MENA Advisors

Global LNG market dynamics are strong in the long term, despite softer prices

Rory Fyfe
Managing Director

Ali Imran
Director of Modelling

info@mena-advisors.com

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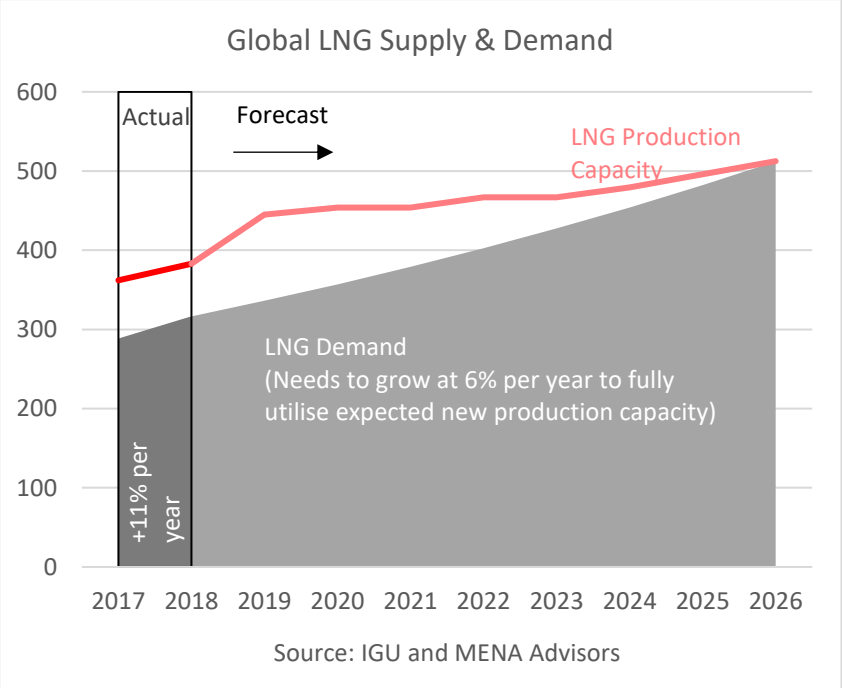
- The recent annual flagship reports for the LNG industry pointed to intensifying activity in the global market in 2018 with strong demand growth and rising prices
- This has supported a sharp increase in the number of new supply projects being approved in addition to the large supply increases already under construction
- Softer prices in 2019 raise the question: is the market likely to become oversupplied?
- We look at the new projects expected to come on stream right out to 2026. Given the long lead time of LNG projects (5+ years), this is a fairly known quantity.
- For all the new capacity to be fully utilised by 2026, we estimate that demand growth would need to run at around 6% per year
- Given that utilisation is currently around 80% and demand growth has been running at 10%+ for the last 2 years, it looks like there is still room for more players in the global LNG market



Global LNG market was strong in 2018

According to the IGU's 2019 annual report, the global LNG market had a good year in 2018. LNG trade grew 10%, following on from strong growth of 12% in 2017. In particular, demand from Asia (mainly China and South Korea) grew strongly as the region looks to natural gas to reduce the negative impact on air quality of other energy sources, mainly coal.

Additionally, most LNG prices globally followed an upward trend in 2018, thanks to strong demand growth and also as a result of higher oil prices, which has a knock-on impact on the LNG market.

New supply being commissioned

Stronger global market conditions led to new projects being given final approval in 2018, an important change of direction in the commissioning of new projects. A larger volume of new proposed production received FID (final investment decisions) in 2018 than in the prior 3 years combined. A total of 21.5 MTPA (6% of existing capacity) received FID in 2018 and a further 15.6 MTPA reached FID in February 2019 with a number of other large US projects expected to reach FID this year.

The new commissions come in addition to 101 MTPA (million tonnes per annum) of production capacity that is already under construction, equivalent to 26% of 2018 production capacity, having been commissioned before the sharp drop in oil prices in 2014. Additionally, LNG spot prices have softened during 2019 due to a slowdown in demand from Asia. This raises an important question…

Will the global LNG market be oversupplied?

We don't think so. At least, not in the next 7 years.

Based on the projects that are already under construction and the projects that have recently achieved FID, we can map out fairly confidently the increase in production capacity right out to 2026.

Facilities already under construction mean that there should be a fairly sharp increase in production capacity in 2019 and 2020, before plateauing in 2021-24. Most of these new additions will come from the US and Australia. We expect Qatar to add 30 MTPA in 2025-26, taking global production to over 500 MTPA, up by over 60% from 2018.

For this additional capacity to be fully utilised, demand would need to grow at just over 6%. This is not out of line with historical demand growth, which has averaged 6.4% since 2000, nor with recent demand growth, which has risen to an average of 11% over the last two years as Asian countries have voraciously switched to gas as a cheap and clean source of energy. Additionally, many countries (mainly China and India), continue to build out regasification facilities, which are needed to receive LNG, in a positive indication for future demand growth. Despite these strong drivers, slower growth in the global economy, especially China, could lead to slower growth in demand for LNG. However, even if demand growth fell short and grew at 3% per year on average out to 2026, this would be sufficient to maintain the utilisation of production capacity in 2018, which was 80%.

We therefore conclude that growth in demand for LNG is likely to use up the bulk of expected supply additions and there is room for new suppliers to come into the market.