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Global trade summary for 2014

The hiatus continues

Key points

- LNG deliveries in 2014 were an estimated 243 million tonnes, effectively flat for the third year running. New supply from Papua New Guinea was balanced by reduced performance from some existing plants.
- Asian imports increased in 2014, but despite record imports for most Asian Japan and S.E. Asian markets the growth in China was weaker than expected, and S. Korea demand was lower year-on-year.
- Asian imports were impacted by both seasonal and 'structural' factors this year; weaker seasonal demand as a result of mild weather plus weaker 'structural' demand as a result of slower economic growth.
- Although import volumes into Asia grew – the competition for spot cargoes likely decreased, leading to a reduction in spot prices over the summer. Falling oil prices at the end of the year further pressured spot prices downwards. Long-term contracts, which are generally indexed to oil in Asia, but are lagged against oil movements, will see more of an impact in 2015.

Supply – the hiatus continues

Despite the start-up of two new projects and an improved performance from some existing plants, declining gas supply and reduced performance in other plants left supply stalled at 2011 levels.

We estimate 243 mt of LNG was delivered in 2014 an increase of 3.5 million tonnes or 1.5% over 2013. Supply remains stalled at 2011 levels.

2014 saw the start of exports from Papua New Guinea, the 19th nation currently exporting LNG. The two train PNG LNG plant exported its first cargo in May and by July was reported to be producing at a full capacity of 6.9 mtpa.

A first cargo was loaded from train one of the QCLNG project in Eastern Australia, the first large-scale coal-bed methane to LNG project. However as start-up was just prior to year-end, the project did not have a significant impact on 2014 volumes.

One expansion train (GL3Z) at Arzew, Algeria started production.

The four new trains represented a total capacity of 16 mtpa brought online by end 2014.

Improved year-on-year performance was observed across a number of plants, but in particular from Nigeria and Algeria, which produced 2.6 and 1.9 million tonnes more LNG than in 2013 respectively. In the case of Nigeria 2013 production was interrupted by a marine access dispute, while Algeria increased production year-on-year in 2014 for the first time since 2007 based on its new train and a reduction in pipeline exports.

The increase in supply was balanced by a reduction in exports from a number of suppliers, in particular Egypt, where growing domestic demand continued to impact exports and Qatar, which likely undertook additional maintenance in 2014. Finally, Angola LNG was offline from April onwards to allow major repairs to be carried out.

We estimate that industry production – on a delivered basis – represented ~85% of industry nameplate capacity, broadly in line with 2013 levels.

Three projects took FID in 2014, representing some 25 mtpa of capacity. This is in line with FID levels over the past four years. The three projects consisted of five trains in the US (Freeport LNG and Cameron LNG) and one FLNG unit in Malaysia (Rotan FLNG). Cove Point in the US is widely considered to have made FID, although has not made a formal announcement. These projects should come online in about 4 to 5 years' time (i.e. by 2020).

Methane Kari Elin, first gas to SLNG

Imports

Asia remained the dominant importing region, importing a record 182 mt in 2014. Asian growth rates slowed compared to recent years, however, as there were pockets of demand weakness, in particular South Korea and China, due to seasonal and 'structural' factors.

LNG ship, Methane Shirley Elisabeth

The market side of the industry continued to grow and diversify. 2014 saw the start-up of 6 new import terminals representing a total 23 mtpa of import capacity. One new market started importing LNG; Lithuania, becoming the 28th[1] country to currently import LNG. The other new terminals were located in Asia; Japan (1), South Korea (1), Indonesia (1) and China (2). China now has 13 terminals in operation with a further three under construction.

With all nuclear capacity offline in 2014, Japan received record LNG imports at 89 mt, a slight increase on 2013. However, as indicated last year, with LNG import capacity and gas-fired power capacity likely both close to seasonal limits, growth was expected to be limited in this market.

The second largest importer was South Korea at 38 mt, followed by China and India, the third and fourth largest importers at 20 and 15 mt respectively. In combination the four markets represented just under 70% of all imports. S.E Asia markets[2] in aggregate imported 7 mt, a record amount. Asia represented 75% of all imports.

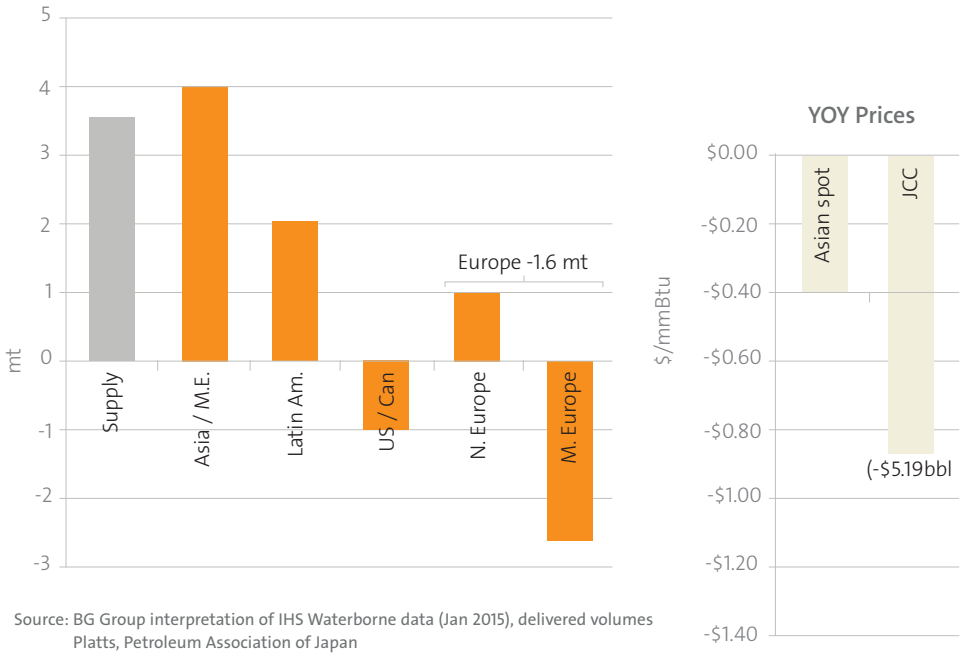
The ongoing drought in Brazil meant that it was the highest growing market in 2014, at 25% year-on-year, followed by the UK, (which had a stronger summer, at 17% year-on-year), just ahead of China and India.

Once again growth in Asian, Middle Eastern and Latin American imports outpaced growth in supply, although the difference was more modest in comparison to recent years. Asian, Middle Eastern and Latin American imports grew by 6 mt while supply grew by 3.5 mt. In particular lower than expected growth was seen in China, while S. Korean demand was 7% lower year-on-year.

[1]Excludes Indonesia (which does not internationally import LNG) and Puerto Rico (which is not a country)
[2]Indonesia, Malaysia, Singapore, Thailand

LNG trade balance: 2014 vs. 2013

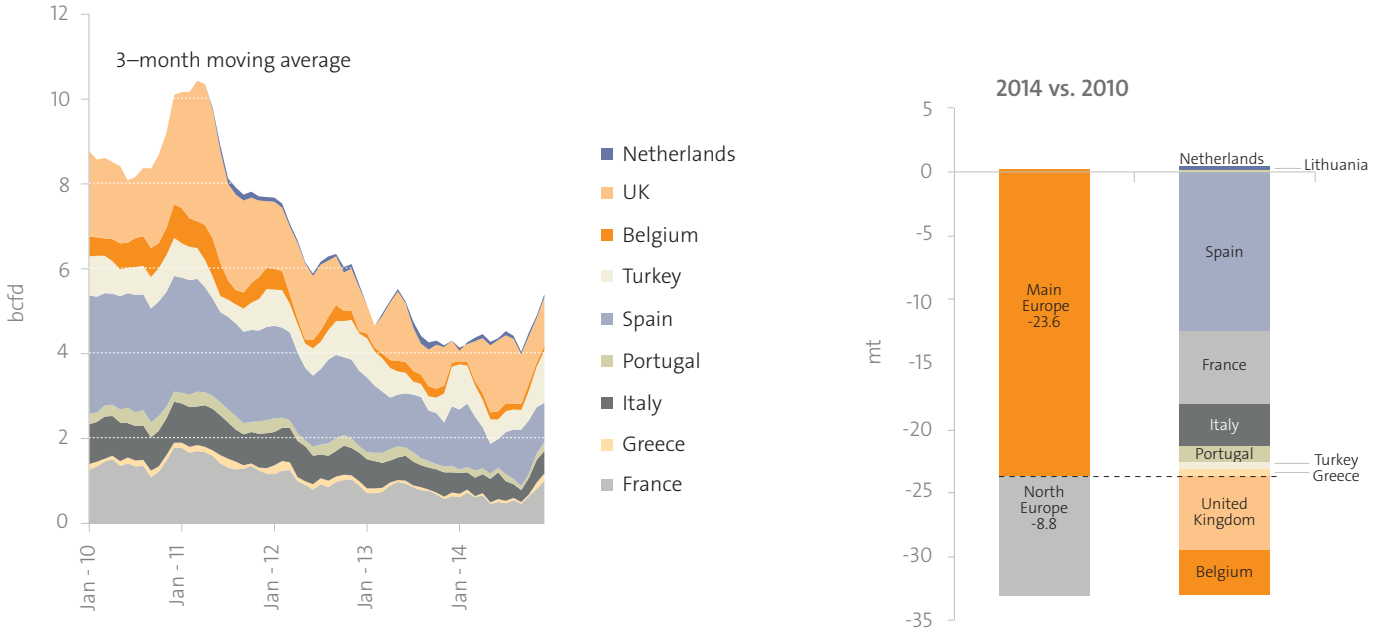
Figure 1: *2014 once again saw incremental demand in Asia and Latin America outpacing supply, but pockets of demand weakness led to a reduction of spot market prices compared to 2013.*



Source: BG Group interpretation of IHS Waterborne data (Jan 2015), delivered volumes Platts, Petroleum Association of Japan
Latin America - Argentina, Brazil, Chile, Mexico, Puerto Rico, Dominican Republic
M Europe - France, Greece, Italy, Lithuania, Portugal, Spain and Turkey

European LNG imports 2010 – 2014

Figure 2: After falling markedly for the past three years, European imports were only very slightly lower year-on-year at 33 mt. However this is still the lowest volume since 2004 and well below the peak level of imports of 66 mt in 2011.

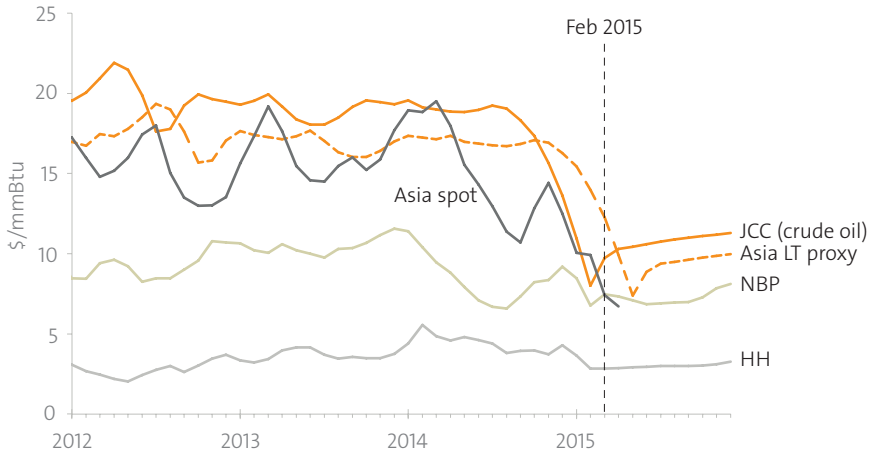


Source: BG Group interpretation of IHS Waterborne data (Jan 2015), delivered volumes

Gas and LNG prices 2014

Asian spot prices fell from record levels in Q1 to more than three-year lows by Q3 – indicating a weakening spot market. An end of year rally was cut short by falling oil-prices. Despite the large fall in spot price, average import prices in Japan were close to flat year-on-year, indicating the relatively small volume still represented by the 'prompt' spot market.

Figure 3: Asian spot prices have generally traded between crude oil (JCC) and European market price (NBP) levels. Long-term prices (Asian LT proxy shown) are generally indexed to crude oil, with a three month lag.



Source: Platts, Petroleum Association of Japan and Bloomberg (Feb 2015)
Note: Asia long-term proxy = 14.85%JCC(-3) + 0.50

Despite Asian, Middle Eastern and Latin American imports outpacing new supply, which has characterised growing market tightness in recent years, Asian spot prices fell from record highs at the beginning of the year to more than three-year lows by September.

A number of factors were in play through the year. Mild weather in north Asia at the beginning of the year left some buyers with well-filled inventories coming out of winter, an issue compounded by mild weather in summer. In addition there was a slow-down in the economic growth of a number of key importers, in particular China.

This left the market with fewer buyers competing for spot volumes and as a result Asian spot prices fell through the summer – despite higher overall import volumes. By Q4 prices were starting to rise in anticipation of winter-season demand, but were overtaken by falling oil prices which pressured spot prices downward through Q4.

Compared to the large fall in spot prices, average import prices in Japan remained relatively flat. These price dynamics suggest that the prompt spot-trade still has a limited market share. Most volumes in Asia are still under term contracts and indexed to crude oil, with a lag against oil movements of about three months.

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Outlook for global LNG trade in 2015

– and beyond

Key points

- **2015 will see a ramp-up in Australian volumes as the new projects currently under construction start coming online. In addition we may see the first cargo exported from the US Gulf of Mexico around the end of the year.**
- **Markets will continue to grow and diversify. We could see up to six new markets emerge in 2015 – while continued growth in Asian imports is expected.**
- **We expect the LNG market to become more volatile over the next few years as it responds to 'lumpy' supply and market additions and exogenous supply and demand factors.**

Overview

After four years of supply hiatus the industry has now entered a period of supply growth with the start-up of QCLNG the first project in an Australian 'supply wave'. With 12 trains and 1 FLNG unit, across 7 projects currently under construction in Australia this is expected to add a total of 58 mtpa of supply capacity by 2019. Worldwide, including Australia, 26 trains and 4 FLNG units are currently under significant construction, across 16 projects for a total of 122 mtpa of new supply capacity by 2020.

It is possible that we will also see the first cargoes exported from the US Gulf of Mexico around the end of the year, marking the start of the next supply wave after Australia. With two projects making Final Investment Decisions (FIDs) in 2014, a total of 41 mt are now under significant construction in the US, with Cove Point undertaking initial construction works despite not having formally announced FID.

We are expecting five new trains and one FLNG with a total capacity of 21 mtpa to start-up in 2015, mostly in the second half of the year. As a result, we are expecting trade[3] to grow 3% to 250 mtpa in 2015 with an incremental 7 mtpa delivered. On the demand side we are expecting 12 new regasification terminals and one expansion to start-up, including six new markets; Egypt, Jordan, Pakistan, Philippines, Poland, Uruguay.

Uncertainties on the demand side include the rate of return of Japanese nuclear power-plants, some of which are expected back on-line in 2015, plus the health of the Chinese economy and how this plays through to energy demand.

How the LNG market responds to the growing volumes will be a key factor to watch in late-2015 and in 2016. We expect the LNG market to become more volatile over the next few years as it responds to 'lumpy' supply and market-side additions plus exogenous supply and demand factors.

There may be periods in the next couple of years where the balance of supply and demand results in some cargoes flowing 'back' into European markets – but it seems unlikely Europe will see the annual levels of LNG imports it saw at its peak in 2011 until much later in the decade – assuming Asia continues to grow as expected.

At current oil price levels the range between crude oil prices and the European market price, between which LNG in Asia has historically priced, will be much narrower in 2015 than in recent years.

In each of the past four years over 20 million tonnes of supply capacity has been sanctioned. The extent to which the industry sustains the current supply growth momentum will depend upon how it responds to the current reduction in commodity prices. A key indicator to watch will be the number of FIDs taken in 2015.

[3] Net of re-exports

QCLNG jetty at the QCLNG plant, Curtis Island, Australia