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Outlook for Gas Market

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2019 LNG supply/demand and prices

1. Global LNG demand in 2019 will total 338 million tonnes (accounting for 12% of natural gas demand) against supply capacity at 344 million tonnes. As supply capacity increases faster than demand, the supply-demand balance will ease in the year.
2. The average price for LNG imports into Japan in 2019 will almost level off from \$10.5/MMBtu in 2018 to \$10.2-11.4/MMBtu. Though depending on weather factors such as cold waves, spot LNG prices for Northeast Asia is likely to slip below the average import price.

Natural gas/LNG supply and demand

3. Natural gas demand in the OECD countries, China and India in the first to third quarters of 2018 increased by 96 bcm or 6.7% year on year to 1,527 bcm. Particularly, the OECD Americas and China drove overall demand growth. In 2019, demand will post robust growth mainly in the United States and China.
4. Global LNG demand in the first to third quarters of 2019 is estimated at 226.8 million tonnes, up 13.1 million tonnes or 6.2% year on year. LNG demand in 2019 will increase by 26 million tonnes or 8.3% from 2018 to 338 million tonnes.
5. Effective global LNG supply capacity, reflecting gas liquefaction plants' capacity utilization conditions, will increase by 27 million tonnes from 2018-end to 344 million tonnes at 2019-end.

Trends in major countries

6. U.S. natural gas production in the first to third quarters of 2018 expanded by 71 bcm or 11.8% year on year to 672 bcm. Net U.S. natural gas exports in 3Q 2018

totaled 6 bcm (4.4 million tonnes in LNG equivalent). U.S. LNG production capacity is growing rapidly, surpassing 60 million tonnes at 2019-end.

7. China's natural gas demand in the first to third quarters of 2018 increased by 33 bcm or 19.5% year on year to 200 bcm, with LNG imports expanding by 11.3 million tonnes or 44.2% to 36.8 million tonnes. Annual LNG demand is expected to reach 53 million tonnes in 2018 and 60 million tonnes in 2019. While LNG demand rose rapidly, seasonal LNG import fluctuations in 2018 narrowed from 2017. LNG importers in China are procuring LNG for winter earlier than in the past, indicating that spot LNG prices this winter would be less volatile than a year earlier.
8. Due to the U.S.-China trade war, China's LNG imports from the United States might have dropped to zero in October. As China's dependence on LNG imports from the United States is limited, it may be easy for China to secure alternative LNG supply sources. Meanwhile, the cut in China's LNG imports from the United States is expected to affect new U.S. LNG projects.
9. Russian natural gas exports in the first half of 2018 grew by 13 bcm or 9.1% year on year to 152 bcm. Russia is taking advantage of its price competitiveness to expand gas exports. Russia plans to increase its pipeline gas export capacity by 125 bcm in 2019. It is invigorating new LNG project development.
10. In Europe, natural gas demand in the first half of 2018 decreased by 4 bcm or 1.5% year on year to 273 bcm, with LNG imports declining by 2.3 million tonnes or 10.2% to 20.2 million tonnes. Local production has decreased with demand failing to grow. Europe remains the last resort market to absorb LNG failing to sell in other regions.

LNG market liquidity and destination clause

11. Spot LNG trading volume reached 59 million tonnes (accounting for 20% of total LNG trading volume) in 2017 but is likely to decline due to an increase in fixed term contract sales by the United States and Qatar in 2018. Although LNG market liquidity has improved as indicated by growing JKM (Japan Korea marker) swap transactions, it may take more time for a benchmark LNG price to be developed.
12. Since the Japan Fair Trade Commission (JFTC) recommended destination clause restrictions on LNG transactions to be relaxed in 2017, such restrictions in new LNG contracts for Japan might have been eased. Some 15% of fixed term contract LNG sales to Japan, China and South Korea are estimated as destination free. Cooperation with other competition authorities in Asian importers could contribute to improve LNG market liquidity.

Japanese gas market

13. In the first half of 2018, natural gas demand in Japan decreased by 2.2 bcm or 3.7% year on year to 58 bcm. Demand for natural gas for power generation and city gas declined due to the restart of nuclear power plants and weather factors.
14. Amid progress in Japan's gas market deregulation, new entrants' share of the city gas market stood at 13.4% in August 2018. Such share came to 3.9% in the residential gas market that was deregulated in April 2017. New entrants' share of the city gas market is likely to increase to 14-15% in 2019 through business alliances across traditional service areas.