

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