

Global natural gas rally seen wavering as buyers expand horizons



The upside to global natural gas prices is seen limited as competition with other energy intensifies. Benchmarks in Asia and Europe have soared since mid-2016, leaving buyers in those regions paying triple the rate in the US, where prices kept in a much narrower range. While that's been good for the profits of big producers, it left users hesitant to boost use of the cleanest fossil fuel. "In the power sector, there are many competitors for natural gas, renewables being one of them and coal on the other side," Fatih Birol, executive director of Paris-based energy policy adviser the International Energy Agency, said in an interview earlier this month. "If the price of natural gas goes up, there may be a question for demand growth." An expected liquefied natural gas boom, with record supply growth next year and as much as \$200bn earmarked for

new projects in the next three years, may help pare prices outside North America. With the world transiting away from dirtier coal, strong demand seems pretty certain, but high prices aren't, said Tatiana Mitrova, director of the energy sector at the Moscow School of Management. Customers are too clever, she said, citing Germany's promotion of LNG import projects in a bid to win lower prices from Gazprom, the world's biggest gas producer. The Russian company may also face lower prices in Asia, said Mitrova, who sits on the board of oil-services company Schlumberger Ltd. Gazprom knows the drill. It already suffered thin margins for some hub-market sales in Europe in 2015 and 2016, she said. "Gazprom was supplying gas at break-even prices," Mitrova said in an interview at the Oil & Money conference in London. "I'm afraid supplies to China might see the same development." With Russia, the Middle East, the US, Canada, Australia and Africa all competing to supply, prices will probably come under pressure, said Nick Campbell, director of energy intensive clients at Inspired Energy. Then there are other key areas of demand – gas users beyond power generators. The manufacturing sector is a "main driver" for demand growth during the coming years, and renewables probably aren't a viable alternative for many factories, the IEA's Birol said. So gas sellers will probably continue to enjoy premium prices until the new infrastructure forces them down, said John Baguley, chief operating officer of LNG Ltd, which plans to export North American gas to Europe and Asia. "If Gazprom is serious about putting the cheapest gas into Europe, Gazprom can do that cheaper than we can liquefy it out of the US," he said in an interview