



LNG SUPPLIES FOR ASIAN MARKETS (LNGA) 2019

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JKM LNG liquidity not a concern to buy long-term JKM linked contracts: JERA

Singapore — Risks associated with JKM-linked long-term LNG contracts can be managed with existing hedging tools with the current level of liquidity, Sarah Behbehani, SVP LNG Trading at JERA Global Markets, said Thursday.

"I'm happy to buy JKM linked contracts on a long-term basis [as far as liquidity is concerned]," she said during a panel discussion at LNGA 2019 in Singapore, but added that Japanese end users are currently more comfortable managing their long-term contract exposures with the Japanese LNG Cocktail, or JLC.

JLC is Japan's weighted average delivered LNG price for a month, which could comprise of contracts based on Brent, JKM or different gas hubs like the US' Henry Hub.

JKM derivative volumes as a percentage of total spot LNG trade has been rising over the last two years, but it is still modest compared with established energy commodities such as crude oil, industry sources said.

"JKM [derivative] liquidity has come a long way in the past 24 months," said Gordon Waters, global head of LNG at French energy company Engie. In terms of the forward curve, the liquidity is good for the first 12-months. For, the 12-24 months it is getting there, but for the months after it there is no liquidity."

In February, JKM derivative liquidity hit a record high with 27,402 lots cleared. Monthly open interest for JKM derivatives also hit an all-time high at 34,795 lots, Intercontinental Exchange and Chicago Mercantile Exchange data showed.

On the back of increased liquidity, financial costs to use LNG derivatives as a hedging tool and for financing is gradually declining, a trader said.

JKM, which currently is widely used to price short-term LNG trades, is now being considered to price long-term contracts as well, market sources said.

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