LNG SUPPLIES FOR ASIAN MARKETS (LNGA) 2018

Lower For Longer: Implications For Asia's LNG Business

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5 Things We Learned From the LNG for Asian Markets Conference

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By Dan Murtaugh

(Bloomberg) -- Some of the biggest companies, ministries and other players in the liquefied natural gas industry descended on a resort island in Singapore this week for the LNG Supplies for Asian Markets conference organized by Conference Connection. Here's what we learned on Day 1.

Industry Optimism

All it took was record growth in LNG imports from the world's largest energy user to shake the super-chilled fuel out of its malaise. In 2016 and early 2017, most conversations at LNG conferences started and stopped with the massive amount of new production capacity set to come online in Australia and the U.S., and how that would create a price-killing glut that would take years of demand growth to eliminate and bring the market back into balance. Then China decided to get real about the environment. Measures to switch factories and home heating from coal to gas helped LNG imports in the country surge by nearly 50 percent last year. Combined with growing demand from emerging markets like Pakistan, it helped drive spot LNG prices to a three-year high. "Where is the gas bubble? We waited for it in 2016, we waited for it in 2017, now it's the first quarter and it's still not here," Jean-Pierre Mateille, Total SA's vice president of trading for gas and power, told reporters on the conference's sidelines. "It's definitely a better market now than it was a year ago."

There's an App For That In China, traders don't have to go far to buy and sell LNG. Cnooc, the country's largest importer of the fuel, sells some of its supply domestically on the online marketplace Jingdong, or JD.com. Other sellers are even more flexible, using mobile phone apps like WeChat, said Zheng Hongtao, Cnooc's executive vice president for gas and power trading and marketing,. "Sometimes you can be on your WeChat, and you'll get a message asking if you want to buy a truck of LNG," he said.

Japan's Demand

Not even the Japanese government believes its own pessimistic forecast for LNG demand. Japan's energy plan for 2030 calls for the country to reduce gas use and increase energy from nuclear and renewable sources, among others, resulting in LNG imports falling from a world-beating 87 million tons in 2015 to about 62 million tons by 2030. While the government isn't ready to revise its forecasts yet, it already seems clear that the country will still need to import more than that by 2030, Masato Sasaki, director of the oil and gas division at the Ministry of Economy, Trade and Industry, said in a presentation at the conference. Conference co-chairman Fereidun Fesharaki, founder of energy consultancy FGE, chided Sasaki that the industry couldn't take the projections seriously. "Subtract 10 percent from nuclear, subtract 10 percent from renewables, add 20 percent to LNG, then we might be close," Fesharaki said.

Chinese Uncertainty

China’s surging demand for LNG imports was the story of 2017, leaping by nearly 50 percent from the year before to become the world’s second-biggest importer, and helping drive spot prices in Asia to a three-year high. Don’t expect that to continue in a smooth line, the country’s largest LNG importer warned on Wednesday. The import boom was driven by coal-to-gas switching, especially in Hebei Province in northern China, and was aided by supply shortages from the Central Asia Gas Pipeline, said Cnooc’s Zheng. Both have uncertain futures, as Hebei recently paused coal-to-gas switching projects.
Domestic demand can also fluctuate, he said. Cnooc’s LNG terminal in Tianjin toward the end of last year was sending out 400 trucks carrying a combined 8,000 tons of LNG every day to domestic customers. During Chinese New Year, that fell to 80 trucks carrying about 1,600 tons of LNG. The numbers have since rebounded but are only at about half their peak, he said. “The Chinese gas market, overall it has a growing trend, that’s very clear, but for different months it’s very changeable,” Zheng said.

Shoe On The Other Foot

Jera Co., a joint venture of Japanese gas importers that’s one of the world’s largest LNG buyers, has also been one of the more vocal proponents of getting sellers to eliminate so-called destination clauses that restrict the buyer’s ability to resell unneeded cargoes to other markets. As Jera switches from becoming a pure buyer to a portfolio player that both purchases LNG to import into Japan as well as to resell to others, it’s developing a more nuanced view on the clauses. When the company has conversations with potential buyers, it’s reluctant to give away destination clauses without getting something else back in eturn, said Hiroki Sato, the company’s chief fuel transactions officer. “When we were pure buyers, we always requested the seller give us free destination,” Sato said. “Nowadays, we sometimes sell our portfolio to the buyer, and the buyers request us to give them free destination. I said no.” The room burst into laughter, and Mehdi Chennoufi, Royal Dutch Shell Plc’s general manager of LNG origination and business development east of Suez, nodded in agreement. “We’re glad to hear that, Sato-san,” he said. “It means you’re normal.”

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