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

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July 10th 2015
Regional Gas Prices – 2008 to Present

$/mmBtu

Jan-08-Jul-08 Jan-09-Jul-09 Jan-10-Jul-10 Jan-11-Jul-11 Jan-12-Jul-12 Jan-13-Jul-13 Jan-14-Jul-14 Jan-15-Jul-15

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

Source: Company Reports
Global LNG System

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

Niche Markets
(South America, Middle East etc.)

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

Hub-Indexed Pipeline Contracts / direct hub sales

US Producers

European LNG Buyers & Suppliers of Flexible LNG

‘Normal’ Storage Inventory Level

Domestic Production

US Liquefaction

North America

Pipeline Imports

Pipeline Imports

Non US Supply

Additional Capacity

Minimum Supply Floor

US Producers

Upstream Sellers

Domestic Production

Domestic Production

North America

Europe
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

![Diagram showing four scenarios based on Chinese LNG demand and European gas demand.](image)
Strategic Behaviour – Russia Pipeline Exports to Europe

Status Quo

- 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

- 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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