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Outlook for Gas Market

<Summary>

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2018 LNG supply/demand and import price outlook

1. The international LNG market will see a continuously loose supply-demand balance in 2018 as new projects enter the production stage one after another. As seasonal demand fluctuations widen in line with global demand expansion, however, spot LNG prices in Northeast Asia may increase on a temporary supply-demand mismatch, as seen in early December 2017 when these prices rose beyond \$10 per million British thermal units.
2. Given that LNG imports into Japan under long-term contracts will increase in 2018 as LNG projects in which Japanese firms have invested enter the production stage and that crude oil prices in 2018 will be higher than in 2017, we predict prices for LNG arriving in Japan to average \$9.7/mmbtu in 2018. Spot LNG prices in 2018 in Northeast Asia will average \$6.4/mmbtu reflecting a loose supply-demand balance.
3. While no major risk factors on the supply side are seen at present, irregular production starts for new LNG projects and Qatar's confrontation with other Persian Gulf countries including Saudi Arabia may become new risk factors depending on future developments.

Demand trend

4. We predict that global LNG demand in 2018 will increase by 14.80 million tons from the previous year to 293.20 million tons. Particularly, China is likely to post remarkable LNG demand growth as its gas demand in the first nine months of 2017 increased by a steep 17% from a year earlier. In response to the demand growth, China's domestic gas production in the period expanded by 15%, with LNG imports recording a sharp increase of 8.1 million tons or 46%. China now sees a rapid gas market expansion that could be interpreted as representing a "Golden Age of Gas." Behind the expanding Chinese gas market are an overall energy demand increase accompanying economic expansion and the government's policy of restricting coal consumption in industrial and buildings sectors. As the demand expansion and government policy continue in 2018, China's gas demand growth will reach 6 million

tons accounting for 40% of global growth.

5. In Europe that serves as a supply-demand balancer for the international LNG market, LNG demand in 2018 will increase by 4.6 million tons from 2017 to 45.60 million tons. While the supply-demand balance will remain loose, most surplus LNG may be absorbed by the European market.
6. In India that is expected to expand LNG demand along with China in the future, demand growth has decelerated due to international LNG price hikes and limited LNG infrastructure. As Indian LNG demand is sensitive to prices, it is uncertain whether demand would continue growing amid expected international LNG price hikes.
7. Japan's LNG demand in 2017 increased slightly from 2016 in response to city gas demand growth. In 2018, however, it will decrease by 2.1 million tons from the previous year to 81.10 million tons due to the restart of nuclear power plants.

Supply trend

8. Global LNG supply capacity in 2018 will increase by 26.30 million tons from 2017 to 304.70 million tons, growing faster than demand. Some new gas liquefaction systems have failed to smoothly launch operation. Under new projects that will enter the production stage in 2018, these plants are expected to make a smooth startup.
9. U.S. LNG exports will become full-blown in 2018. With flexibility in destinations and different pricing practices, U.S. LNG is expected to greatly influence the Asian LNG market structure and LNG procurement practices. However, it must enhance its price competitiveness for expanding exports to Asia.
10. The United States sees a kind of supply-demand equilibrium for natural gas as domestic prices have stayed around \$3/mmbtu with production maintained above 2 trillion cubic feet per month. Growing U.S. LNG exports' impacts on domestic gas prices, development and production are attracting attention.

Japanese trend

11. As nine months are about to pass from a gas system reform for deregulating the residential gas market in Japan, supplier switching cases are increasing gradually in the Kanto, Chubu, Kinki and Kyushu regions, indicating a full-blown competition coming among gas suppliers. Depending on the strategies of regional electric power utilities for their participation in gas services, competition may intensify further.
12. In June 2017, the Japan Fair Trade Commission released a research report on LNG transactions, pointing out that destination restriction and take or pay clauses in LNG transaction contracts could have problems with the Japanese Antimonopoly Act. Since then, Japanese LNG buyers have tried to conclude LNG procurement contracts free

from destination restrictions or revise destination clauses in existing contracts. In the future, flexible LNG supply free from destination restrictions is expected to increase.

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