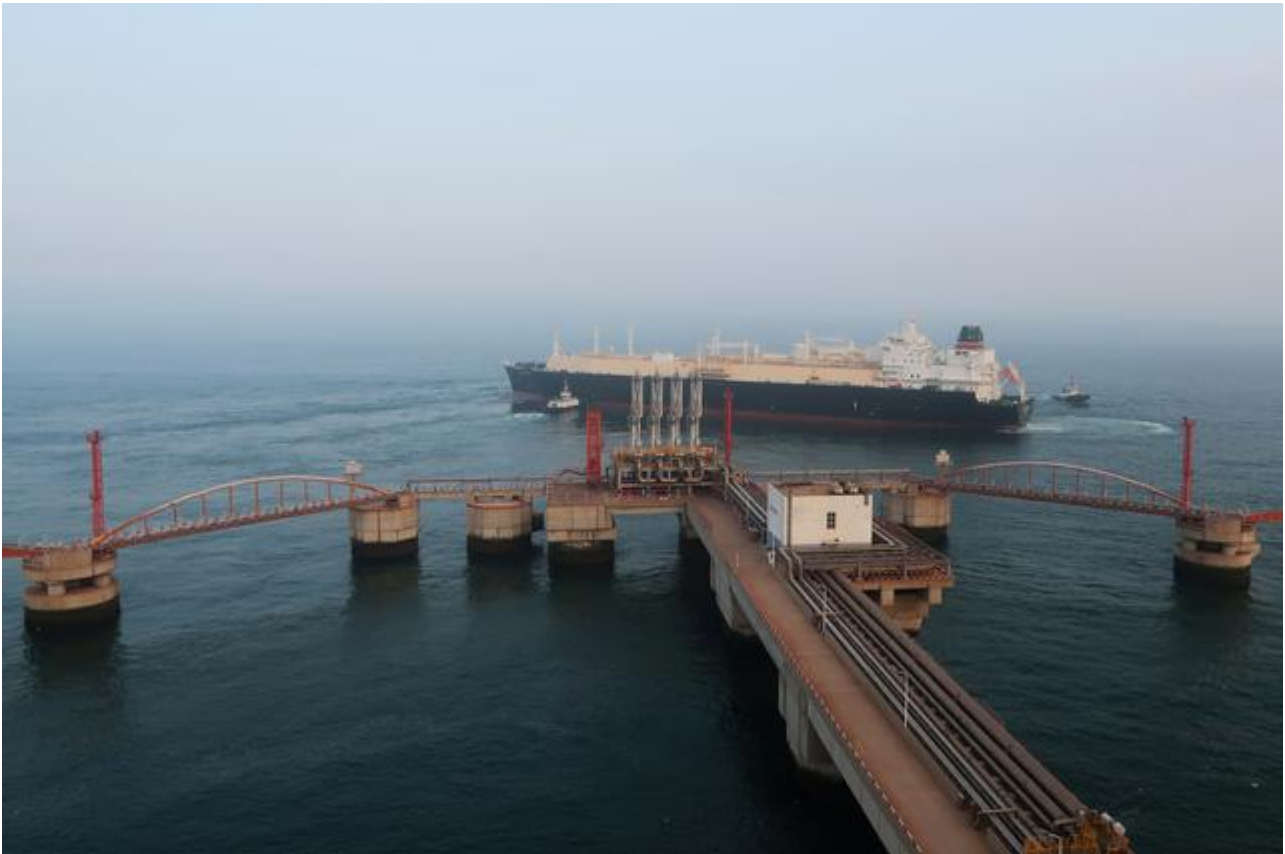


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China gas demand to surge in 2019, but maybe not enough to sop up LNG glut



SINGAPORE (Reuters) – China’s natural gas demand is set to grow by 14 percent in 2019 amid a huge government push to spur consumption of the fuel, a senior industry executive said, requiring the nation to import huge amounts of liquefied natural gas (LNG).

Yet even China’s booming consumption may not soak up a large glut of LNG that has emerged across Asia and dragged spot prices for the fuel down by 60 percent over the past half-year.

China’s gas demand will expand by 30 billion to 40 billion cubic meters (bcm) this year, said Li Yalan, chairwoman of

Beijing Gas Group, main supplier to the Chinese capital, in an interview on Friday.

That would be an increase of as much as 14 percent from the 280 bcm of gas China consumed in 2018, according to data from the state economic planner, the National Development and Reform Commission (NDRC). It would also be slower than China's 2018 demand surge of 18 percent.

The rising gas demand is a result of China's ongoing policy to move households and industry from coal to gas, as well as economic stimulus that includes a value-added tax cut from April 1 and which is aimed at supporting industry growth.

Li said Beijing, one of the world's biggest gas-burning cities, consumed a record 18.5 bcm of gas last year, up 14 percent from 2017.

"The broad direction is not going to change, which is to restructure the energy mix by increasing the share of natural gas," Li told Reuters.

"What China needs to do is to connect the gas supplies with the demand nicely to ensure a smooth switch."

Better state planning to ensure grid connections and to encourage energy companies to boost imports in advance helped China's gas market, the world's third-largest, to expand by a record 43 bcm last year, Li said.

The expansion came after a supply crunch over an unusually cold winter of 2017/18 as suppliers struggled to meet a demand surge that followed a policy to move millions of households to gas from coal.

"This year we'll likely see the market growing between 30 and 40 bcm, which is a normal range," said Li.

Although China's domestic gas production is also rising fast, its 2018 growth of 7.5 percent cannot fully keep up with the

nation's expanding consumption.

CAN CHINA SOAK UP ASIA'S GLUT?

With new gas piped from Russia due only toward end-2019, China is expected to ramp up imports of LNG, said Li.

China, the world's second-largest LNG buyer behind Japan, boosted imports 41 percent in 2018 to 54 million tonnes. That followed growth of almost 50 percent in 2017.

But the booming consumption in China is the lone bright spot. Asia is in the midst of a large supply glut that has dragged down spot prices for LNG by 60 percent since mid-2018, to below \$5 per million British thermal units (mmBtu).

(Graphic: Asia LNG supply vs GDP growth – tmsnrt.rs/2WT6FxI)

This could mean gas producers are in for a stretch of low Asian prices as demand growth, especially outside China, falls behind a supply surge amid an economic slowdown, resilient coal consumption in many emerging markets, and also the rise of renewables.

While demand growth outpaced supply between 2016 and 2019, new production – mostly from the United States, Australia and Russia – is expected to exceed consumption increases this year by more than 2 percent, according to industry data.

"China could not itself absorb the avalanche of ... projects," said Fereidun Fesharaki, chairman of energy consultancy FGE, in a note.

"The surplus can continue till end 2020 or early 2021," he said.

Despite the glut, analysts say Asia's spot LNG prices may have hit a floor around the current levels of \$4.5 per mmBtu.

"The marginal cash cost of LNG supply is circa \$4.50 per

mmBtu, which implies we are close to the price floor,” Bernstein Energy analysts said in a note this month.

(Graphic: Asia LNG price vs supply – tmsnrt.rs/2WUxqC1)

(Reporting by Chen Aizhu and Henning Gloystein; Editing by Christian Schmollinger and Tom Hogue)

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