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## **Outlook for International Natural Gas Market (Summary)**

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### 2018-2019 international LNG supply/demand outlook

1. The international LNG market up to 2019 will see a continuously loose supply-demand balance overall, as growth in supply capacity will outpace growth in demand. However, rapid demand growth in 2017 centered on China is causing the current loose supply-demand balance to head toward a rebalancing, and there is rising interest in the timing of when the market will shift to tight conditions.
2. We predict worldwide LNG demand throughout 2018 will increase 18.5 million tons over the previous year and the growth in supply capacity will rise 28.4 million tons year on year. Additionally, in 2019, we predict demand growth will total 22.2 million tons, while supply capacity growth will total 30.6 million tons.
3. Most of LNG cargoes bound for Japan is still traded at prices linked to crude oil prices. Therefore, regardless of the overall loose LNG supply-demand balance, we predict the LNG import price for Japan will be at \$11.3/mmbtu in the second half of 2018 and \$10.9/mmbtu throughout 2019 (the price between January and May 2018 was \$9.9/mmbtu), reflecting the crude oil price trend going forward. The spot price in northeast Asia is expected to fluctuate largely, but we predict the average price for the second half of 2018 and all of 2019 to hover around \$8 to \$9/mmbtu.

### Points of interest on the demand side

4. The expansion in global LNG demand will continue. Among this, in China, extremely strong demand growth of 11.59 million tons (growth rate of 42%) over the previous year was observed in 2017. Demand since the start of 2018 has indicated strong growth. This outlook predicts that China's LNG demand will

increase 9 million tons over the previous year to around 48 million tons in 2018, and increase another 7 million tons year on year to around 55 million tons in 2019.

5. The major factor behind the sharp increase in LNG demand in China during 2017 was measures against air pollution implemented by the government. In particular, 2017 was the final year of a five-year air pollution countermeasure period that began in 2013, causing last minute demand to shift from coal to gas to materialize, and as a result, LNG imports increased sharply. These measures against air pollution implemented by the government will continue up to 2019. As such, this will be a factor behind continuing increases in LNG demand.
6. China's LNG demand is also greatly affected by macroeconomic trends. In 2017, ahead of the Communist Party Congress held in October, the government implemented proactive economic stimulus measures, which brought about an increase in overall energy demand, becoming one factor behind increasing LNG demand. Since 2018, the effects boosting demand brought about by these economic stimulus measures will retreat. Instead, any negative impacts on China's economy from the trade war with the United States causes will become a factor in slowing down LNG demand.
7. As the global LNG market expands, the growing seasonal fluctuations in demand have become a problem that cannot be ignored. Going forward, too, throughout the year supply capacity will continue to largely outpace demand, but ahead of peak winter demand, the spot market's supply-demand balance could tighten up momentarily, raising the possibility of increasing spot prices. There is an emerging need to quickly create a spot market with high liquidity that can absorb to some extent seasonal fluctuations through the elimination of the destination clause, etc.

#### Points of interest on the supply side

8. Stagnant crude oil prices since the second half of 2014 have stalled final investment decisions (FID) on new liquefaction capacity. In May of this year, the FID was made for the third train of the Corpus Christi project in the United States, and in addition to this, steady moves are being made toward FID realization for Area-1 in Mozambique and LNG Canada in Canada. Rising LNG prices from rising oil prices, improving financial standing of upstream development companies, and the recent LNG demand expansion are effectively creating momentum behind FID implementation. This FID implementation from 2018 to 2019 will carry

significant meaning in avoiding supply shortages through stalled investment, and securing a stable supply-demand balance over the medium- to long-term. There are high expectations for the realization of multiple FID up to 2019.