

Goldman lifts its LNG price outlook 50% on China's one-two punch



Bloomberg/Singapore

Goldman Sachs Group Inc jacked up its spot LNG forecast after the market was hit by China's double blow of boosting demand for gas while lifting prices of the fuel's main competitor coal by limiting mine output.

The bank increased its 2019 estimate for the Japan-Korea Marker, a closely watched liquefied natural gas Asian benchmark, by 52% to \$9.50 per million British thermal units, according to a report from analysts including Christian Lelong. They also raised their 2020 projection by 43% to \$8.55, and boosted their outlook for UK natural gas prices.

China became the world's largest buyer of natural gas in May in its pursuit to reduce smog in urban centres, as it forces homes and factories to burn the cleaner fuel instead of coal. A cold winter last year, which was followed by a hot summer, also increased demand for LNG, while disruptions at production

plants reduced supply and longer tanker journeys increased transportation costs, Goldman said its research note dated Oct. 17.

“Global gas prices have exceeded our expectations,” said Lelong and fellow analyst Damien Courvalin. “China’s war on pollution has created significant demand with limited price elasticity, and its supply reforms have reduced competition in the global fuel mix by closing thousands of coal mines.”

Goldman boosted its spot Asia LNG forecast for the upcoming winter to \$10.75 per million Btu, with downside potential if an El Nino event occurs and brings milder temperatures to East Asia. The bank raised estimates for UK natural gas prices by 45% in 2019 to \$8 and by 38% for 2020 to \$7.30.

Spot LNG in North Asia closed at \$10.50 per million Btu on October 15, according to a price assessment from World Gas Intelligence.