

# China bid for commodity price power extends to natural gas



China became the world's biggest natural gas buyer last year. Now it wants to start setting its own price.

That's because importers have been paying rates influenced by events unrelated to China's supply and demand balance from European weather to Middle East conflicts. So like it has for oil, gold and iron ore before, producers, distributors and financial exchanges in the top commodities market are seeking prices that they say better reflect Chinese fundamentals, and in their own currency.

The search for an internationally recognised Chinese natural gas price, including a proposed futures contract, follows the larger pattern of the world's biggest commodities consumer seeking a greater say in how to price the raw materials it consumes.

'We've been taken advantage of by foreign firms, Xu Tong, a

deputy general manager of distributor Beijing Gas Group Co, said in an interview. Domestic indexes will 'reduce premiums significantly.

China is also opening its commodities derivatives markets to foreign traders, partly in an effort to broaden the appeal of its currency, the yuan. In March 2018, an exchange in Shanghai introduced an oil futures contract for overseas investors, while Dalian followed two months later by opening up its iron ore trade.

China's natural gas demand has boomed in recent years as the government of President Xi Jinping pushed industrial and residential customers away from coal. But domestic production of the gas hasn't kept pace with consumption. Imports, meanwhile, surged almost 32% last year.

Domestic gas sales follow two different pricing structures: a government-set price for pipeline supplies, which is open to some negotiation between buyers and sellers, and the unregulated market for liquefied natural gas transported on trucks. And for imports, China mostly pays in US dollars at prices based mainly on either global oil or gas benchmarks set in the US or Europe.

The structure can contribute to losses for Chinese companies that resell overseas gas at lower domestic rates. PetroChina Co, the top oil and gas supplier, has chalked up \$34bn of losses since 2011, when it began regularly reporting the figures.

LNG contracts first became tied to oil prices at a time when the fuel competed with petroleum used for home heating and power generation. More importantly, oil provided transparent and liquid price benchmarks that allowed buyers to hedge and sellers to secure bank financing. But prices have begun to uncouple as the global gas market deepens.

'Gas fundamentals can't be reflected by oil they are two

separate products, Wu Yifeng, deputy general manager of natural gas at PetroChina's international unit, said in an interview in Beijing.

Europe and the US have natural gas benchmarks that reflect supply and demand in their respective markets and are liquid enough to bank on. Asia doesn't have that yet. A futures contract built around the current spot benchmark in northeast Asia assessed by S & P Global Platts is gaining traction, but remains a far cry from what's seen in the west.

Chinese gas companies are trying to build their own, drawing on the success of the nation's Dalian iron ore futures, which global traders look to for daily price signals because of the sheer size of the market.

The Shanghai Futures Exchange has said it plans to launch natural gas futures, though no timing has been set. The Shanghai Petroleum & Natural Gas Exchange, or SHPGX, hosts auctions for small quantities of domestic gas and publishes daily trucked LNG prices.

Whether China is able to achieve the clout it desires with gas prices may depend on ease-of-use and investor interest. Currently, crude oil, iron ore, rubber and purified terephthalic acid (used to make plastics and polyester) are open to foreigners, and most other commodity futures are isolated to only the domestic market. The gas contract SHFE is mulling will allow offshore entities to trade.

Another key factor for China's pricing ambitions is a long-awaited national pipeline reform. The move to give more suppliers access to the transportation networks, which is now mainly operated by the three state-owned giants, must happen for prices to freely reflect the broader market, said Chen Gang, an assistant to the general manager at SHPGX.

Only then can domestic prices become a benchmark, with support from the derivatives market, according to Chen. The final step

may be to link those prices to imported gas, he said.

Source: Gulf Times

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## QP wins exploration rights in three Brazil offshore blocks



Qatar Petroleum (QP), the country's hydrocarbon bellwether, has won exploration rights in three offshore blocks in Brazil, as part of two bidding consortia.

The winning bids were announced by Brazil's National Agency of Petroleum, Natural Gas, and Biofuels (ANP) at a public bidding session held in Rio de Janeiro.

Competing bids were submitted to the ANP and the winners were announced throughout the course of Thursday's public session.

QP won the exploration rights for block [541] in the Campos basin as part of a consortium comprising affiliates of Total (Operator with a 40% interest), QP (40% interest), and Petronas (20%).

It also won the exploration rights for blocks [659 and 713] in the Campos basin as part of a consortium comprising affiliates of Shell (Operator with a 40% interest), Chevron (35% interest), and QP (25% interest).

“This successful result is the fourth of its kind, which further strengthen QP’s footprint in Brazil, marking yet another successful step towards realising our international growth strategy, and turning Brazil into a cornerstone of our international portfolio,” said HE the Minister of State for Energy Affairs as well as QP president and chief executive, Saad bin Sherida al-Kaabi.

QP, an integrated national oil corporation responsible for the sustainable development of the oil and gas industry in Qatar and beyond, covers the entire spectrum of the oil and gas value chain locally, regionally, and internationally, and include the exploration, refining, production, marketing and sales of oil and gas, liquefied natural gas, natural gas liquids, gas to liquids products, refined products, petrochemicals, fertilisers, steel and aluminium.

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**GLOBAL LNG-Asian prices hit three-week high; tanker rates rise**



- \* CNOOC seeks to charter ships to replace COSCO-linked tankers
- \* Japan's Tohoku buys November-delivery cargo – sources
- \* China's LNG imports could slow due to terminal repairs

By Jessica Jaganathan

SINGAPORE, Oct 11 (Reuters) – Asian spot prices for liquefied natural gas (LNG) rose to a three-week high this week ahead of winter demand, while tanker rates nearly doubled on limited availability of vessels.

Spot prices for November-delivery to Northeast Asia LNG-AS are estimated to be about \$5.80 per million British thermal units (mmBtu), up by 25 cents from last week, said several sources who are market participants.

Prices for December delivery are estimated to be about \$6.45 per mmBtu, they added.

Higher oil prices and shipping rates, which have nearly doubled in a week could boost spot LNG prices further, sources

added.

LNG tanker rates rose after China National Offshore Oil and Gas Company (CNOOC) sought tankers to charter looking to replace ships it had previously hired that are linked to a Chinese company sanctioned by the United States for allegedly transporting Iranian oil, they added.

Several industry sources said CNOOC is seeking to replace some of six COSCO-linked LNG tankers – Dapeng Sun, Dapeng Moon, Dapeng Star, Min Rong, Min Lu and Shen Hai.

Still, apart from a few spot cargoes, demand from North Asia is yet to increase for winter, trade sources said.

In the spot cargo market, Japan's Tohoku Electric Power bought a cargo for November delivery from a trader at \$5.80 per mmBtu, industry sources said, though this could not immediately be confirmed.

"Demand in Japan is low. I think it is only Tohoku who purchases spot cargoes constantly," a Japan-based trader said.

Essar Steel India is yet to award a tender seeking 12 cargoes for 2020 delivery, a company spokesman told Reuters.

China's LNG imports are expected to slow as repairs to the Rudong LNG import terminal is only likely to be done by mid-November after an accident last month, two company sources said.

Kunlun Energy, which operates PetroChina's LNG receiving terminals, cut intake capacity at Rudong LNG terminal since Sept. 21 when a tanker collided into a bridge that connects the island where the terminal is located to the mainland during a typhoon.

PetroChina's trading unit Chinaoil is diverting some of the LNG meant for the Rudong terminal to its two other receiving terminals in Tangshan and Dalian, one of the company sources



said. The company also offered spot cargoes earlier this week, traders said.

BHP Group has offered a cargo for loading in November from the North West Shelf plant in Australia while Angola LNG plant offered two cargoes for delivery in October and November.

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## **Qatar set to host sixth Gas Summit of GECF in 2021**



Qatar will host the sixth Gas Summit of the Gas Exporting Countries Forum (GECF) in 2021, offering an opportunity for dialogue at the highest levels on the latest developments and trends related to the global gas industry.

The announcement was made during the conclusion of the 21st GECF ministerial meeting in Moscow. This will be the second summit to be held in Doha after the forum's first summit on November 15, 2011.



“We look forward to a highly successful meeting that reflects our deep belief in dialogue and co-operation in the effort to meet the world’s growing demand for energy,” said HE Saad bin Sherida al-Kaabi, Minister of State for Energy Affairs, the president and chief executive of Qatar Petroleum.

He said Qatar is committed to the responsibilities it carries as the world’s leading liquefied natural gas producer, foremost of which is encouraging regional and international dialogue as well as promoting natural gas as the cleanest of fossil fuels and the destination fuel in the transition to low carbon economies.

Earlier addressing the ministerial meet in Moscow, al-Kaabi had stressed the importance of natural gas in meeting the economic and environmental challenges facing energy consumers around the world.

Drawing attention to unprecedented recurrent climatic conditions, including mean temperatures, turbulent seasonal cycles and extreme events, he had said it is time to take another look at natural gas and the number of advantages it has to make it a pivotal element in any strategy to tackle environmental challenges.

The GECF, which is headquartered in Doha, is an international governmental organisation that provides a framework for knowledge sharing among its member countries. It is made up of the world’s leading gas exporting countries and was set up with the objective to increase the level of co-ordination and strengthen the collaboration among its member countries.

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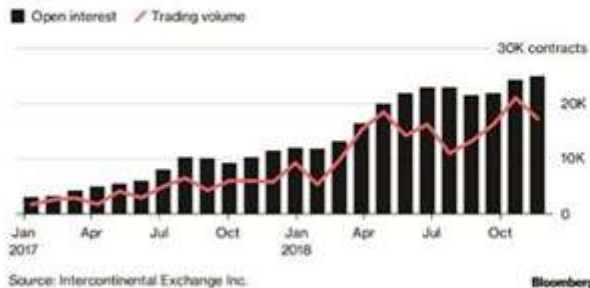
Reporting by Jessica Jaganathan

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## **Spikes in LNG shipping costs highlight need for hedging tools**

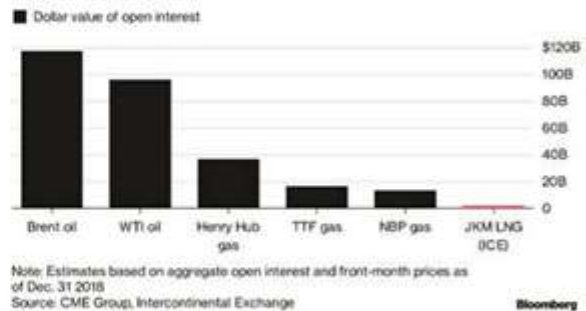
### Bright Futures

JKM LNG derivatives trading is taking off as more cargoes are sold on a spot basis



### Long Way to Go

LNG futures trail other oil and gas benchmarks in terms of open interest



A rally in the cost of chartering liquefied natural gas vessels on the spot market has highlighted the lack of tools available to traders to hedge against volatility.

The market for the fastest-growing fossil fuel is expanding quickly, with cargoes changing hands in increasingly short-term deals the way the crude oil trade matured two to three decades ago. But while physical trading is expanding rapidly, the paper market with derivatives and other financial instruments has lagged. That has made it difficult to hedge and offset potential losses both for the cargoes themselves and the freight cost of the ships that carry them.

The issue has come into high relief in the last week as the price to charter a tanker in the Pacific Ocean for December jumped more than 20% in the week to Tuesday, according to Spark Commodities Pte Ltd, which takes assessments from five LNG shipbrokers. That's drawing attention to work to develop hedging tools, with Spark focusing on a paper market for vessels known as a forward freight agreement.

"The increased volatility continues to highlight the need for an LNG FFA to allow market players to manage freight exposure," said Tim Mendelssohn, managing director of Spark, a venture between European Energy Exchange AG and cargo tracker Kpler. "We are attempting to provide a solution to a major

challenge facing the industry and drive liquidity as LNG develops.”

The move by Spark would align the cost of existing deals with liquid cargo-related financial products. The forward freight costs for December, at \$145,250 a day on Tuesday, threaten to reduce the potential profit of keeping a multimillion-dollar cargo on a boat to benefit from higher forward LNG prices.

The same is true for the LNG cargoes the ships are carrying. Of the almost 200mn tonnes of LNG traded in the last year, about a third was in the form of derivatives on the Japan Korea Marker, an industry benchmark, Pablo Galante Escobar, head of LNG at Vitol SA, said at the Oil & Money conference last week. Much more was hedged on liquid European gas hubs, he said.

“You can trade in a liquid way, but of course it is still developing,” he said.

Developing the paper market is one of the key steps needed to make LNG a fully tradable commodity, according to Galante Escobar. Despite massive growth since 2016, JKM trading draws about 25% of annual production of the super-chilled fuel.

That is in sharp contrast to crude oil, where physical trading has become just 5% of the total market. Deeper paper markets bring in speculators and provide liquidity, giving producers and consumers greater confidence they can shift their physical cargoes when needed.

Other commodities have “far more paper market than physical market,” Patrick Dugas, vice president for LNG trading at Total SA, said at the LNGgc conference in London last week. The so-called churn rate for the JKM market is near one, while the ratio needs to be closer to 10, he said.

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# Qatar sets perfect example for would-be energy exporters in Mediterranean



THE PENINSULA

DOHA

Wednesday 2 October 2019

It's because Qatar had made an early bet on liquefied natural gas that helped the country to emerge as the world's most prolific exporter of LNG, a position it retains to this day. It was good governance that made sure this resource has been very well-managed, a top energy expert said.

Attending a major energy congress in Athens, Roudi Baroudi, a



veteran of the energy business who has helped shape policy for companies, governments, and even entities like the European Union, the World Bank and the United Nations, noted the North Field Expansion Project is a massive undertaking that will grow LNG output from the current 77 million tons per annum to 110 MTPA over the next five years. That will not only increase Qatar's lead over other producers, but also give it the wherewithal to keep diversifying its holdings abroad.

Speaking on the sidelines of the First Annual Eastern Mediterranean Energy Leadership Summit, Baroudi (pictured), currently the CEO of Doha-based Energy and Environment Holding, elaborated on 'how did a tiny country like Qatar become such a giant in the gas business?'.

" Once the full extent of the country's natural gas reserves were understood, the government sought out the best advice, then undertook comprehensive studies to understand market conditions and forecasts, define its own needs and capabilities, and identify the best partners. As a result of these analyses, Qatar made an early bet on liquefied natural gas that soon made it the world's most prolific exporter of LNG, a position it retains to this day." He noted that it's not only this domestic megaproject (North Field Expansion) that matters. Qatar Petroleum, for instance, is in talks to secure partners for the establishment of a new LNG distribution terminal on Germany's North Sea Coast. Again, this a mutual benefit proposition from start to finish, with the German side increasing its energy security and the Qataris lining up future revenues by securing access to a crucial market. In addition, QP recently entered a new agreement that books LNG offloading facilities at the Belgian Port of Zeebrugge until 2044.

Other developments paint a similar picture of a wide-ranging strategy that keeps Qatar in its leading position by capitalizing on both its market influence and its financial resources. In July, QP took a 49 percent stake in a joint

venture with Chevron Phillips Chemical Co. (51 percent) that will see the partners develop a huge petrochemical complex – including the world’s largest ethylene cracker – on the US Gulf Coast, taking advantage of the proximity of America’s most productive shale gas regions.

And just a couple of weeks ago, QatarGas made history when one of its massive Q-Flex LNG carriers, the Thumama, became the first vessel of its class to complete an open-water ship-to-ship transfer to a floating storage and regasification unit off Bangladesh’s Moheshkhali Terminal. Qatari investments and expertise are also driving exploration activities in several countries around the world. “Qatar is not sitting on its hands. Day in and day out, in all sorts of ways, the country is constantly taking stupendous strides toward bigger and better things to come”, he said.

Roudi Baroudi

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**Russia LNG ambitions advance with plans for remotest regions**



Bloomberg/ Vladivostok

Russia took a step closer to becoming a dominant player in the global liquefied natural gas market as two of its biggest energy companies advanced plans to export the fuel from its remotest corners.

Rosneft PJSC, Russia's top oil company, said yesterday it plans together with its partners in the Sakhalin 1 project to build an LNG export plant in the far eastern port city of De-Kastri. Meanwhile Novatek PJSC, the country's largest LNG producer, made a final investment decision on its \$21bn Arctic LNG 2 plant on the Gulf of Ob.

Natural gas is expected to be the fastest growing fossil fuel through 2040, and it will increasingly be transported in liquid form, according to the International Energy Agency. China, India and other developing countries plan higher imports to bring energy and electricity to their people at a fraction of the pollution of coal or oil.

The two projects combined could export about 26mn tonnes of LNG a year, which would double Russia's existing capacity. Already the world's top exporter of pipeline gas and second-biggest shipper of crude oil, LNG will give President Vladimir Putin a bigger role in driving the world economy via his

country's massive energy resources.

"After the oil price crash of 2015 and a massive addition of Australian LNG, supermajors held back major LNG investments – but that has changed now. The global LNG market is expected to hit a supply deficit by 2023, according to BloombergNEF's latest Global LNG Market Outlook. Projects are now being lined up to capture that gap in the market, and the front-runners are those supported by Big Oil," said Fauziah Marzuki, analyst, BloombergNEF.

Russia, which had 8% of the global LNG market last year, wants to boost that to 20% by 2035 to put it in league with the world's biggest exporters, such as Qatar and Australia. Yesterday's announcements, made at the Eastern Economic Forum in Vladivostok, underscore how quickly the country is progressing toward that goal. Its first plant, at Gazprom PJSC's Sakhalin 2, opened in 2009 and its second, Novatek's Yamal LNG, only started in 2017.

The first production unit at Arctic 2 LNG will come online by the end of the third quarter of 2023, Novatek chief executive officer Leonid Mikhelson said. Once fully complete, the plant will be able to produce 19.8mn tonnes of LNG annually. Rosneft CEO Igor Sechin didn't give a timeline for the far east LNG plant, which he said would be able to produce about 6.2mn tonnes a year.

For now, several export projects, including Yamal, have come online recently and saturated the market, depressing spot LNG prices in Asia to about 60% below where they were a year ago.

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## **LNG investments hit record**

# \$50bn in 2019: IEA chief



Reuters Tokyo

Record investments of \$50bn have turned 2019 into a banner year for liquefied natural gas (LNG), with Canada and the United States being the main drivers, the chief of the International Energy Agency (IEA) said yesterday.

The industrial sector is Asia's biggest driver of LNG growth, with China expected to overtake Japan as the world's top importer of the fuel in five years, said Fatih Birol, the agency's executive director.

"This year, 2019 already broke the highest amount of (final investment decisions) for the first time ever, \$50bn," he told the annual LNG Producer-Consumer conference in Tokyo.

More than 170bn cubic metres (bcm) of natural gas liquefaction capacity is due to take a final investment decision this year, a record far surpassing the previous high in 2005 of 70 bcm, according to the IEA.

The recent boost in contracting activity and project sanctioning follows the growing adoption of the equity offtake marketing structure, where companies have access to LNG volumes according to their equity stake, reducing the need for

long-term sale and purchase agreements, the agency said in a report released this month.

“The biggest growth is coming from China,” Birol added. “In the next five years, about one-third of global LNG demand will come from China alone.”

While LNG imports by Japan, the world’s top buyer of the super-chilled fuel, and Korea are expected to stay important, slowing growth there means the biggest contribution will be from China, Birol said.

Other Asian nations, such as Bangladesh, India, Pakistan, Thailand are also importing more LNG. European LNG imports will also increase as domestic gas production declines and nations diversify supply, Birol said.

For instance, European natural gas production has halved over the past decade, increasing the call on other sources of flexibility, IEA said in the report this month.

The United States will make up two-thirds of global growth in LNG exports, which could turn pricing dynamics in Asia towards more gas-linked, rather than oil-linked LNG contracts, he said.

About 70% of LNG contracts are oil-indexed, with the rest geared to gas.

That could soon change to a 50-50 pricing mix, Birol added.

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**Tellurian signs \$7.5bn  
agreement with India’s  
Petronet for US LNG**



Tellurian Inc. said it signed a \$7.5 billion agreement for India's Petronet LNG Ltd. to buy into its proposed liquefied natural gas terminal in Louisiana, in what could potentially be one of the largest foreign investments in the U.S. to ship shale gas abroad.

Petronet will spend \$2.5 billion for an 18% equity stake in the \$28 billion Driftwood LNG terminal – the largest outside holding so far in the project – and negotiate the purchase of 5 million tons of gas per annum. The remainder of the total will come from debt, Tellurian Chief Executive Officer Meg Gentle said.

The companies plan to complete the accord by March 31, by which time Tellurian hopes to have signed up partners to enable it to proceed with the project.

“We will sign the document sometime in the first quarter and we will have financing ready to close simultaneously, and then we will begin construction,” Gentle said in a telephone interview. “India is one of the fastest growth markets for LNG



and should soon become the second-largest LNG importer.”

The deal, signed in Houston in the presence of Indian Prime Minister Narendra Modi, underscores a record year for the LNG industry, with tens of billions of dollars worth of export projects given the green light. The surge of new supply from America’s trove of shale gas has rendered the once-premium fuel accessible for emerging markets such as India, currently the sixth-largest buyer of U.S. LNG.

“People should not be surprised this came,” said Tellurian co-founder Charif Souki, who also started America’s largest LNG exporter Cheniere Energy Inc. “The United States and India have a significant issue diametrically opposed. We have too much gas that we don’t know what to do with and India needs greater gas, and 1 million tons a time is not going to solve the problem.”

The Petronet deal, the largest by an Indian company in U.S. LNG, comes days after the gas industry’s all-important GasTech conference and coincides with Modi’s much-anticipated visit to Texas. He’s set to take the podium at Houston’s NRG Stadium with President Trump on Sunday and address a crowd of more than 50,000.

“This deal will further help diversify India’s energy supplies,” said Lydia Powell, who runs the Centre for Resources Management at the New Delhi-based Observer Research Foundation think tank. “The U.S. wants to displace Middle East supplies and India is a large market.”

Petronet’s investment is vying to be the largest by a foreign entity with one that Sempra Energy expects to finalize in Texas with Saudi Aramco.

Tellurian expects to finalize the last 4 million tons needed for Driftwood’s first phase with one or two partners in the coming months, Gentle said. Petronet’s share represents about \$2 billion in annual fuel sales for the life of Driftwood, she

said.

“It supports the drilling industry and the pipeline industry, and there is going to be an enormous amount of resources,” Souki said.