



LNG prices rally to four-year high as demand soars

Page NO.10 Col No.01

SINGAPORE: Asian liquefied natural gas (LNG) prices have risen to their highest since 2014 for this time of the year as demand from China, India and South Korea has surged at the same time several production issues are curbing spot supply.

LNG prices typically peak during the Northern Hemisphere winter amid heating demand and during the summer to fuel power generation, but this year prices have climbed 32 per cent since mid-April to \$9.60 per million British thermal units (mBtu) last week and are trading near \$10 per mBtu this week.

Asian demand has strengthened this year led by stricter environmental standards, rising economic growth and a colder-than-usual winter. The higher prices could reduce LNG demand as industrial customers may consider alternative fuel sources.

Higher oil prices and China's continued buying of spot cargoes this year is also supportive, said Kittithat Promthaveepong, a senior analyst at consultancy FGE.

Pakistan and Chinese imports surge 50pc in last five months

"This is driven mainly by three factors: lower domestic gas production due to maintenance at gas fields, industrial demand due to fuel switching away from oil, and early stock building to prepare for the coming winter," he added.

Beijing has switched some of its residential heating demand to natural gas from coal to reduce notorious air pollution in the country's north though this has created conflicts with industrial users who face curtailments when supply tightens.

Higher-than-normal temperatures across Asia are also expected to boost LNG prices.

WHERE IS DEMAND FROM : Trade flow data in Thomson Reuters Eikon show Asian LNG imports in January to May this year are nearly 40pc higher than at the same time in 2013, when Reuters started tracking the data, and up by 14pc from last year.

Imports to China and Pakistan during the first five months of 2018 increased over 50pc from last year, while shipments to India, South Korea, Taiwan and Singapore jumped by about 15pc to 30pc.

"Given the strength of Chinese demand last winter, Japanese and Korean ... utilities want to ensure that storage is full before the winter of 2018/2019 to avoid being caught out," said Nicholas Browne, senior gas analyst at energy consultancy Wood Mackenzie in Singapore.

Japanese and South Korean storage ended the winter at the lowest levels in at least five years, he said. Indian imports have risen due to outages at some coal power plants and low reservoir levels reducing hydro-power generation.

FURTHER UPSIDE: Asian LNG prices could end the year at nearly \$12 per mBtu, though higher spot prices could discourage industrial coal to gas switching, said Woodmac's Browne.

Recent supply issues at LNG export terminals have also driven the price gains.

In Australia, Chevron idled the Train 2 at its Gorgon project for 30 days in May to carry out performance improvements.

Meanwhile in the United States, gas supply into Cheniere Energy's Sabine Pass liquefaction terminal dropped by one-third to 2 billion cubic feet per day on May 15 and have remained there, according to flow data, indicating maintenance at the plant.

Supply later this year will tighten as Angola LNG is planning maintenance for July at its plant that can export 5.2 million tonnes per year of the fuel.

Still, new supply from Australia and the United States could weigh on spot prices in the second half of the year, said FGE's Promthaveepong.

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