The Impact of Lower Gas and Oil Prices on Global Gas and LNG Markets

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Regional Gas Prices – 2008 to Present

$/mmBtu

SOURCES: Platts, EIA, Argus, CME
Existing and New LNG Projects Under Construction

Source: Company Reports
Global LNG System

Niche Markets
(South America, Middle East etc.)

Asian Markets
(Japan, Korea, Taiwan, China, India)

North America Exports LNG, Russia Becomes ‘system shock absorber’

Upstream Sellers

Non US Supply

US Producers

European LNG Buyers & Suppliers of Flexible LNG

‘Normal’ Storage Inventory Level

Domestic Production

North America

Pipeline Imports

US Liquefaction

Domestic Production

Pipeline Imports

Europe

Hub-Indexed Pipeline Contracts / direct hub sales

Additional Capacity

Minimum Supply Floor

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Beyond 2015 – The ‘Big Six’ Uncertainties

• Demand for Natural Gas and LNG in Asia, particularly (short term) speed of Japanese Nuclear re-start and longer term – Chinese LNG demand.

• New LNG Markets, including Bunkers

• European Demand Recovery.

• Scale and pace of US LNG export approvals and construction (production response to price).

• Scale of LNG supply ramp-up from non-US suppliers, especially Australia, East Africa, Canada, Russia (and potentially Qatar post moratorium).

• Response by Russia to ‘overspill’ of excess LNG into European market in 2018 – 2023 period.
Scenarios – Combination of Chinese and European Demand

- Scenario 1: High Case
- Scenario 2: Base Demand
- Scenario 3: Low Case
- Scenario 4: European Gas Demand

Chines LNG Demand: Low Demand
Strategic Behaviour
– Russia Pipeline Exports to Europe

Status Quo

Buyer

Take or Pay

Seller

Trading Hub

- Buyer prefers to buy cheaper gas on hubs.
- Strives to meet Take or Pay volume but End-Users will only accept hub prices and demand low.
- Hence price renegotiation and arbitrations between Buyers and Seller.

Hub Re-Delivery Model

Buyer

Take or Pay

Seller

Trading Hub

- LT Contracts priced off hub.
- High buyer nominations would reduce hub price.
- Seller negotiates right to meet a portion of nominations from gas bought off hub and re-delivered.
- This plus ability to sell directly onto hub gives Seller significant market power to influence hub prices.
Thank You for your attention.

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