

Outlook for International Natural Gas Market (Summary)

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Outlook for gas prices through 2015

1. LNG prices for Japan's imports in 2013 averaged \$16.1 per million British thermal units (MMBtu), ranging from \$15/MMBtu to \$17/MMBtu. While import volume growth was limited, the yen-denominated value of LNG imports in the year expanded by 18% (or 1,055.1 billion yen) due to the yen's depreciation. The sharp increase represented a serious problem from the viewpoints of macroeconomics and national wealth outflow.
2. Under the assumption that the average LNG import price in Japan will remain linked primarily to the benchmark crude oil price (forecast at \$110/bbl for 2014 and \$105/bbl for 2015 in the Outlook for International Oil Market), we project the average LNG import price in Japan at around \$16/MMBtu for 2014 and \$15/MMBtu for 2015. As the largest uncertain factor regarding the LNG import price linked to crude oil prices, the Iraqi situation is attracting attention. We predict that spot LNG prices will be weaker than long-term contract prices linked to crude oil prices, expecting that global LNG supply will be sufficient for the immediate future.
3. We forecast that the U.S. Henry Hub price will remain in a low range of \$4-5/MMBtu through 2015. The British NBP (National Balancing Point) price, now at the lowest level since 2010, may slightly rise back in the winter demand season. As the European and U.S. gas supply-demand balance is expected to remain relatively easy with crude oil prices forecast to stay at high levels, we predict that the Asian premium problem representing higher LNG prices for Asia including Japan will remain a challenge. Continuous efforts to rationalize LNG pricing in the Asian market and improve the liquidity of LNG transactions will be required for eliminating the Asian premium.

Natural gas market through 2015

4. Global LNG supply/demand

- 4.1. In the entire world, natural gas demand is expected to continue increasing slowly through 2015. As demand is predicted to continue weakening in Europe while increasing in other regions in 2014, global

demand in the year is estimated to increase by 2% from 237 million tons in 2013 to 242 million tons. In 2015, global demand is projected to rise by 7% from 2013 to 255 million tons thanks to a global expansion including a slight rebound in Europe.

4.2. While the suspension or substantial reduction of LNG exports will remain in place in Egypt and Angola, multiple new LNG projects, including Indonesia's Donggi Senoro project and Australia's Queensland Curtis and Gorgon projects, are planned to start by 2015 in addition to Algerian and Papua New Guinea projects launched in 2013. Given these additional LNG projects, supply capacity is expected to be sufficient enough to meet the predicted demand expansion.

5. Regional situations

5.1. In the United States, supply will remain sufficient due to an increase in unconventional natural gas output. Preparations for exporting LNG are making progress as the Federal Energy Regulatory Commission has approved two LNG export facility construction projects for a total of some 30 million tons in LNG exports (at the end of June 2014) in the wake of LNG export approval by the Department of Energy. Since demand for natural gas for power generation in the United States is sensitive to price fluctuations, natural gas's competition with coal will influence future gas demand.

5.2. European natural gas demand in 2013 fell by 1% from the previous year, for the third straight year of decline since 2011. Natural gas has seen a serious decrease in its competitiveness as power generation fuel. In Germany, for example, wholesale electricity prices have declined to levels at which gas-fired power generation cannot produce profit. In Spain, the operating rate for gas-fired power plants has dropped due to the massive introduction of renewable energy. These factors will remain in 2015, exerting downward pressure on natural gas demand.

5.3. After gas supply problems involving Ukraine emerged frequently, Europe has enhanced its resolve to reduce its dependence on gas supply from Russia. In June 2014, Russia suspended gas supply to Ukraine (Russia-Ukraine natural gas trade totaled about 18.5 million tons in terms of LNG in 2013). But the market has remained unshaken. It is difficult to predict the time when the suspension will be lifted. If the suspension continues into the winter heating-demand season, it may greatly affect natural gas supply in Ukraine and Eastern Europe. But impacts on Japan, including price hikes in Western Europe and a rise in LNG demand, may be limited. Nevertheless, we may have to pay attention to additional LNG demand in Europe that could emerge on disruptions to supply.

5.4. China expanded net natural gas imports in 2013 by 5.4 billion cubic meters (some 4 million tons in LNG) from the previous year as its domestic natural gas supply-demand gap widened rapidly. Natural gas demand is expected to expand rapidly through 2015 amid the powerful implementation of antipollution measures. The China-Russia natural gas agreement signed in May 2014 is significant for

mitigating China's future supply-demand gap and Russia's promotion of East Siberia development. The development should be welcomed as benefitting Japan indirectly. Attracting attention will be how the price for the agreement, which is reportedly similar to European levels, would influence future trade negotiations in the Asian LNG market.

6. Spot and short-term transactions

Spot and short-term LNG transactions have continued expanding. Global spot LNG transactions in 2013 exceeded 298 cargoes in the previous year to 361 cargoes (some 23.5 million tons in terms of standard tankers). An increase in flexible LNG supply is expected to improve the liquidity of LNG transactions. Meanwhile, Japan has expanded spot and short-term LNG purchase contracts and obtained a key position in the global market in line with the shutdown of nuclear power plants. In the future, Japan's spot and short-term LNG purchases will be influenced by how nuclear power plants will be restarted. If nuclear plants are restarted on a large scale, the LNG supply-demand balance may ease to exert downward pressure on spot LNG prices. (At the end of June 2014, the average spot LNG price for Northeastern Asia stood at about \$12/MMBtu.)

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