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## **Outlook for International Gas Market**

### **<Summary>**

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#### 2017-2018 LNG supply/demand and import price outlook

1. The international LNG market will see growing oversupply through 2018 despite demand expansion in China, India and other Asian countries as new projects enter the production stage one after another.
2. Taking into account a time lag that exists between crude oil prices and prices for LNG arriving in Japan, we predict prices for LNG arriving in Japan to average \$7.7 per million British thermal units in the second half of 2017 and 7.4/mmbtu in the whole of 2018. Spot LNG prices will roughly range from \$5/mmbtu to \$7/mmbtu.
3. While no major risk factors on the supply side are seen at present, Qatar's confrontation with other Persian Gulf countries including Saudi Arabia is likely to become a new risk factor depending on future developments.

#### Demand trend

4. Global LNG demand in 2016 increased by 18.4 million tons from the previous year to 263.6 million tons. While demand in traditional LNG importing countries such as Japan, South Korea and Europe declined, LNG demand growth in emerging LNG importers including such Asian countries as China and India, and the Middle East became conspicuous. These emerging LNG importers are increasing their presence in the international LNG market.
5. In these emerging LNG importing countries, major factors behind LNG import growth include domestic energy demand growth and falling domestic gas production. Currently slack spot LNG prices and a relevant improvement in LNG's price competitiveness have become major factors to boost their LNG imports.
6. In Asia, meanwhile, the gap between coal and LNG prices is still large, indicating that it is difficult for LNG demand to expand particularly in the power generation sector unless LNG's price competitiveness is improved. Energy mix and environmental policies in Asian countries will play a key role in expanding Asian LNG demand.

### Supply trend

7. An Australian supply increase of 15.3 million tons in 2016 accounted for more than 80% of a global LNG supply expansion at 18.4 million tons in the year. Australia plans some more new LNG projects to enter the production stage, leading growth in LNG supply capacity along with the United States.
8. While the investment environment for the international LNG market remained uncertain, an investment decision came in June on a floating LNG project in Mozambique. This is significant for securing investment in sustainable global LNG production capacity and for diversifying LNG supply sources further. On the other hand, Qatar has lifted a moratorium on gas field development that it had imposed in 2005, considering increasing its LNG production capacity. Qatar has vowed to boost its LNG production capacity to 100 million tons by 2024. Given Qatari LNG's high price competitiveness, the capacity expansion will exert great influences on the international LNG market.
9. The United States now sees a kind of supply-demand equilibrium for natural gas as monthly production remains in a 2.0-2.5 trillion feet range with prices staying in a \$3.0-3.5/mmbtu range. Attracting attention in the future will be how the number of gas-drilling rigs increasing since 2016 and growing LNG exports would influence natural gas prices, development and production in the United States.

### Japanese trend

10. As four months are to pass from a gas system reform in Japan, supplier switching cases are increasing gradually in Kanto, Chubu, Kinki and Kyushu, indicating a full-blown competition coming between gas suppliers. Depending on public relations and other strategies of regional electric power utilities for their participation in gas services, competition may intensify further.
11. On June 28, the Japan Fair Trade Commission released a research report on LNG transactions. The report pointed out that destination restriction and take or pay clauses in LNG transaction contracts could have problems with the Japanese Antimonopoly Act, indicating its significance for Japan's LNG procurement. Particularly, the report recommends that anti-competitive trading practices even for existing contracts be renegotiated. If antitrust authorities in other Asian LNG importing countries make similar conclusions, the JFTC conclusion may become the standard for the Asian LNG market.