Global LNG supply set to balloon

A wave of Liquified Natural Gas supply is set to hit the market over the second half of this decade, pushing the global LNG market into a large surplus and weighing on prices. This significant growth also brings up important questions about emissions along the LNG value chain

The LNG Tanker FSRU Toscana arrives at the French port of Marseille

Imminent surplus to hit the global LNG market

Global gas markets have had an extraordinarily eventful time since 2020. A combination of Covid-related lockdowns and a significant growth in LNG export capacity left the global LNG market in surplus at the start of the decade, pushing global gas prices to record lows. However, this was short-lived with Russia's invasion of Ukraine, which led to drastic shifts in gas flows and record-high prices for spot Asian LNG and European natural gas.

The market's set for a significant shift

A cut-off of almost all Russian gas into Europe saw the region lose its largest supplier of natural gas, forcing buyers to scramble to look for alternative supply. Pipeline constraints from other suppliers left LNG as the obvious alternative. LNG imports into the EU grew from 81bcm in 2021 to

139bcm in 2023, according to LSEG data, leaving LNG as the key source of gas supply for the EU, making up more than 40% of total gas imports. This additional demand at a time of limited new supply tightened the global LNG market, leaving it finely balanced until now. However, the LNG market is set for yet another significant shift, with the market forecast to move into deep surplus as we move through the remainder of this decade.

A wall of LNG export capacity

A wall of LNG export capacity coming mainly from the US and Qatar will see export capacity growing by more than 45% by 2030, which will see global capacity standing at more than 950bcm. Other key supply additions will come from Russia, Mozambique, Canada and Mexico. However, there are very real risks hanging over some of these projects. Turning to global demand, we are assuming that it will grow by around 35% by the end of the decade, a move that will be largely driven by Asia, specifically China and South/Southeast Asia. Japan is likely to continue shifting away from LNG as nuclear capacity is brought back online and the government focuses on its renewables targets. This trend is clearly already underway.

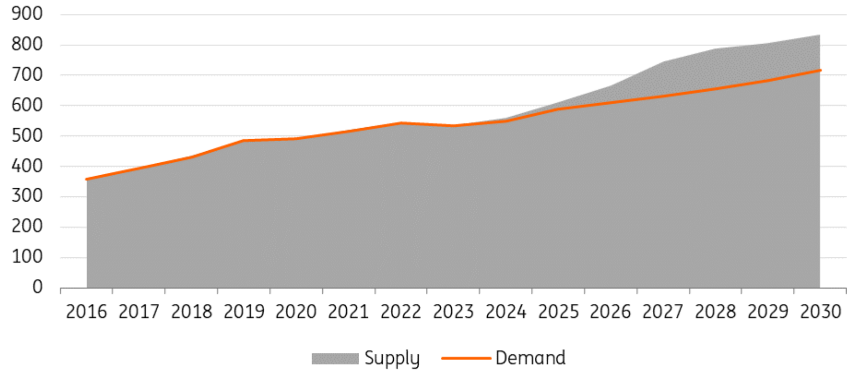
> *The LNG market could move into surplus next year*

Similarly, in Europe, where gas demand is still well below pre-Russia/Ukraine war levels, there is further downside as we move towards the end of the decade. However, this is not necessarily bearish for LNG demand as Europe still plans to end its reliance on Russian fossil fuels by 2027, suggesting that the region will still need to see some further switching to LNG. We expect that the global LNG market will move into surplus as early as 2025 and is likely to remain in a surplus environment for the remainder of this decade, which should see global LNG prices move lower in the long term.

Admittedly, though, our balance shows only a marginal surplus in 2025, which could quickly disappear due to stronger demand or supply disruptions. We have more confidence in a meaningful surplus from 2026 and 2027, putting downward pressure on LNG prices.

There are key upside risks to this view, centred on whether projects are potentially delayed or cancelled. We have already seen some delays in US projects currently under construction, while there has also been some political interference. For Russia, sanctions leave a large amount of uncertainty over whether some key projects will see their full potential or whether they will be scaled back. In Africa, security concerns continue to linger over an already delayed project in Mozambique.

Global LNG market set to move into deep surplus (bcm)



Source: ING Research

In the articles that follow, we will dive deeper into the supply and demand outlook for key markets. In addition, the continued growth in global LNG trade brings up the topic of emissions. A longer value chain as seen with LNG increases the risk of emission leakages as well as concerns over how these emissions compare to pipeline flows.

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