

Trends in Oil and LNG Imports in FY 2014

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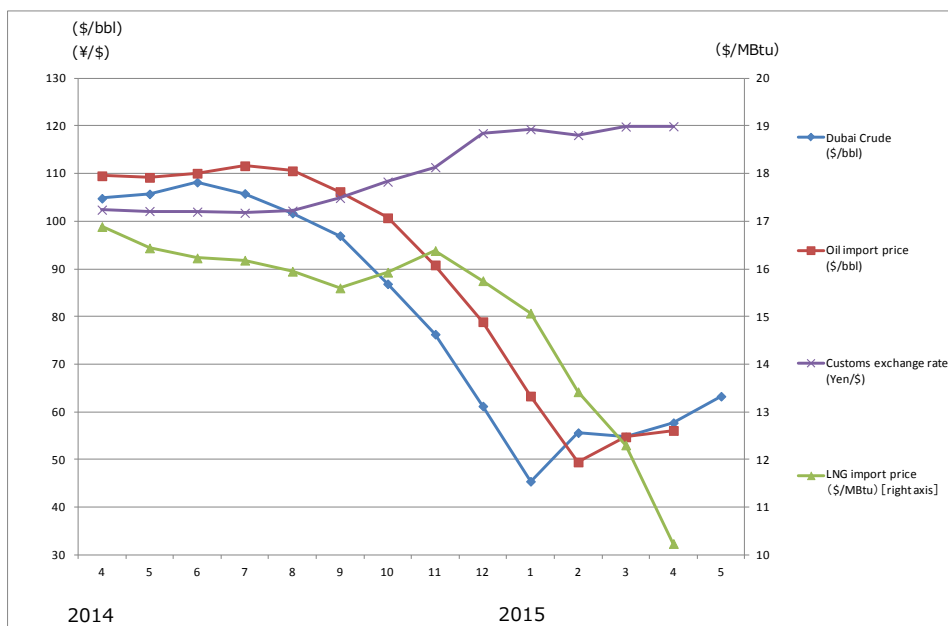
Introduction

The most remarkable phenomenon in the domestic and overseas energy situation in FY 2014 was the plunge in oil prices. This report summarizes the trends in oil and LNG imports in FY 2014, including the impact of the oil price drop on oil and LNG import prices.

Energy Price Trends

Oil prices remained at around \$110/bbl in the first half of 2014, but fell gradually in the latter half of the year due to speculation that demand for oil would decline due to slower economic growth in emerging countries such as China and the increase in shale oil production in the US. Prices fell further in November when the OPEC meeting decided not to cut production, plunging to as low as \$45/bbl for Dubai Crude in January 2015. Accordingly, the oil import price of Japan, which reflects the Dubai Crude prices with a roughly one-month time lag, sank to \$49/bbl in February. The import price of LNG, which reflects the oil import price with a three-month time lag, also fell to \$10/MBtu in April 2015.

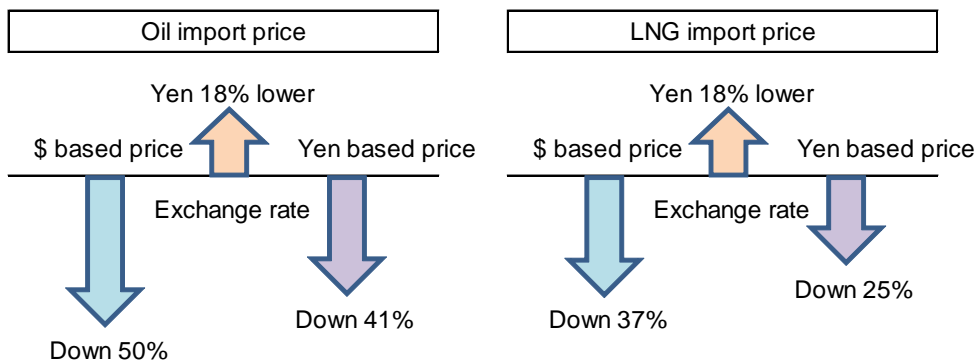
Figure 1 Energy Price Trends



Source: Foreign trade statistics, Ministry of Finance

The drop in dollar-based oil prices, however, was partially cancelled out by the further depreciation of the yen. Let us compare the import prices of oil and LNG of July 2014 and April 2015. While the dollar-based prices dropped by 50% (\$112/bbl ⇒ \$56/bbl) and 37% (\$16/MBtu ⇒ \$10/MBtu), respectively, the yen-based prices fell by less at 41% (¥71,000/kl ⇒ ¥42,000/kl) and 25% (¥85,000/t ⇒ ¥64,000/t), respectively, as the customs exchange rate of the yen dropped by 18% (¥102/dollar ⇒ ¥120/dollar) during the same period. Even so, the prices reached their lowest levels in five years for oil (yen-based) and in two and a half years for LNG.

Figure 2 Comparison of Oil and LNG Import Prices of July 2014 and April 2015



Electricity and City Gas Tariffs

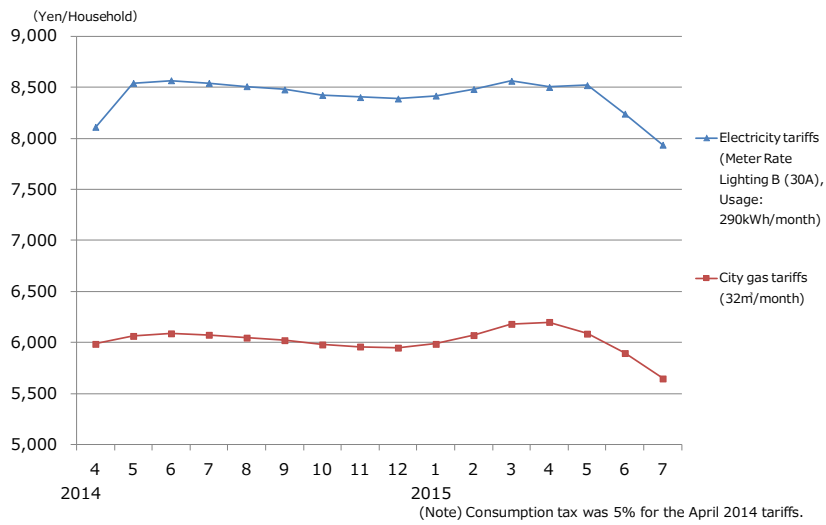
Electricity tariffs are affected by fluctuations in the import prices of oil, LNG and coal, while city gas tariffs are influenced by fluctuations in the import price of LNG and of the LPG for calorific value adjustment. Under this adjustment system of fuel and raw material costs, it takes roughly four months (three to five months) for oil and LNG import prices to be reflected in electricity and gas tariffs.

Figure 3 Time Lag of the Impact on Energy Prices

	2015-1	2015-2	2015-3	2015-4	2015-5	2015-6	2015-7 onwards
Dubai Crude Price	Dropped to \$45/bbl						
Oil import price		Dropped to \$49/bbl					
LNG import price					Around \$9/Mbtu?		
Electricity & gas tariffs					Oil & LNG import prices reflected with 3 to 5-month time lag		

Electricity and city gas tariffs will continue to decline in the first half of 2015 as they reflect the low import prices until the spring of 2015 with the time lag. However, with the present increase in oil prices, and as the yen further weakens, the tariffs are expected to rise gradually in the latter half of the year.

Figure 4 Electricity and City Gas Tariffs for the Average Household (Tokyo area)

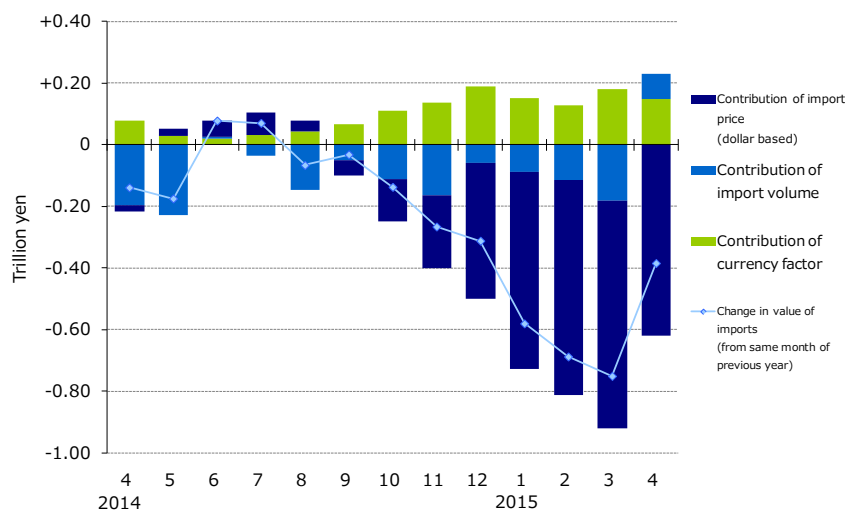


Source: TEPCO and Tokyo Gas Websites

Factor Analysis of the Value of Oil Imports

The value of oil imports decreased for the first time in four years to 11.8 trillion yen for FY 2014, down 20.2% or 3.0 trillion yen year-on-year. While the customs yen exchange rate weakened against the dollar by 9.3% or 9.3 yen/dollar year-on-year due to the Abenomics-driven yen depreciation, adding 1.2 trillion yen of currency factor to the import sum, the drop in dollar-based import value of 19.0% or \$20.9/bbl reduced the import value by 2.8 trillion yen, and with the drop in import quantity of 9.9% or 21 million kl, the import value decreased by 1.4 trillion yen. The sustained drop in dollar-based import price due to the oil price drop since last September has significantly helped to cut the oil import value.

Figure 5 Factor Analysis of the Change in the Value of Oil Imports (compared with the same month a year earlier)

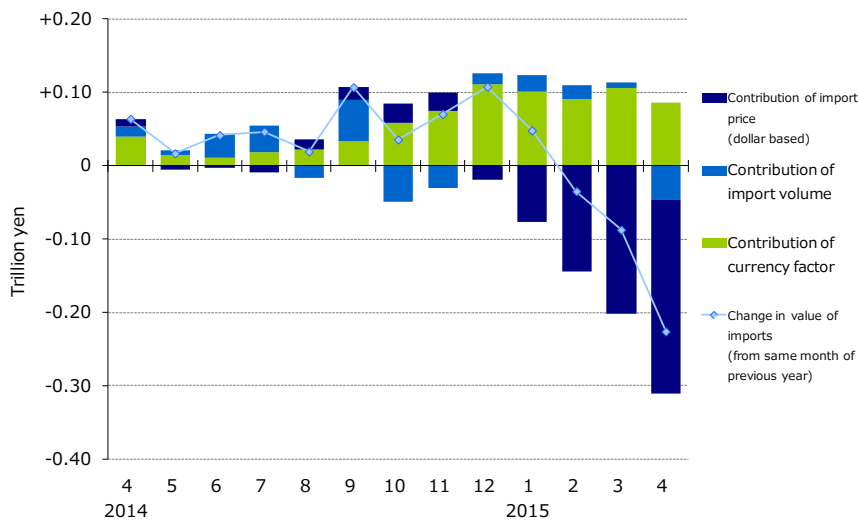


Source: Based on foreign trade statistics, Ministry of Finance

Factor Analysis of the Value of LNG Imports

The value of LNG imports increased for the fifth consecutive year to a record high of 7.8 trillion yen for FY 2014, up 5.9% or 0.4 trillion yen year-on-year. While the dollar-based import price decreased by 4.5% or \$0.73/MBtu year-on-year, cutting the sum by 0.4 trillion yen, the exchange rate added 0.7 trillion yen to the sum, together with an increase in the import quantity of 1.5% or 1.34 million tonnes, which added 0.1 trillion yen to the total. After both the yen-based price and quantity of imports marked a record high for a single month in December 2014, the value of LNG imports has been declining since February 2015 with the decrease in the dollar-based import price. Assuming that the quantity of imports and the exchange rate remain similar to the previous year, the value of LNG imports should go down by 1.4 trillion yen year-on-year for the first half of 2015 due to the drop in the dollar-based import price.

Figure 6 Factor Analysis of the Change in the Value of LNG Imports (compared with the same month a year earlier)



Source: Based on foreign trade statistics, Ministry of Finance

Conclusion

Japan's trade balance for FY 2014 was negative, with a loss of 9.1 trillion yen, the fourth consecutive year of deficit. This deficit, though smaller than the 13.8 trillion yen for FY 2013, was the second largest ever.

Although the trade balance turned positive for the first time in 2 years and 9 months in March 2015 thanks to the decrease in fossil fuel imports, it reversed in the following month with a deficit of 53.4 billion yen. While the trade balance is improving with the recovery of exports, oil prices are now on the rise again. For Japan's trade balance to remain in surplus, fossil fuel imports including LNG could be cut significantly by restarting the nuclear power plants.

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