There is ‘no real LNG supply glut,’ says GECF chief

A “realistic analysis” has shown that there is “no LNG supply glut” and if any surplus is experienced on the market, it will be “meagre” and the market should “rebalance”, said GECF secretary-general Yury Sentyurin.

“There is a recurrent narration and a common perspective among market players that the global LNG market would face a glut, which would persist till 2022. It makes sense when more than 115mn tonnes of LNG capacity are expected to come onstream between 2017 and 2022. Accordingly, there was a variety of forecasts on when this oversupply in the market is expected to end,” Sentyurin told Gulf Times in an interview.

As to what extent will these forecasts materialise, the GECF secretary-general said, “In fact, a reaction of market fundamentals is different from what was already forecasted and there is a need to wait and see how LNG supply and demand balance would take place in the coming years. The development of the LNG market in 2017 can be a good example.”

Despite the previously forecasted oversupply for the year

2017, global LNG trade reached 289mn tonnes, 10.3% higher compared to 2016. It means 27mn tonnes of additional LNG, which were mostly absorbed by the increase in demand driven by China and colder than normal weather in North East Asia.
Meanwhile, in 2017 the average price of spot LNG both in North East Asia and South West Europe markets increased by 25% and 30% respectively in comparison with 2016.
In fact, the market balanced both in higher quantity of traded volumes and level of prices. Consequently, in 2017, the glut was not observed in the LNG market as speculated.
Therefore, any realistic analysis on the subject of glut in LNG market needs to consider various aspects, Sentyurin noted.
First, projection about incremental capacity during the next five years could be tracked, as information about LNG plants are available and visible for most of market players (based on final investment decisions – FIDs). However, forecasting growth of demand is a difficult task that depends a lot on factors such as energy policies, prices, climate concerns and geopolitics.
The lack of FIDs for new LNG projects observed in the recent past, with only two FIDs taken in 2016 and one in 2017 (Coral FLNG of Mozambique), is an indicator of a probable supply shortage in the next five years.
Second, there is a difference between capacity, which is supposed to come on stream and supply of LNG volumes into the market because of the ramp of the projects and utilisation rates.
Third, an oversupply in the LNG market should result in lower prices. If the pretended oversupply by some forecasters combined with lower prices, has to happen and persist for a long period, the market could react through postponement of projects' FIDs, lower plant utilisations.
Oversupply in the market, Sentyurin said, can be absorbed by Europe as a "sink market", or new markets like China or South East Asia.
From the supply side, Sentyurin said, it makes sense that suppliers defer supplies by one or two years later through

under-utilisation of plant and shut-in of projects as reaction to the market condition.

“It is certain that GECF member countries will be there at the appropriate time, with the adequate volumes to satisfy the global markets’ need based on ‘win-win’ situation,” Sentyurin noted.