

LNG Investment Needed As Oversupply Turns To Shortfall



Gas is the future. Among the reasons oil companies are latching onto gas as the energy transition looms are that it's plentiful, future demand growth outstrips oil and it has relatively low carbon intensity. Amidst all this, the liquefied natural gas (LNG) market is set to flourish. Yet prices today are collapsing. I turned to Massimo Di-Odoardo, Head of Global Gas Research, at Wood Mackenzie to make sense of what's going on.

Will low prices boost demand?

They help. At current spot prices, gas-to-power is competitive against coal, though we're not actually seeing much switching. In Europe, gas prices need to go below U.S.\$3.5/mm Btu to displace efficient coal in Germany; whereas in Asia, lack of competition gives utilities little incentive to switch. The outlook though for LNG demand growth globally is bullish, driven by policy (such as clean air and the energy transition) and, in Europe, declining indigenous gas production.

Competitive gas prices will help things along.

Are we seeing changes in LNG contract pricing?

Yes. We've seen Henry Hub-based contracts disrupt the market this decade because U.S. gas is cheap. But when LNG spot prices are low, Henry Hub-linked contracts are out of the money – not good. To be competitive as consumer markets open, buyers are looking for more innovative pricing. At LNG2019 in Shanghai, Tellurian Marketing announced a heads of agreement with Total, indexed to Asian LNG spot (JKM). Separately, Shell announced an agreement with Tokyo Gas, linked to coal prices – aimed squarely at LNG competing with new-build coal plants. We'll see a lot more creative pricing as buyers and sellers struggle/fight/work/try to stay competitive.

When will prices start to recover?

Prices will double inside three years. Supply additions slow dramatically from 2021, then a yawning gap opens for new volumes post-2023. Some new projects need upward of U.S.\$7/mm Btu to break even. The lead time for new LNG supply is about five years on average from final investment decision (FID) to commissioning so investors need to start building. LNG Canada (Shell), Tortue (BP) and Golden Pass (ExxonMobil/Qatar Petroleum) got the green light in the last few months. A host more FIDs are coming that will lift total investment in new projects to over U.S.\$200 billion, and bring over 100 million tonnes per annum (tpa) of new LNG supply to the market by the mid-2020s.

So investors in new LNG projects should hold their nerve?

Yes, the market's going to need the gas. The projects just need to deliver on time and on budget. The lowest-cost producers will be the winners, resilient in any market conditions.

<https://www.forbes.com/sites/woodmackenzie/2019/04/12/lng-inve>

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