of the International Association of Energy Economics (IAEE), titled “Meeting the Energy Demands in Emerging Economics: Implications for Energy and Environmental Markets.” The second was a workshop titled “Gas Market Dynamics in ASEAN and East Asia,” sponsored by the Energy Studies Institute of the National University of Singapore. The latter, as indicated by the title, focused on Asian gas and LNG issues. While the former covered a wide range of energy and environmental issues, I participated in a plenary session on East Asian gas and LNG issues as one of the panelists. In the following, I would like to summarize impressive points to me in these Singapore discussions on Asian gas and LNG issues.

The most important point is that new developments in the Asian gas and LNG situation led me to feel that the possibility is emerging of greater-than-expected changes coming in the supply and demand environment and pricing for the Asian market. The present consensus among market participants and experts is that the present market is in oversupply and will remain so at least for several years due to supply expansion in the immediate future. While there was no argument to counter the basic consensus at the Singapore conferences, the following points made at the meetings were very interesting for those who try to analyse the Asian gas and LNG market.

The first of such interesting points was that gas demand growth in China is reaccelerating. As is well known, Chinese gas demand had continued to grow at a high annual rate exceeding 10%, or even 20% for some time, until 2013. Later, however, the growth decelerated and fell below 4% in 2015, helping the supply-demand balance to ease in the Asian gas and LNG market. In 2016, however, the growth rebounded to 8%. At the Singapore discussions, one participant estimated the growth at 14% for the first half of this year. An economic growth recovery, enhanced environmental regulations, and gas and LNG price falls in the international market were cited as factors behind the reaccelerating growth in Chinese gas demand. But other voices in the meetings doubted if the

present double-digit increase could be really sustainable. If Chinese gas demand returns to a high growth path, it will exert great influences on the supply-demand environment and market participants' relevant perceptions. The Singapore discussions provided me with an opportunity to recognize the significance of collecting and analyzing China's gas demand trend information.

The next impressive point at the Singapore discussions concerned South Korean energy policy changes and their influences on LNG demand. As the new South Korean administration led by President Moon Jae In is revising all policies, energy policy priority is shifting from traditionally prioritized nuclear energy and coal to renewable energy, and gas and LNG. A view presented at the Singapore discussions was that the new administration's energy policy could substantially expand LNG demand for power generation that had been expected to substantially decline under a traditional long-term energy supply and demand outlook. Given that South Korea is the world's second largest LNG importer after Japan, any major change in the country's LNG demand direction from the traditional outlook is significant. From the viewpoint of the supply-demand balance in the Asian gas and LNG market, we will have to pay close attention to the South Korean gas demand trend, as well as a nuclear phase-out policy's influences on LNG demand in Taiwan and gas demand expansion in Southeast and South Asian emerging countries.

Meanwhile, attention-attracting developments have been seen on the supply side as well. Competition between LNG suppliers has been fierce in the Asian market that has become a buyer's market due to low prices and oversupply. In such circumstance, a key matter of interest is how Qatar's decision announced in April to lift a moratorium on gas development would influence rival LNG supply projects in Australia, the United States, Russia and East Africa. At the same time, however, the future course of growing geopolitical risks involving Qatar has become subject to great interest, despite the present oversupply in the LNG market, as indicated at the Singapore discussions. In addition, simultaneous terror attacks in Iran and Saudi Arabia's June 20 announcement to have a new crown prince would become key issues that could affect the fast-changing Middle East situation, and global and Asian gas and LNG markets. Also attracting attention as a new market-moving factor are gas shortages and their impacts on LNG supply in Australia (the east coast) that had traditionally been viewed as a very stable LNG supplier. How to position U.S. LNG in the situation and whether the second wave of U.S. LNG exports could come also became major matters of interest for the discussions in Singapore.

The Singapore discussions also included vigorous debate on possible Asian gas and LNG hub development. There was an argument that moves to explore the development of such hub and a new pricing mechanism have come to a halt as LNG prices under traditional long-term contracts

have fallen rapidly due to crude oil price plunges. However, it was also pointed out that spot LNG prices' deviation from long-term contract prices indexed to crude oil prices could widen depending on the timing of rebalancing expected to come in or after 2018 in the international oil market. On gas hub development in China, participants in the discussions made a very interesting argument that Chongqing could be given a key position in the hub development, although Shanghai had been expected to lead the development. Singapore discussion participants demonstrated their high interest in hub development initiatives by the government, industry and exchange sectors in Japan, the largest LNG importer in the world. However, I felt uneasy to hear some participants doubting if a hub would effectively work in Japan that is not a growing but a shrinking market. As well as growing demand, factors such as the market size and depth, institutional frameworks, the transparency of market transactions and confidence in the market can contribute to hub development. However, how the Japanese market is viewed by outside stakeholders is a factor we cannot ignore. Japan should take sufficient note of this point.

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