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Chinese Natural Gas Market and LNG Imports Attracting Attention
-- Growth Path Recovered? --

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On February 28, the Institute of Energy Economics, Japan held a seminar on China's natural gas market, where Chinese oil and gas experts made very interesting reports on supply and demand in the recent Chinese natural gas market and market reform. Here, I would like to summarize key points of the presentation in the meeting from the viewpoint of analyzing the whole of the Asian market for liquefied natural gas.

The most interesting point is that Chinese natural gas demand is accelerating growth again. Until 2013, Chinese natural gas demand had continued very high annual growth far above 10%. Supported by robust economic growth, overall energy demand had been expanding, with demand growing rapidly for natural gas known as clean energy. From 2014, however, natural gas demand growth decelerated rapidly, sinking to around 3% in 2015. The deceleration came as economic growth slipped below 7%, with the Chinese economy turned into the so-called "new normal." It may be needless to say that the substantial natural demand growth deceleration greatly affected global natural gas supply and demand, particularly Asian LNG supply and demand.

Gas supply to meet Chinese gas demand consists of domestic natural gas output, natural gas imports via pipelines and LNG imports. All three have so far expanded to meet demand growth. LNG imports served as a supply-demand buffer, continuing sharp growth until 2014. In the year, Chinese LNG imports totaled about 20 million tons, with China increasing its presence as a big LNG importer. This trend brought about a forecast that Chinese (and other Asian) LNG demand would remain firm, leading to final investment decisions for numerous LNG supply projects. In addition, high crude oil prices and Asian LNG market prices indexed to oil prices provided the most important support for these investment decisions.

However, the abovementioned deceleration of natural gas demand growth greatly affected LNG imports as a buffer. In 2015, Chinese LNG imports posted a small drop. Chinese LNG imports that declined rather than decelerating growth exerted a great impact on the Asian LNG market.

The Chinese LNG import fall arguably might have become the most important demand side factor behind the loosening supply-demand balance in the Asian LNG market. The largest factor behind the future continuation of the loose supply-demand balance and oversupply would be the expected successive launching of numerous LNG supply projects in Australia and the United States to boost supply capacity in the regional market. As noted above, however, final investment decisions for these projects were based on high LNG prices and the expected robust Chinese demand growth. In this sense, realities and perceptions about Chinese LNG demand have had great influences on the Asian LNG market.

However, Chinese natural gas demand growth is believed to have accelerated close to 10% in 2016 and to rise beyond 10% in 2017. The driver of the demand recovery is growing demand in power generation and industry sectors. As air pollution measures are enhanced, consumption of natural gas as a clean fuel might have accelerated. The steep LNG price decline might have improved the economy of gas use, contributing to stimulating demand. As a result, China's LNG imports in 2016 expanded by nearly 25% from the previous year to more than 25 million tons.

The robust increase is expected to continue into 2017. Future Chinese gas demand and LNG imports are likely to exert great influences not only on the Chinese energy mix but also on the supply-demand environment for the global gas market, particularly the Asian LNG market. As a matter of course, the expected sharp supply capacity growth is viewed as enough to absorb the Chinese demand growth in the immediate future. Nevertheless, supply and demand changes in the giant Chinese market will undoubtedly remain a key factor that cannot be shrugged off.

According to China's 13th five-year plan, its primary energy consumption is expected to expand from 4.3 billion tons of standard coal equivalent (TSCE) in 2015 to 5 billion TSCE in 2020. Natural gas is expected to increase its share of primary energy consumption from 6% to 10%. The increase and a non-fossil energy expansion are the key to realizing the policy goal of reducing dependence on coal. The plan indicates that China's natural gas demand would almost double from the 2015 level to more than 350 billion cubic meters in 2020. There is a view that the present demand growth, though accelerating again, may fail to push up natural gas demand to the indicated target level. If Chinese gas demand accelerates to nearly achieve the target under the five-year plan, however, LNG demand may expand sharply. Attention must be paid to China's future energy market and policy developments.

Amid such supply and demand trend, moves of various players in the Chinese natural gas and LNG market are interesting. As well as CNOOC that has taken the initiative in procuring LNG, Chinese oil majors CNPC and SINOPEC have signed many LNG import contracts including a take-or-pay clause. A key attention-attracting point is how these companies will secure their market shares. At the same time, it is interesting how provincial gas grid operators including Zhejiang Provincial Energy Group Co. and Beijing Gas Group Co., gas power plants, city gas companies and other new players would activate their LNG procurement and their participation in the LNG market amid gradual market reform. We may have to keep close watch on China's future energy market including the natural gas market.

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