Optimised Energy

60% increase
US LNG Exports

11.4% increase
Australia LNG exports on 2018

LNG: Are we heading for another commodity glut?

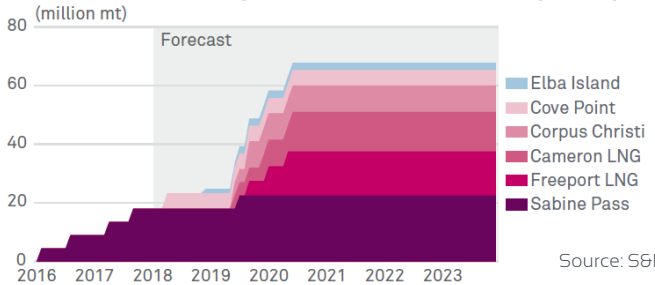
Overview

Liquefied Natural Gas (LNG) is natural gas which has been cooled down to form liquid. This makes the gas easier and safer to transport without the need for pressurisation. Once the gas reaches its destination, it can be stored or regasified for use. At the end of 2019, the world's top LNG exporting countries were Australia, Qatar and the US. Most of the world's LNG import demand sits in East Asia, however, falling demand following a mild winter and an economic slowdown in the region, saw much more LNG heading into Europe during 2019. A trend that has continued so far in 2020. 2019 also saw LNG exports from the US increase by 60% as the country increased capacity at several of its LNG facilities. The US/China trade war, along with the resulting economic impacts in China, saw much of this US LNG heading to Europe.

US LNG Exports

The US first began to export LNG, from one of their import facilities, in 2016 as the Permian Basin shale gas boom had all but eliminated the need for LNG imports. The country has six LNG producing and exporting facilities based in Louisiana, Texas and Georgia. In 2020, a number of these facilities will increase their capacity with the commission of further liquefaction trains. A trend that is set to continue over the next 3 years. Figure 1 shows forecast LNG export volume from the US out to 2023.

Figure 1: Forecasted US LNG Export Capacity



Source: S&P Global Platts Analytics

Quick facts

Globally LNG exports increased in 2019 and are set to continue increasing, particularly from the US and Qatar

Demand in 2020 could be threatened by the economic impacts of Coronavirus. This could cause exporters to reduce exports to balance the market.

In the longer term, gas demand is likely to increase as the world moves to lower carbon fuel sources.

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Global Exports

Australia, the world's top exporter of LNG in 2019, increased their exports by 11.4% on 2018. The growth came as capacity increased at the Prelude and Ichthys floating LNG facilities, which sit off the country's Western coast. The export levels seen from Australia in 2019 are widely expected to remain steady in 2020. Qatar, who were narrowly pipped to the post by Australia for the largest exporter in 2019, are set to increase their production capacity in 2020. Russia also has firm plans to increase capacity. Europe became the balancing point for global LNG towards the end of 2019 as East Asian demand struggled. Whilst China increased their imports, this increase was offset by reduced demand in Japan and South Korea as temperatures remained mild. In 2020, China's import of LNG is down due to the Coronavirus outbreak. With Asian spot prices struggling as a result, we could see more LNG heading to Europe. Figure 2 demonstrates Europe's LNG import volumes and the country of origin.

European Imports in 2019

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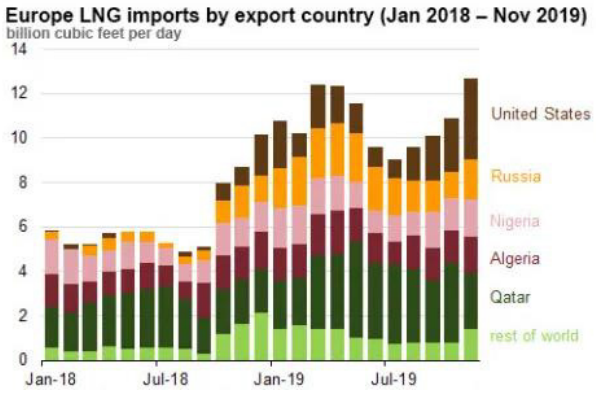

This winter's mild winter temperatures across Europe have seen storage facilities remain full as demand for heating has remained low. As a result, spot natural gas prices in Europe declined to a 10-year low, incentivising electricity generation from gas-fired power plants. This strong growth in demand has easily been met by a substantial increase in the frequency of LNG cargos arriving into Europe.

Looking Ahead

The LNG picture in Q1 2020 is expected to remain steady. Cargos continue to arrive into Europe frequently and no abnormally cold weather is forecast to the end of March. As we move into spring, questions around the supply/demand balance could surface. With temperatures increasing from April and European storage fullness looking healthy, gas demand for storage injection is likely to be below normal over the summer season.

Levels of profitability of exporting LNG from the US, will be important in determining how much will actually be sent to Europe. Breakeven for the US sits at around $4/MMBtu. Should European spot prices fall below this level, US producers may reduce exports leading to a rebalancing of the market.

Looking at demand forecasts for 2020, several factors will potentially increase global LNG demand. Firstly, as the world looks to reduce carbon emissions, demand for gas is likely to increase both for electricity generation and transport. Secondly, we could see Japanese demand increase as several of their nuclear reactors may go offline in 2020. The plants have failed to meet deadlines for installation of backup safety systems, following the 2015 earthquakes.

Whether this increase in demand is significant enough to move global gas prices higher remains to be seen. With the current coronavirus outbreak, the global economic outlook is weaker, and demand will be impacted.

If you require any further information on the topic discussed in this month's publication, or if you have any questions, please get in touch with Optimised Energy's Trading and Risk Management Team at **markets@optimisedenergy.com**

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