

## LNG: Price pressure & shut-in risks

Global gas prices remain under pressure, reaching record lows in Asia and Europe. Covid-19 has only put further pressure on an already bearish market. The current price environment has raised the prospect of production shut-ins in a bid to balance the market



### LNG capacity growth

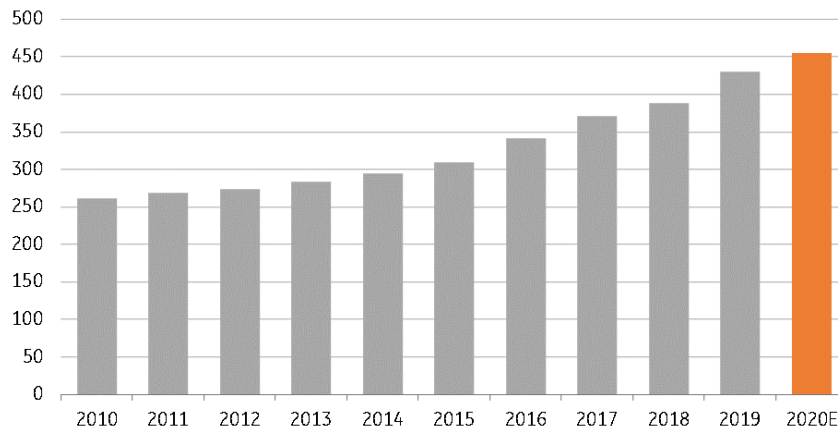
Supply growth coming into this year was a key factor behind the bearish outlook for the LNG market over 2020. In recent years we have seen a significant amount of LNG export capacity coming online from Australia, the US and Russia. In just 2019, we saw 42.5mtpa of liquefaction capacity coming online, taking total capacity to almost 431mtpa, and by the end of 2020 it is estimated that total capacity will stand at almost 455mtpa. In addition to this, there is also in excess of 900mtpa of liquefaction capacity which is in the pre-FID stage.

Although given the low-price environment, a large part of pre-FID projects will likely be delayed or scrapped altogether. A number of pre-FID projects in the US have announced delays given the current environment. It is not just the US where we are seeing delays, with a final investment decision for the Rovuma project in Mozambique postponed, while a couple of projects in Australia have now also been pushed back.

However, there are some projects which will continue to go ahead. Despite Qatar Petroleum

announcing sizeable spending cuts, the company has said that this will not have an impact on current production or expansion plans. Qatar is planning on expanding capacity from 77mtpa currently to 110mtpa by 2024, which will then be expanded further to 126mtpa by 2027.

## Global liquefaction capacity (mtpa)



Source: IGU, ING Research

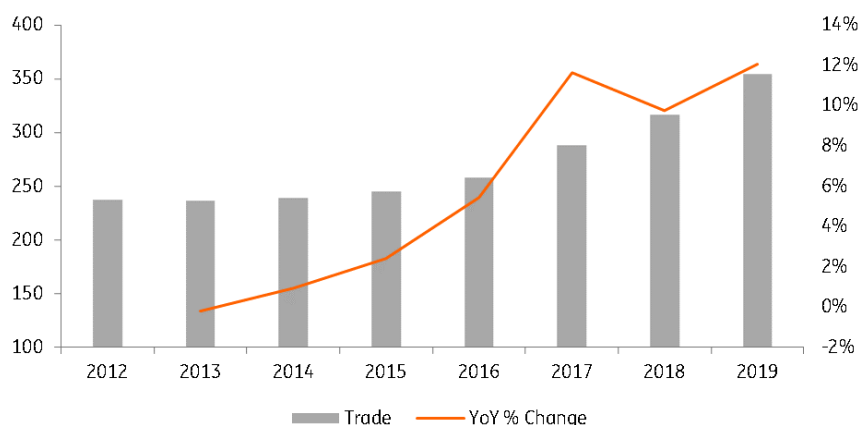
## Asian demand growth unable to keep up with supply

Global LNG trade has been growing at a strong pace over the last few years, with growth rates of 10% and 13% in 2018 and 2019, respectively. This strong growth in trade had initially helped to absorb a large part of the LNG supply that was coming online.

China was key in this demand growth, with the country in recent years overtaking South Korea to become the second largest importer. Between 2015 and 2018, Chinese LNG imports grew at a compounded annual growth rate of 32%. But clearly these strong growth rates are not sustainable, and annual growth already started to slow in 2019, with imports growing by 12% over the year. This slowing growth has meant that global demand growth more recently has not been able to keep up with the pace that supply capacity has been ramping up, and so putting pressure on spot prices. Covid-19 has only increased the severity of the price fall, given the demand hit we have seen as a result of country lockdowns.

Despite the lockdown seen in China in 1Q20, Asian imports managed to continue growing, according to data from IHS Markit, with volumes over the first three months of the year increasing by a little over 9% YoY. These increases were driven predominantly by larger volumes to South Korea and India. However with lockdowns across larger parts of Asia from April, including a state of emergency in Japan, and a countrywide lockdown in India, imports into the region did decline by around 1.2% YoY in April.

## Global LNG trade (m tonnes)



Source: IGU, ING Research

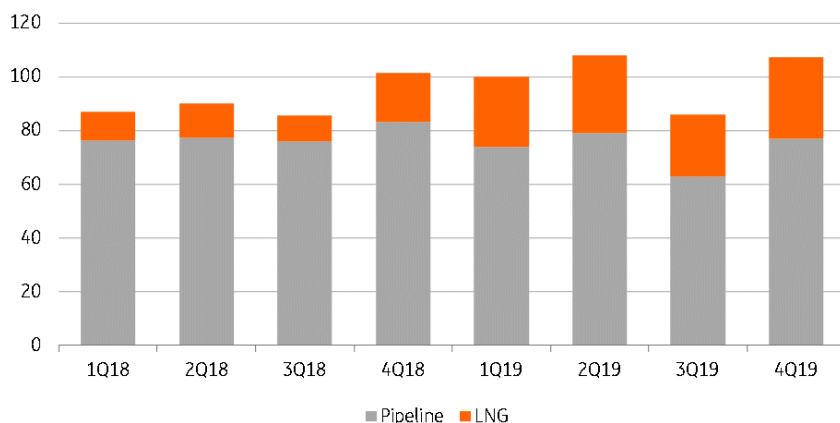
## Europe weighed down by LNG inflows

The surplus LNG market has had a significant impact on European gas hub prices, which are trading near record lows. TTF prices have traded briefly below EUR4/MWh recently. Natural gas inventories in the EU stand at over 780TWh, which is more than 70% above the five-year average for this time of year, and is in fact already at levels that we have seen in August in the past. This suggests that there will be a repeat of last year as we go into the winter season, where storage is basically 100% full, and so as a result, the time spreads going into the winter will need to remain deep in carry.

EU gas consumption over 2019 totalled 482bcm, while indigenous production totalled 109bcm, leaving a domestic deficit of 373bcm, although net imports over the year totalled 398bcm. Russia is by far the largest supplier of natural gas, making up around 46% of total imports (including both pipeline and LNG), while Norway supplied around 29% of EU imports. Given the build up in liquefaction capacity, this has meant we have seen increased flows of LNG into Europe. In 2019, the EU imported around 109bcm of LNG, making up around 27% of total imports, this compares to around 14% of total imports in 2018.

Strong LNG imports into Europe have continued into 2020. Bloomberg ship tracking data shows that imports over the first four months of this year into North West Europe increased 24% YoY, and this has come at a time when consumption would have been under pressure due to country lockdowns as a result of the Covid-19 outbreak.

## EU quarterly gas imports (bcm)



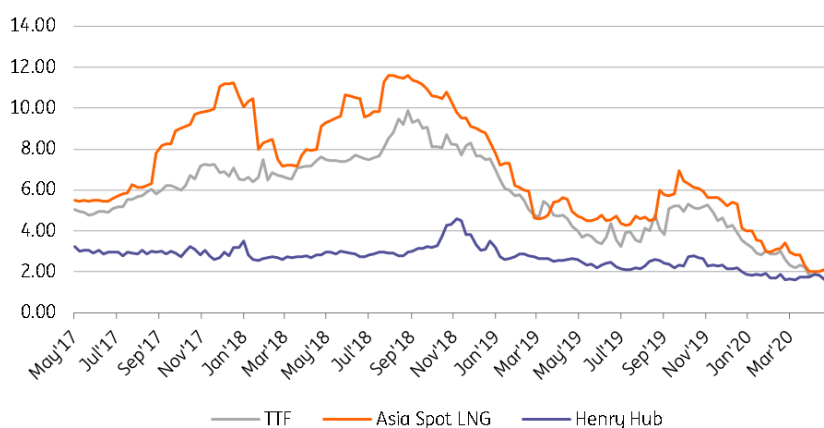
Source: European Commission, ING Research

## Saturated markets

Given the low-price environment in Europe and Asia, there are increasing instances of US cargoes being cancelled by buyers. According to Platts, there have already been around 45 cargoes from the US for July shipment cancelled as a result of the low-price environment, which is about double what will be seen over June. With Henry Hub trading at a premium to TTF, and near parity to Asian prices, it makes little sense for buyers to take delivery of US cargoes.

The increase in cancellations that we are seeing, will lead to lower operating rates at LNG terminals, given they would eventually face storage constraints. Already, inflows into US LNG terminals are reportedly at their lowest levels since October 2019, and with increased cancellations this will only fall further in the months ahead.

## Global gas prices (US\$/MMBtu)



Source: Bloomberg, ING Research

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