

Discussions with LNG Suppliers on Asian LNG Market

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On April 10 and 11, I had an opportunity to discuss an Asian LNG market outlook with LNG suppliers and other market stakeholders, and experts in Singapore. While the matter was discussed from various angles, I believe that the discussions focused on (1) how we should view various factors having influence on the pace of Asian LNG demand expansion, (2) when the situation of the global LNG market now in oversupply would change, and (3) what strategy is required for LNG suppliers in the current market environment.

In Asia, LNG demand has generally continued increasing steadily. While leveling off in Japan, the world's largest LNG consumer and importer, in 2017, LNG demand increased steadily in Asian emerging and developing countries. Particularly, LNG market stakeholders indicated great interests in China that expanded LNG demand by nearly 50% and replaced South Korea as the world's second largest LNG importer last year. They also indicated great hopes on India as a market expected to grow over a long term, as well as ASEAN countries. The Asian LNG market expansion is the greatest matter of interest to LNG suppliers at present.

In Singapore, we had vivid discussions on what the major drivers influencing the speed and extent of Asian LNG demand expansion is and how the situation surrounding the drivers is now and will be in the future. Specific topics included world and Asian economic outlooks and the extent to which Asian countries would enhance responses to environmental problems. As for environmental problems, discussion participants demonstrated interests not only in the importance of climate change countermeasures but also in how air pollution countermeasures urgently required in China and India would influence LNG demand.

LNG prices were another topic. Some discussion participants noted that LNG price drops since 2015 have been a factor behind demand expansion particularly in Asian emerging and new markets. LNG suppliers seemed concerned that while LNG demand would increase as far as LNG prices remain at present levels, a price spike for any reason could affect LNG demand growth particularly in low-income countries.

Another major matter of interest to LNG suppliers was how to view markets for LNG's rivals such as coal, nuclear energy, renewable energy, LPG and petroleum products in each Asian country. This matter is closely related to prices. There is also competition between LNG and pipeline gas and between LNG projects. Impacts of electricity and gas market deregulation mainly in Japan

on LNG demand are also attracting attention from LNG market players. This is because such deregulation exerts great influence not only on absolute demand levels but also on demand “quality” including flexibility and contract terms.

For the second point of the turning point for the market supply and demand structure, how to view the extent of future LNG demand expansion in the Asian market, as discussed in regard to the first point, is very important. A mainstream view at present is that while Asian LNG demand will continue increasing steadily, oversupply has emerged and will remain until around 2023 or later as LNG projects subjected to final investment decisions made amid high LNG prices until 2014 enter the production stage one after another. In reaction to progress in investment decisions amid high LNG prices, final investment decisions for new (green field) supply projects have become difficult to make, though with some exceptions. If LNG demand continues expanding, therefore, oversupply could be rapidly replaced with undersupply. In this sense, the timing for the turning point in the LNG market is very significant for Asian LNG market stakeholders.

Symbolically, participants in the Singapore discussions paid attention to the fact that spot LNG prices rose far beyond \$10 per million British thermal units as the supply-demand balance tightened on a rapid increase in China’s LNG demand in winter last year. As a matter of course, the phenomenon was temporary and seasonal. As China’s LNG procurement calmed down on a pause in winter gas demand expansion, spot LNG prices declined below \$9/MMBtu in March. As present, it is no exaggeration to say that supply is still abundant. However, some industry people note that if LNG demand expands faster than expected in China and other emerging countries, oversupply may diminish faster than assumed. As how to detect a turning point can exert great influence on negotiations between LNG sellers and buyers, future market analyses will be very important.

Meanwhile, however, the LNG market is likely to remain in oversupply and as a buyers’ market at least for the immediate future. LNG will continue to compete with rival energy sources and with pipeline gas however the supply and demand structure will change over a medium to long term. LNG projects will continue to compete for sales channels and markets. In this sense, discussions were enthusiastic on the third point of what strategy is required for LNG suppliers.

In the discussions, the importance of how to reduce supply costs, a cost reduction strategy and maximum efforts to cut costs were pointed out, with specific cases cited. As a matter of course, supplies with cost-competitive advantages can survive an oversupply market and expect maximum benefits from an undersupply market. Therefore, the bottom line is that various efforts to minimize capital, operation and management costs are the most important.

It was also pointed out that LNG suppliers should accurately understand the diversity of the Asian LNG market, various needs on the demand side and their changes and take adequate approaches on these matters. In Asia, LNG’s position in the energy mix differs by country. Competition between energy sources and market reform conditions are diversified. Buyers are also diversified. Needs and priorities for LNG procurement are not uniform. An important strategy for LNG suppliers to be successful in the expanding Asian LNG market may call for understanding demand-side characteristics and needs and their future changes accurately.

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