

# Global LNG market to grow 4 percent a year, pivot to Asia



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By Henning Gloystein

LONDON (Reuters) - The global market for liquefied natural gas (LNG) will shift further to Asia by 2020, where high prices will attract new supply sources, while Europe will remain dependent on pipeline supplies and North America will become a marginal LNG exporter.

Trading in LNG will rise by over 4 percent per year between now and 2020, with Asia taking the lion's share, said Jason Gammel, an analyst at Australian bank Macquarie .

The value of LNG cargoes will rise to around \$325 billion, up from \$250 billion in 2011, based on global supplies of 460 million tonnes per annum and an oil-linked contract price around \$15 a million British thermal units (mmbtu), Gammel said.

"The Pacific is the main area of LNG supply growth, (and) the share of global LNG absorbed by the Pacific and Middle East increases, reducing the LNG volume available to the Atlantic," energy research and consultancy firm Wood Mackenzie said.

With Japan and South Korea, the world's two top buyers of LNG, and the economic rise of China and India, as well as other emerging Asian economies, the Asian gas market will remain tight for the foreseeable future.

"From 2010 to 2020, China's gas consumption should move from the level of Japan to the EU (and) in 2020 China should be the third worldwide consumer after the U.S. and EU," Thierry Bros, energy analyst at French Bank Societe Generale said in his 2012 book 'After the U.S. Shale Gas Revolution'.

The boom means that Asia will have to tap any gas it can get its hands on in order to meet soaring demand, and the high Asian LNG prices this entails will attract the lion's share of shipments from LNG exporters.

In Europe, analysts say that pipeline supplies are likely to remain the main source although LNG imports will also play an important role, especially in Britain, where domestic supplies are dwindling fast.

BP said in its 2012 Energy Outlook that European pipeline imports would still be around 2.5 times as high as imports from LNG in 2020.

In North America, where domestic shale gas has led to a sharp price drop, a dash for gas will mean that the United States uses most of its gas for itself, although it could become a mid-sized LNG exporter, mainly selling to Asia.

While most of shale gas and LNG development in North America has been centred on the U.S., analysts say that Canada could become the new focus.

"Canadian LNG projects could leverage off the massive gas resource that has emerged in western Canada," said Hugh Hopewell, Senior Upstream Research Analyst for Wood Mackenzie.

Although Hopewell said that developing Canadian LNG would require large infrastructure investments, he added that "the region is home to huge potential," including large shale gas deposits.

COSTS SUPPORT FLOWS TO ASIA

Increased focus on Asian LNG trading is further supported by marginal costs for new export terminals that are expected to come to market in the next years.

With marginal costs around \$4 per mmBtu, American LNG exports are much cheaper than East Africa's or Australia's, but as shipping costs and fees have to be added to the bill, U.S. exports will struggle to compete with European spot prices around \$9, leaving only Asia as a viable export destination.

Additionally, lobbying pressure to keep the gas for domestic use is likely to see a cap on U.S. exports.

"The U.S. is only going to be a marginal player in the LNG market. They are currently going through a 'dash for gas' just as Britain did 20 years ago and will most likely want to keep most of it to use themselves," Dominic Nash of UK investment bank Liberum Capital said.

Analysts say that the U.S. is unlikely to export more than 40 to 80 bcm of LNG for export each year between 2015 and 2020, equivalent to one or two percent of global gas demand.

U.S. energy company Cheniere, which owns the Sabine Pass LNG export terminal in Louisiana, hopes to begin exporting LNG in 2015 and is currently the only U.S. facility with an LNG export license.

Company data shows that it has contracted around 16 million tonnes of LNG per year to partners such as Britain's BG Group, Spain's Gas Natural and South Korea's KOGAS.

Sources say that most of this gas will be shipped to Asia.

With a total annual production capacity of 17 million tonnes, that would only leave Cheniere with an excess capacity of one million tonnes to supply on a spot market basis.

Current low gas prices in the U.S. could also come to an end as the demand side adjusts to the newly available supplies.

The U.S. has traditionally depended heavily on coal-fired power generation, but cheap shale gas means that utilities will increasingly invest into gas-fired generation when building new plants.

The forward curve for U.S. natural gas already shows prices that will begin to converge with Europe's.

For the next three years, U.S. wholesale gas prices are expected to rise between 4 and 9 percent per year, while Britain's prices are expected to rise between 1.6 and 5 percent.

Deutsche Bank estimated U.S. LNG exports would cost \$9 to \$10 per mmbtu between 2016 and 2018, similar to its estimates for British NBP hub spot gas prices, Europe's benchmark gas trading hub.

With marginal costs of around \$10 per mmBtu Australia, the country with the highest expected export increase, also has some of the highest marginal costs in the world, so its LNG will almost exclusively go to Asian buyers.

The outlook for East Africa, where large recent gas discoveries have spurred the hopes for a gas bonanza in Mozambique and Tanzania, is similar.

Even if East African gas can be brought to market before 2020, which most analysts doubt, its marginal costs of over \$7 per mmBtu will mean that it will only be profitable to sell its gas to buyers in Asia, most probably India, the closest Asian LNG market.

(Additional reporting by Oleg Vukmanovic, editing by William Hardy)

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