

LNG Outlook 2020



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The ICIS LNG Outlook for 2020: where will all the supply go?

The global LNG market will be very oversupplied in 2020 as rising US production meets limited demand growth in Asia. With little change in Middle East and Americas LNG consumption, Europe will again need to absorb market length, setting the price floor for the global spot market.

By The ICIS Energy LNG team

AUSTRALIA

Australia will produce close to 82m tonnes in 2020, according to the LNG Edge supply forecast.

After a period of major expansion largely based on coal-bed methane production on the east coast, production should then start to stabilise, with around 83m tonnes to be produced in 2021, according to the forecast.

There are already signs that producers will offer more spot volumes based on a trend of lower nominations under annual delivery plans.

One trader estimated that at least three cargoes per month will be marketed from Australian projects on a spot basis in 2020.

82m tonnes

Australia's 2020 forecast LNG production, taking it above Qatar as world number one

The Australian LNG boom that started nearly two decades ago has turned the corner as the complex Shell Prelude floating project came online in 2019 and marked the final of eight big projects completed since 2012.

Domestic players like Woodside will look for opportunities outside the term contract model for existing offshore projects, and eye expansion.

For offshore and onshore projects, Australian producers will face competition from new LNG flows from the US Gulf Coast.

And if the US and China reach a wider trade deal, there will be renewed competition for the world's second-largest import market.

But there is a geographic advantage for Australia to northeast Asia, and a geo-political one over Middle East supplies, an important consideration as China, South Korea and Japan factor in energy security as a key component in their buying programmes.



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Australian LNG may also tap in more to the growing markets of Thailand and India.

CHINA

The overall growth rate of China's LNG imports may fall further in 2020 from the 14% registered in 2019. This was already the lowest rate of growth for several years.

The opening-up of China's gas and LNG facilities to third parties may boost LNG spot demand but hit the traditional import market, preventing any sharp increase in long-term contract commitments.



The new National Oil and Gas Pipeline Group may operate nine LNG terminals previously held by majors CNPC, Sinopec and CNOOC, with detailed rules on the leasing of infrastructure facilities to be issued in 2020.

The move to combine with CNOOC's window trading transaction, which allows LNG terminals opening to third-parties for cargo unloading, will enable Chinese players without LNG terminals to enter the LNG spot market.

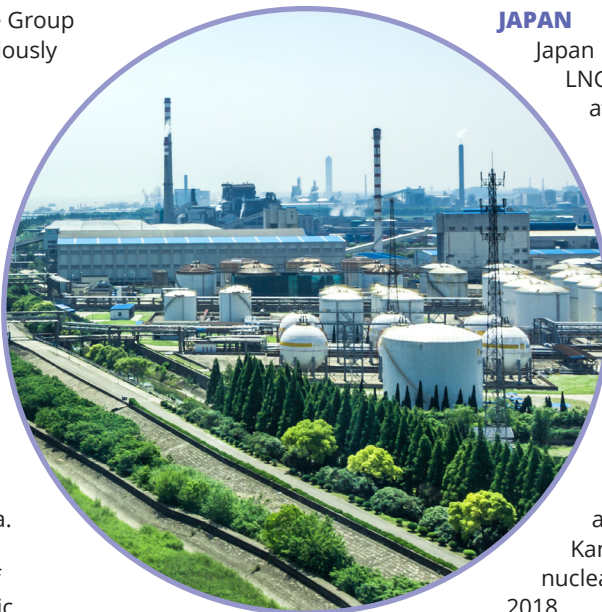
They plan to purchase over 10 LNG cargoes in 2020, according to ICIS data.

Alongside a drop in the growth rate of China's LNG imports, bearish economic conditions are likely to linger, which may slow the growth rate of natural gas consumption to 7-8%.

City-gas companies and industrial users will remain the major drivers to boost natural gas consumption in China.

Pipeline imports from Russia could come close to 7 billion cubic metres in China, and then to almost 14bcm in 2021. At a broader level, China's investments abroad may continue, with the role of China in Russia's ambitious LNG plans particularly of interest.

China's next five-year plan will run from 2021-2025 and the detail will give an important indication of the direction gas may have in the country's energy mix.



JAPAN

Japan is expected to see a slight rebound in LNG imports in 2020, although this is after 2019 set a particularly low bar.

Nuclear will continue to play a key role as a competing fuel in the power mix.

Two reactors at the Sendai nuclear plant in Kyushu will be off the grid for most of the year because of requirements to complete anti-terrorism measures.

Deadlines also loom for two reactors at the Takahama nuclear plant in Kansai, which could by late 2020 bring nuclear generation to its lowest since early 2018.

Kansai Electric has said it is working to complete works on time to avoid shutdowns, but this has been doubted by other industry participants.

7bcm

China's gas pipeline imports from Russia could come close to 7bcm in 2020 China's gas pipeline imports from Russia could come close to 7bcm in 2020

Kansai Electric has also indicated that it plans to complete works for the start-up of two reactors that have been idled since 2011 at the Mihama and Takahama power plants.

However, the likelihood that these reactors will start in 2020 seems remote.

Coal is also taking an increasing share in Japan's power mix, with Kyushu Electric and Tohoku Electric starting the year with 1.6GW in additional capacity at the Matsuura and Noshiro power plants.

A further 1.9GW in coal-fired generation capacity is scheduled for completion in 2020.

Meanwhile, the share of US volumes to Japan is likely to increase, as the ramp-up of the Cameron LNG and Freeport LNG projects gathers pace.

Some of these volumes are likely to be diverted to other markets, however, due to contractual oversupply.

China's gas demand growth will slow further in 2020, limiting the rise in demand for LNG"

TAIWAN

Taiwan's LNG imports could reach a new high in 2020, with power incumbent Taipower under pressure to reduce output from coal-fired plants.

The January presidential election is expected to have no impact on LNG demand in the short term, with both political parties in support of more LNG in the power mix.

The nuclear situation now appears stable, with the next reactor scheduled for decommissioning in December 2021.

Taiwan's LNG importer CPC has two supply contracts for 2.6mtpa with Malaysian producer PETRONAS expiring in March 2020.

Six Japanese end-buyers have supply contracts with Indonesian producer Pertamina that are due to expire by the end of the year.

It is not clear if any of these contracts, which represent close to 2mtpa combined, will be renewed.

SOUTH KOREA

South Korean LNG imports could fall back to their lowest since 2016, as competing fuels continue to add pressure to LNG in the power mix.

This is despite efforts by the government to curtail coal and nuclear and to promote LNG.

To combat fine dust pollution, an 80% cap on coal plants will be in effect to February 2020, with several coal plants under mandatory shutdown over this period.

It is not known if similar policies will extend to March and into the second quarter.

Nevertheless, the impact on LNG should be limited as strong nuclear availability is expected to provide comfortable power supply margins, especially as weather forecasts currently point to a mild start to 2020.

The South Korean nuclear fleet is now back up to over 23GW after the start-up of the 1.4GW No 4 reactor at the Shin-Kori nuclear plant in September.

This plugged the gap from the shut down of two older reactors in 2017 and 2018.

A new 1.4GW reactor at the Shin-Hanul reactor is also scheduled to begin operations in October 2020, likely resulting in further pressure on LNG demand.

INDIA

India's LNG imports are set to grow in 2020 on the back of rising demand from the country's fertiliser and city-gas sectors.

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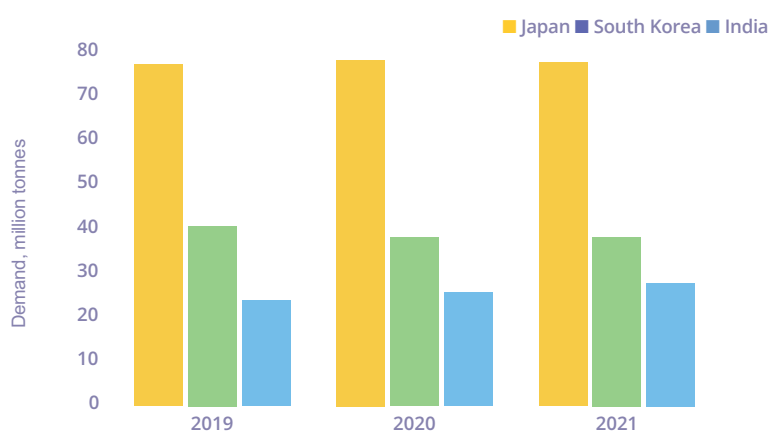
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INDIA OFFERS LNG GROWTH PROSPECTS



Source: ICIS Note: 2020 and 2021 figures are from the LNG Edge demand forecast

LNG Edge forecasts Indian import demand in 2020 to hit 26.4m tonnes, up by 14% year on year.

Indian demand would also be underpinned by low Asian spot LNG prices, with Indian buyers still generally pitching for a discount to East Asian markets.

As a result of low spot prices, India's fertiliser sector will continue to consume more LNG than costlier naphtha as the feedstock.

India's import demand could be unlocked further with the commissioning of the Mundra terminal in the second half of January and the Jaigarh floating storage regasification unit (FSRU) in early 2020.

Any unexpected delays in the expansion of India's gas-related infrastructure could cap growth in domestic LNG import demand.

This includes the commissioning of the LNG import terminals, installation of pipelines and city-gas distribution networks.

SOUTHEAST ASIA

Thailand is bolstering its position as the largest LNG importer in the region, with intake expected to surpass 5m tonnes in 2020.

As a result, Thailand's PTT may return to the spot market as an end buyer as growing demand is beginning to outpace the supply length of the previous two years.

Growth was also seen last year in three other regional importing nations, particularly in Malaysia where the Pengerang industrial complex was scheduled for completion by the end of 2019.

Expectations for Indonesian demand remain muted, however, with local sources pointing to delays in new gas-fired power generation slowing growth for the next two years.

All four countries have hub ambitions, with reload and storage, and break-bulking capabilities already in place.

BANGLADESH, PAKISTAN

The growth potential for LNG imports to Bangladesh and the entry of state-owned PetroBangla on the spot market hinges on the completion of additional pipeline infrastructure.

A parallel pipeline from the two FSRUs in the southeast of the country is scheduled for completion in the first quarter.

But the pipeline has been subject to several delays and PetroBangla has indicated its delivery programme will be unchanged from 2019 until completion is confirmed.

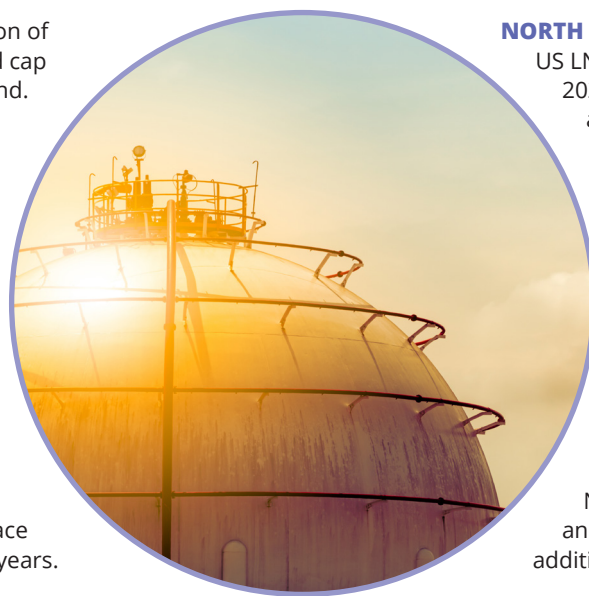
Imports will in the meantime be capped at below 60% of the capacity of the LNG receiving terminals.

Pakistani LNG imports rose to 8m tonnes in 2019, from 6.7m tonnes the year before with further increases possible in 2020 given the 11mtpa import capacity.

But greater infrastructure development is needed if Pakistani imports are to continue to rise.

Pakistan's K-Electric is one company to watch as it plans to develop an LNG-to-power project in 2021 with associated LNG supply.

Other import projects are also planned, with US ExxonMobil involved in one, but progress has in general been slow.



NORTH AMERICA

US LNG supply will continue to be added in 2020, as new trains at existing projects add to the global glut.

New greenfield projects will continue to face tough market conditions as those projects work to secure a final investment decision.

If capacity ramp-up continues on track, US LNG export capacity could increase by as much as 68% this year, according to LNG Edge.

New US supply will come from Trains 2 and 3 at Freeport, Cameron Train 2 and additional small-scale trains at Elba.

Freeport LNG expects a first-quarter start-up for Train 2 and a May 2020 start-up for Train 3, each with 5mtpa capacity.

Cameron LNG's Train 2 should also come online in the first quarter with the third train to start up in the third quarter. Cameron LNG trains are each 4mtpa.

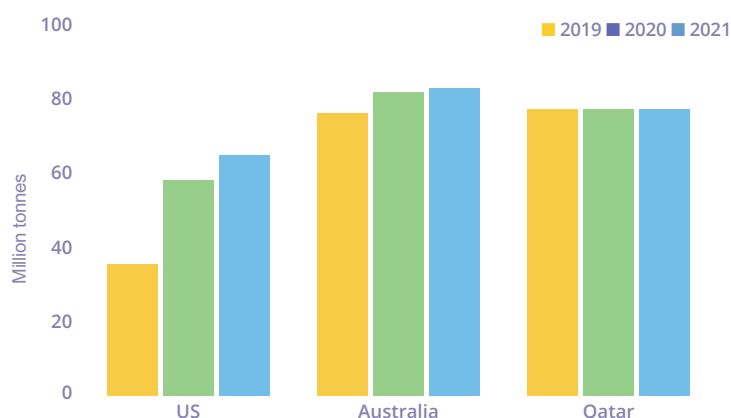
The small-scale, 10-train Elba LNG currently has two trains in service and could have additional trains come online this year.

Given the sustained outlook for low prices so far this year, any possible impact on reducing US LNG production continues to pique interest in 2020 as additional supply comes online.

Oversupply has so far managed to self-correct, with parties using a combination of swaps, strategic storage plays and longer voyage times.

US LNG will likely not reach China any time soon unless an agreement is reached between the countries to lift the current 25% tariff on US LNG imports.

US LNG TO JUMP IN 2020



Source: LNG Edge supply forecast

The nations signed a Phase 1 trade deal on 15 January that included LNG in a broad commodity trade deal for 2020 and 2021, but no details were released on the state of existing tariffs on US LNG, nor any details on how US LNG volume could be purchased.

If produced, the additional US cargoes are likely to head to Europe, carrying on last year's trend where excess supply wound up on the other side of the Atlantic.

"The environment for proposed US greenfield export projects will remain very challenging."

EUROPE

The close correlation between European hub prices – most notably the Dutch TTF – and Asian spot prices will continue in 2020 given the low-price environment.

TTF pricing will gain further traction as an indexation method for LNG supply globally, and as a liquid alternative to Asian indexation for short-term hedging.

Europe will also be the price floor for global pricing, although a very weak Asian market could see prices there briefly dip below Europe.

2019's record European LNG imports could be matched or exceeded in 2020 given the rise in US production but only if European storage stocks are drawn down by the end of the winter.

Price spreads remain tight in Europe which means northwest Europe may be favoured for additional cargoes, although Spain's large terminal capacity will play an important role for sellers.

High LNG imports will continue to cap gas prices in 2020, which were trading around 30% lower in 2019 year on year.

Mild weather could see low-priced LNG cargoes displace pipeline gas supplies in northwest Europe, continuing a trend seen during the first half of winter in 2019, where pipeline flows fell significantly year on year, while LNG imports rose.

Amid a delay in the start of Russia's Nord Stream 2, Russian pipeline gas supply into Europe could continue at a similar level as in 2019 – it remains the low-cost supplier into the region.

Much focus will remain on this and Norwegian gas flows into Europe which are forecast to rise each year out to 2023 but where there may be some flexibility.

AFRICA

In contrast to other key LNG-producing regions, LNG Edge forecasts that African production will continue to plateau in 2020, averaging 3.6m tonnes/month which is around 100,000 tonnes/month lower than last year.

While a number of LNG projects have received a final investment decision (FID), none of the new production capacity will come online until 2022.

In North Africa, political upheaval in Algeria is unlikely to cut LNG production at the country's two plants.

But state-owned Sonatrach may continue to struggle to attract foreign investment in upstream projects, along with a planned expansion of the Skikda LNG project.

Spain has been a major destination for Algerian LNG volumes, but in November and December 2019, no volumes were delivered there.

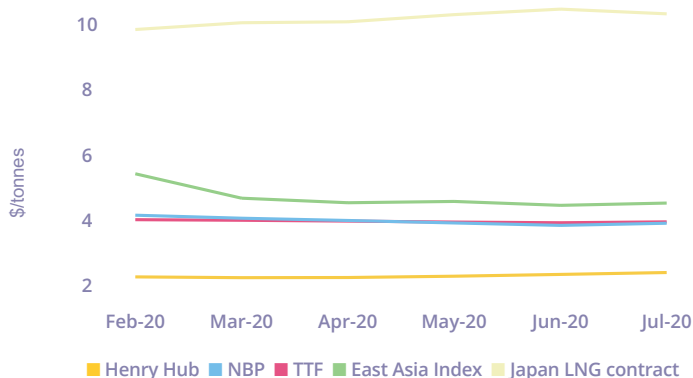
This was in part due to the inflexibility of pipeline gas supplies which are governed by take-or-pay agreements, and also due to a diversification of LNG suppliers to Spain.

This is likely to continue in 2020, with more volumes delivered to northwest European markets such as France and the UK instead.

The first phase of the Greater Tortue project off Mauritania and Senegal is under construction. Success in discovering more gas reserves will likely see partners BP and Kosmos work towards phases two and three.

In South Africa, Transnet announced in summer 2019 that it aims to have an FSRU operational by 2024 in the Port of Richards bay. LNG import infrastructure in Africa is unlikely to progress significantly in 2020.

ASIAN SPOT LNG CLOSELY CORRELATED TO EUROPEAN GAS



Source: ICIS

While Ghana has sought to move away from oil-fired power stations by switching to gas, gas pipeline supplies from Nigeria via the West African Gas Pipeline have not fostered more domestic demand.

An FSRU project has been delayed numerous times, and does not show signs of progressing in 2020.

Similarly in the Ivory Coast, an FSRU project has been planned, but progress is slow.

“Sellers need Europe to absorb more LNG but European gas storage levels are high which could limit summer demand”



MIDDLE EAST

State-owned Kuwait Petroleum purchased spot supply throughout 2019 to dilute its basket of mid-term contracts.

The state-owned company typically purchases LNG between the end of March to end-November at a rate of one to three cargoes per months through tenders. The falling price of spot LNG has resulted in healthy procurement levels.

The strategy for 2020 will likely involve volumes similar to 2019.

The emirate uses cheaper and cleaner gas for domestic power generation, while exporting higher-priced oil.

Traders in Singapore estimate that the emirate could absorb between 20-25 spot cargoes in 2020.

Kuwait's new 22mtpa import terminal is set to bring half of its eight storage tanks on line in September 2020, with the remaining tanks following in February 2021. The onshore Al-Zohr terminal will be the world's third biggest by import capacity.

Spain's Enagas and Greece's DESFA have both expressed interest in operating and maintaining the site, but the release of the final tender for this has faced delays.

In Qatar, production will likely continue around nameplate capacity as in previous years, given the producer holds such a low-cost position.

The market will watch closely for final commitments from Qatar and counterparties on the major expansion plans for the rest of the decade.

Another state-owned producer in the region, Oman LNG will continue to market supply on a free-on-board (FOB) basis to its counterparties at a rate of one to two cargoes per month.

The producer has additional supply available on the back of expired contracts with long-term offtakers.

Given uncertainty about the geography of demand, Oman LNG has dropped the option of chartering in additional vessels and focused on FOB sales instead.

In Egypt, state-owned EGAS will gradually continue to exit the market as an LNG buyer.

More supplies are likely to be tendered on the basis of the Idku LNG project on an FOB basis.

Marketing activity for Idku supplies is underway and may emerge as multi-cargo tenders in the first quarter. Egypt long-term sales positions are difficult to structure due to the volatile domestic demand.

Israel has started to export gas via pipeline to Egypt, which could support the latter's supply surplus available for export as LNG.

Contracted volumes will begin at 5.7 million cubic metres (mcm)/day in the first half of 2020, rising to 12.7mcm/day by the end of the year.

Negotiations are ongoing to restart Egypt's second LNG export plant, Damietta. Once the government, state-owned companies EGAS and EGPC have reached an agreement with operator Union Fenosa Gas, ICIS understands it would take two-to-three months to resume exports.

Saudi state-owned Aramco is expected to ramp up LNG trading activity. The global oil major is building up its existing relationships on crude oil and products markets to build up a customer base.



But given the oversupply of spot LNG on the global market, Aramco will likely face significant competition from other producers with access to their own supply. Relying on its high credit rating and access to financing, Aramco can engage into building large supply positions and take short positions on the market.

Lebanon's plans to begin importing LNG have stalled following mass protests across the country that are calling for economic reforms and the complete overhaul of the government.

The energy ministry opened bids for the supply of up to three FSRUs in July but progress will require a ministerial decision, which is unlikely as long as political attention is focused on the unrest.

AMERICAS

The expiry of long-term pipeline contracts from Bolivia to Brazil and the expected decline of pipeline flows to both Brazil and Argentina are expected to create a greater reliance on LNG, particularly if spot prices are more favourable.

State-run Petrobras of Brazil and Argentina's state gas distributor IEASA are not likely to require more LNG than in previous years due to the competing mix of domestic gas production in both countries. Brazil's increase of offshore natural gas production is expected to continue.

As many as 23 proposed new LNG regasification projects are on the table, although the proposals are in various stages of development and face formidable investment risk, even as the country moves toward liberalising its domestic gas market.

In the near-term, while Vaca Muerta production remains stranded from its key demand centre of Buenos Aires, LNG is still expected to be imported during the seasonal southern hemisphere winter months between May and August, while neighbouring Chile will continue to enjoy the reversal of pipeline flows from Argentina to Chile, displacing the need for Chile to import spot LNG.

In Mexico, as pipeline capacity expects to ramp up from the US border, LNG demand is expected to drop to near zero at the Altamira terminal on the Gulf of Mexico, although the Manzanillo terminal on the Pacific coast is still likely to utilise LNG for its combined-cycle gas-fired plants, until more gas connectivity comes online for the southwest region of Guadalajara.

RUSSIA

Russia overtook Malaysia in 2019 to become the world's fourth-biggest LNG producer, and is expected to keep this position in 2020, according to the LNG Edge supply forecast.



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Production will be supported by the fourth and final train of the Yamal plant, which is scheduled to come on line later in the first quarter of the year.

The fourth train will have nameplate capacity of 0.9mtpa, smaller than the three other trains at 5.5mtpa each.

NOVATEK's fleet of 15 Arc-7 ice-class LNG carriers is now complete, and the new tank at Zeebrugge in Belgium dedicated to Yamal reloads is on line, which should allow the company to further optimise its shipping in 2020.

As for pipeline gas supply, in 2020 security of supply in the EU has been reinforced with the signing of a new transit agreement between Russia and Ukraine, which eliminated the worst-case scenario that loomed at the end of 2019.

Russia's gas supplier Gazprom and Ukraine's incumbent Naftogaz signed a five-year deal that foresees 65 billion cubic metres (bcm) of Russian gas to the EU via Ukraine in 2020.

Russian gas is also expected to flow via new routes: TurkStream, launched on 8 January, and Nord Stream 2 expected to come online by the end of the year or in the first quarter of 2021.

TurkStream's second line is intended to deliver up to 15.7bcm/year to southeastern Europe.

Deliveries to Bulgaria, Greece and the Republic of North Macedonia started but exports to Serbia and Hungary are delayed because the necessary infrastructure has not been completed.

Nord Stream 2 will double Gazprom's export capacity to Germany 110bcm/year but has been delayed towards the end of the year, early 2021. ■

