



Institute for Energy Economics
and Financial Analysis

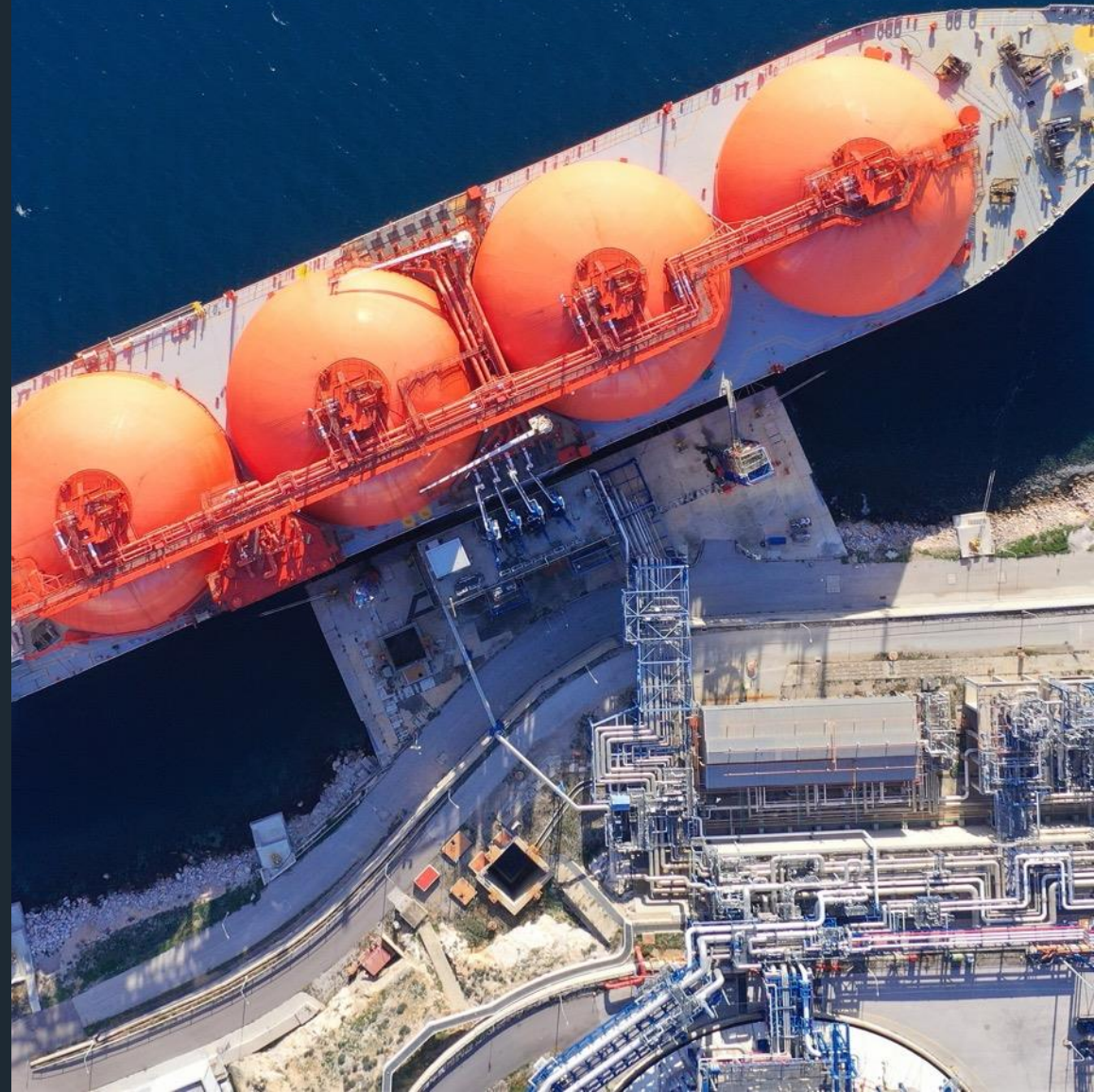
LNG Outlook for Asia

IEEFA Energy Finance 2024

Kuala Lumpur, Malaysia

Christopher Doleman, LNG/Gas Specialist

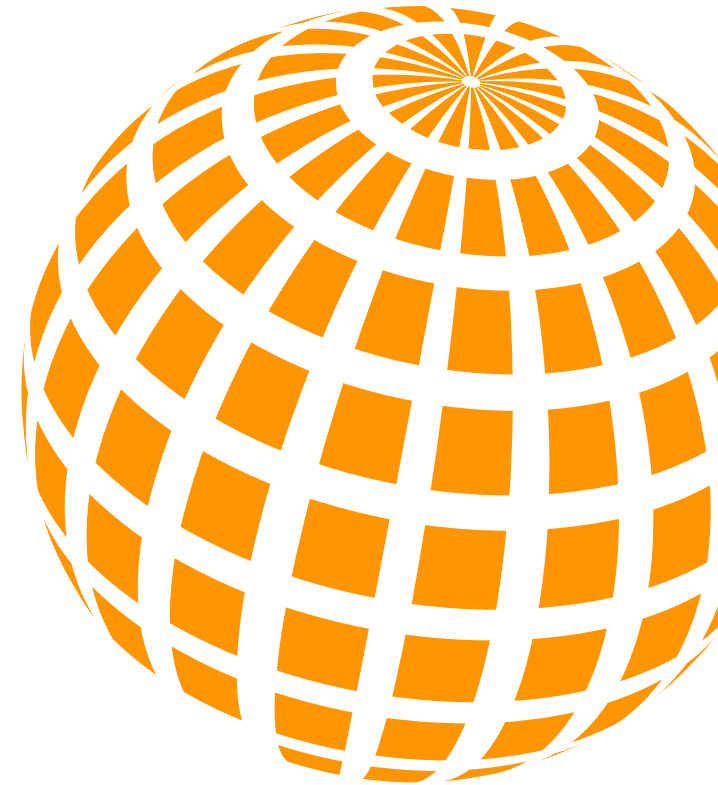
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About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends, and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

IEEFA's market-based research shows how the rise of the new energy economy, where renewable energy sources are steadily eroding reliance on fossil fuels, makes financial sense for investors, governments, businesses, communities and ratepayers.



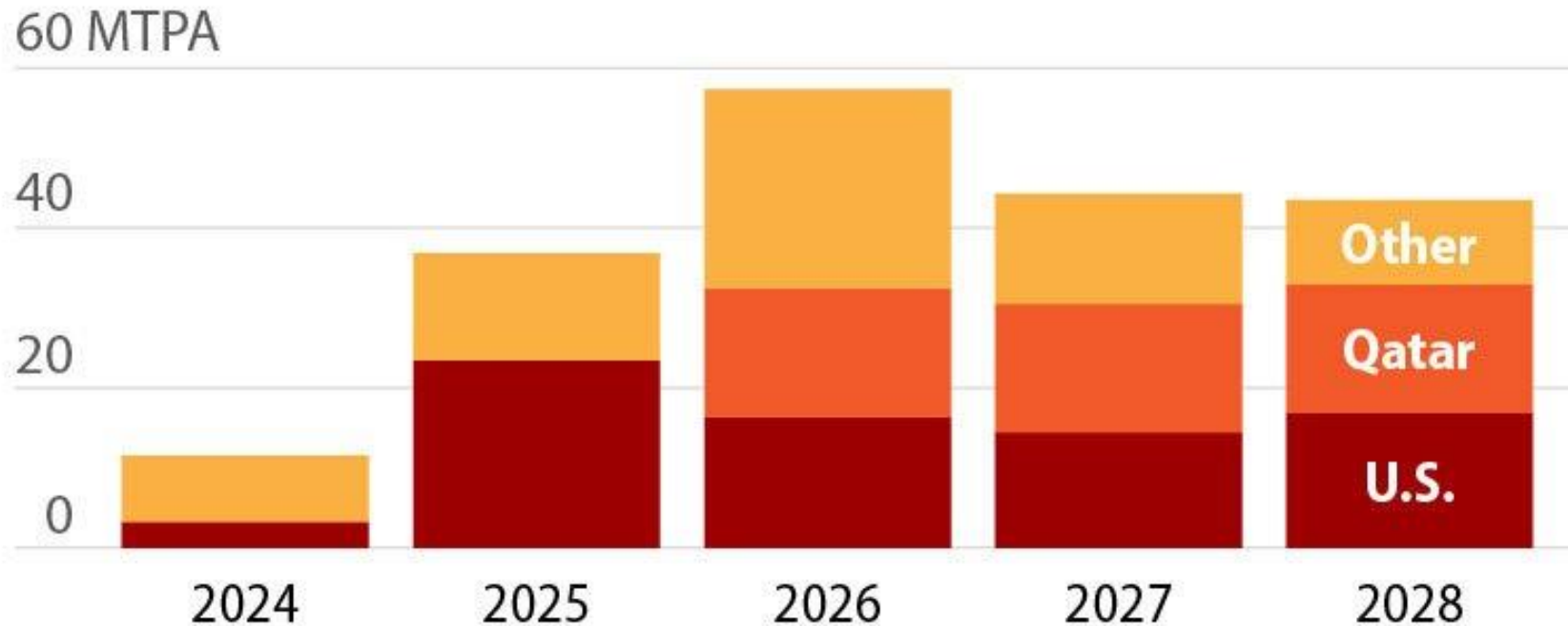
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Global LNG context

We're entering the largest growth phase in LNG history...

Global LNG Supply Additions 2024–2028

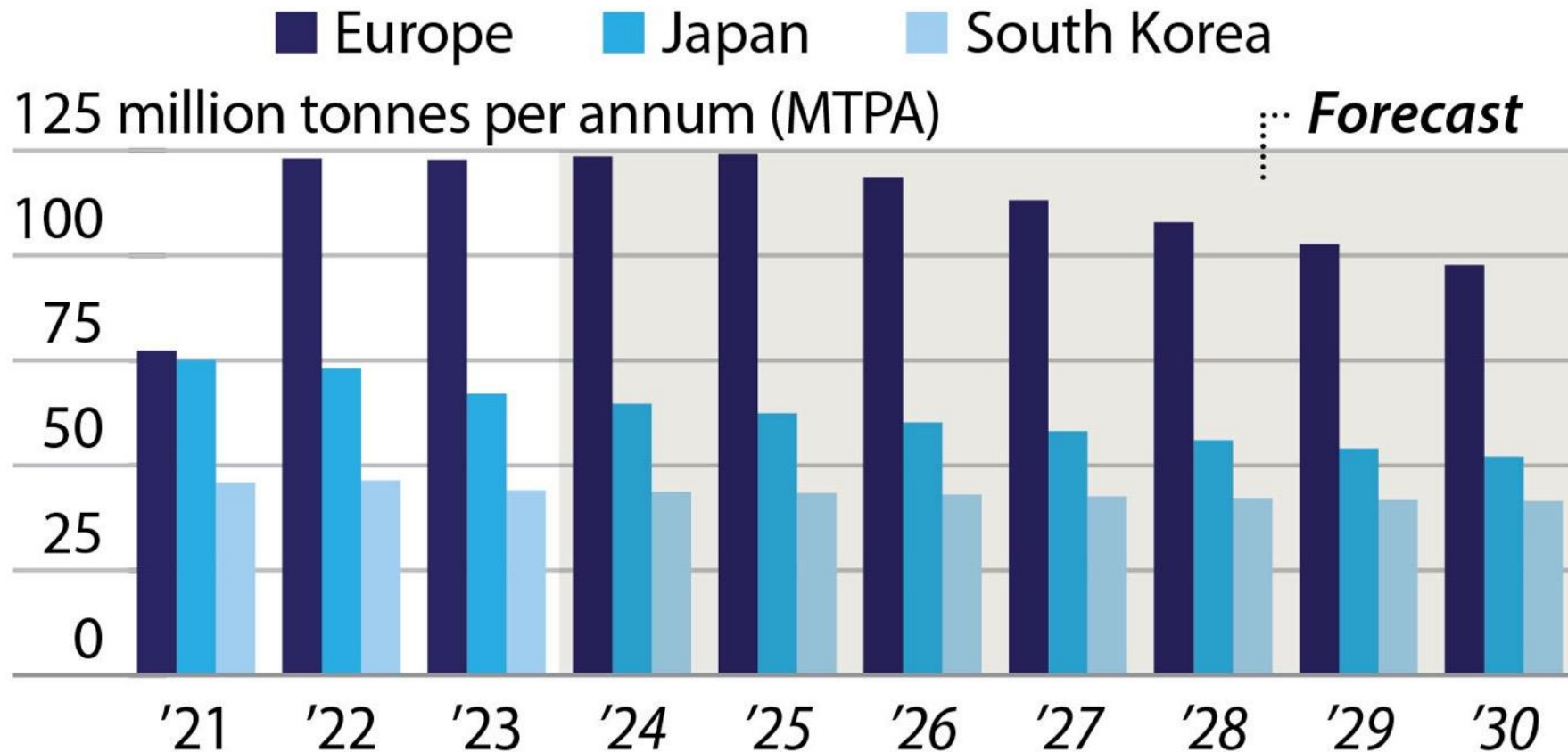
Projects under construction or approved by financially capable backers will add 193 MTPA over five years



Source: IEEFA estimates, see report for details

... while demand is set to decline in legacy markets.

LNG Demand to Fall in Key Importing Markets



Source: GIE, Kpler, Eurostat, UK ONS, MOTIE, KITA, META, IEEFA calculations

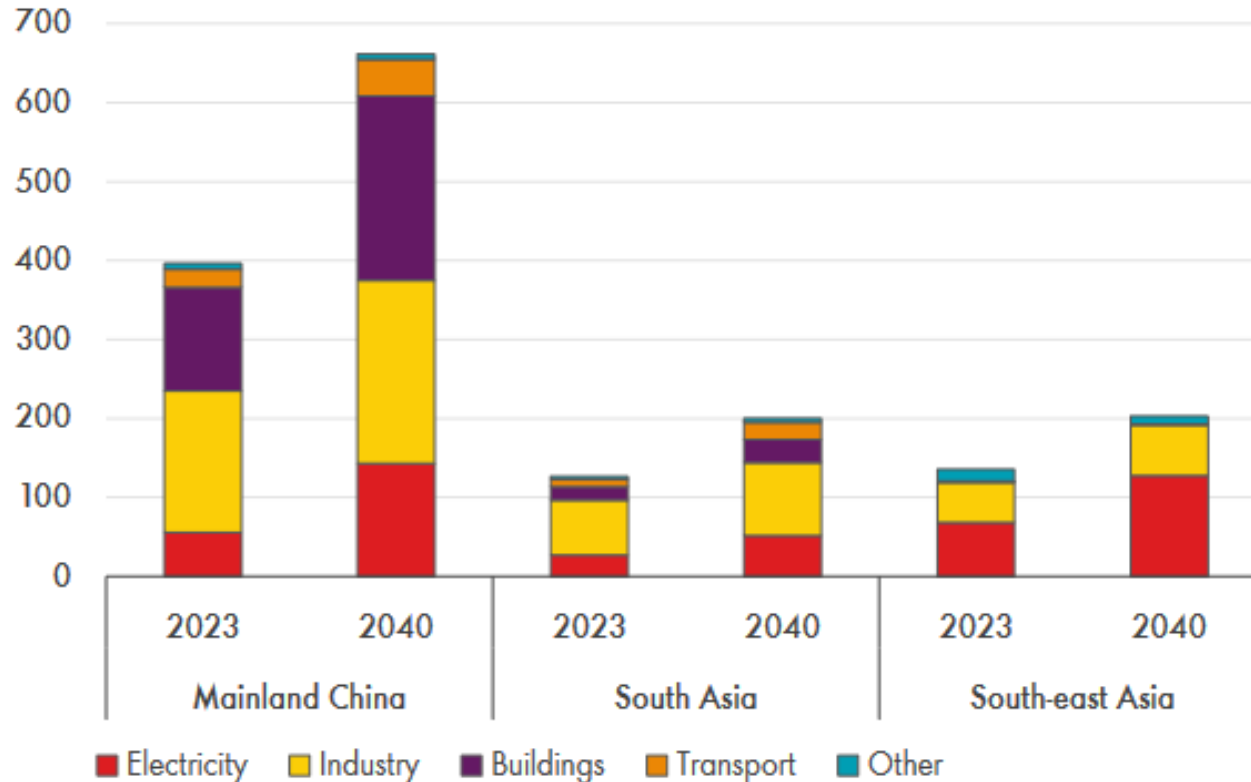
What does this mean for emerging Asian LNG markets?



Can emerging Asian markets absorb an LNG surplus?

Emerging Asia natural gas demand

BCM

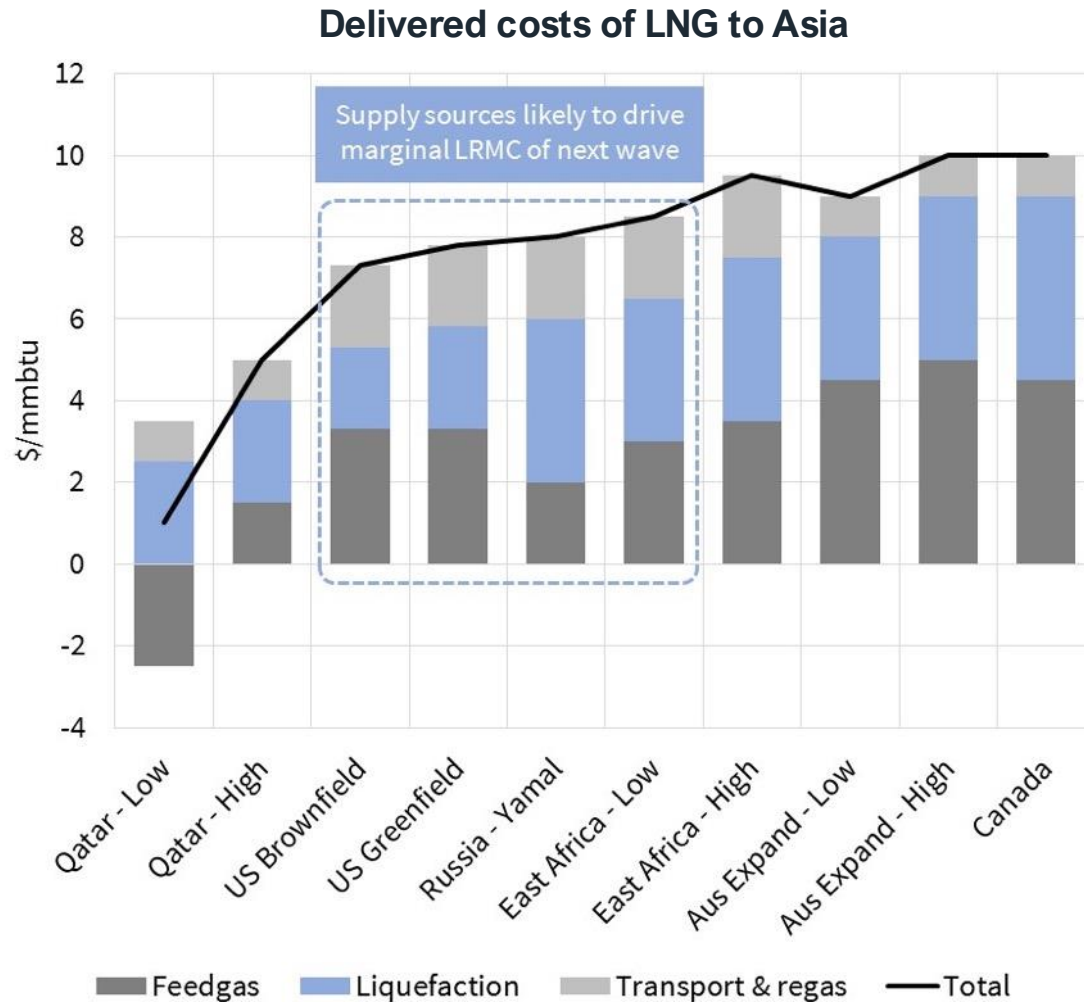


These countries pose an entirely new set of challenges compared to wealthier buyers. These include:

- Extensive project development timelines
- Less-creditworthy buyers with higher risk premiums
- LNG is too pricey for governments, end-users
- Greater price sensitivities
- Preference for domestic energy endowments
- Demand management policies
- Reliability concerns
- Merchant utilities adding to the LNG surplus

Source: Shell LNG Outlook 2024, interpretation of Wood Mackenzie data

Supply response likely to limit price downside



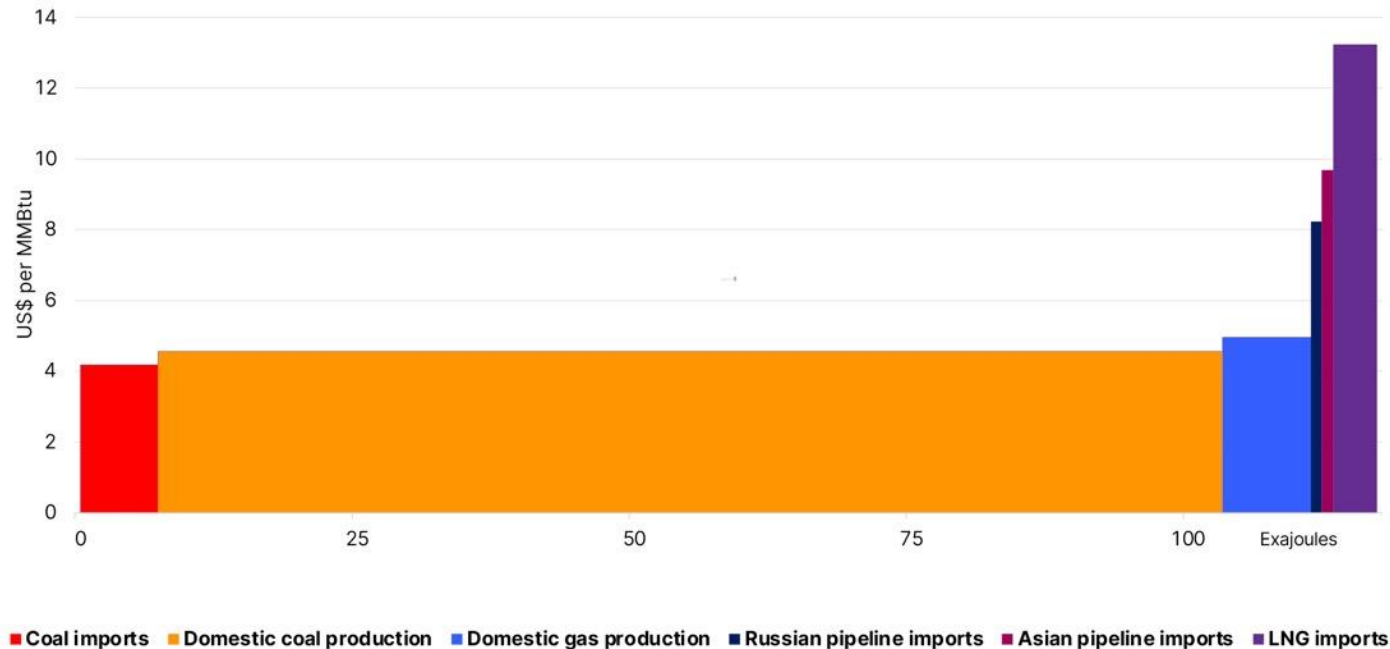
A curtailment response is likely to put a floor on prices. This floor:

- Will be determined by the cost of delivery to the marginal user, i.e. Asia
- Will converge around the marginal break-even cost of delivering flexible (US) LNG to Asia
- Will likely be too high to displace coal

Source: Timera Energy

Policy, price and pipelines likely to limit China's LNG imports

LNG prices would need to fall by over half to meaningfully displace China's coal supplies



LNG is too expensive to displace coal



Coal is its cornerstone of energy security and electrical reliability



Desire to limit gas imports to 50% of demand requirements



Domestically manufactured renewables are eroding coal's share in the power mix



Overcontracting by Chinese buyers may transform them into supply competitors



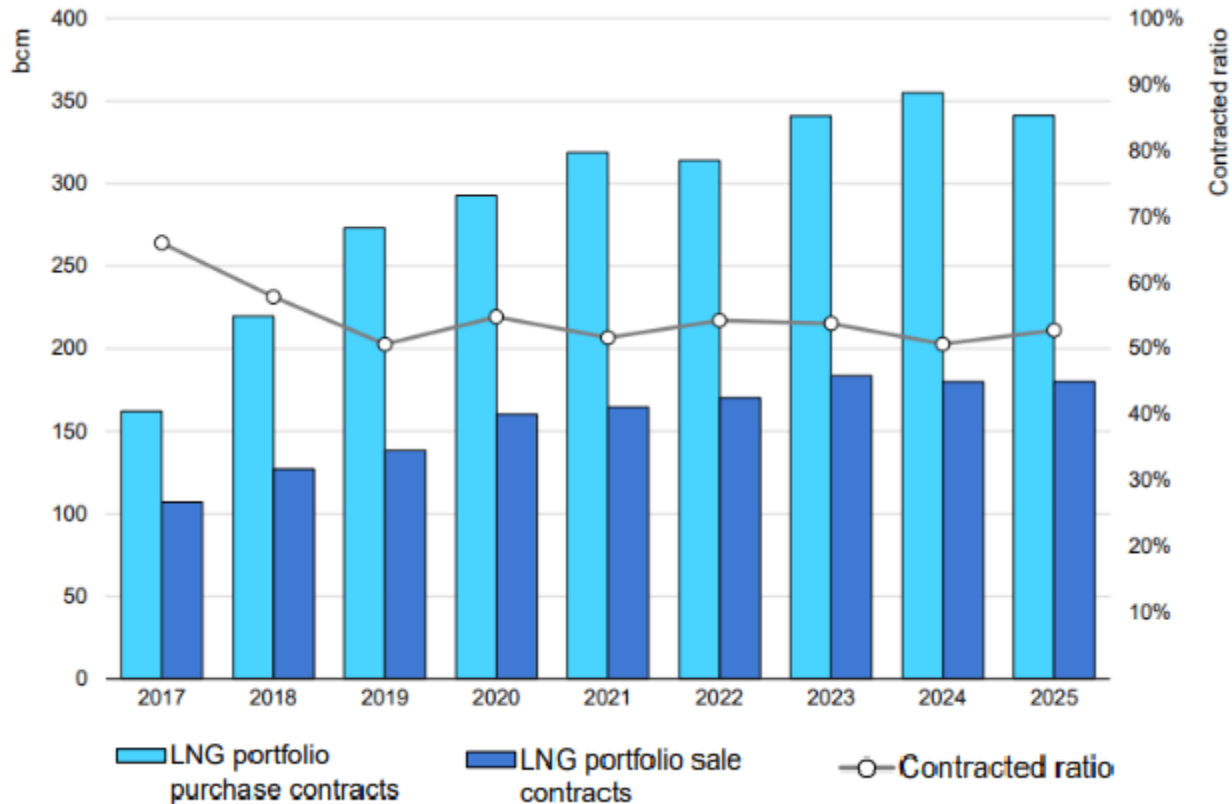
However, within these constraints, there is significant potential for LNG to replace liquid fuel use, particularly in transport applications

Sources: GACC, UN, NBS, ICIS, EI, IEA, company financial statements, IEEFA calculations. Note: Chart shows average wholesale supply costs for China's coal and gas supplies in 2023

Rise of the merchant utility as a competitive supplier

Portfolio players have been instrumental in taking on risk to underpin supply

LNG Portfolio Players' Contracted Ratio



- The rise of LNG traders and portfolio players has allowed new supply projects to be built without final consumers.
- Portfolio players were the largest signatories of new long-term contracts around the world.
- Their long-term commitments to buy LNG are growing faster than their agreements to sell it, increasing exposure to spot markets.
- This is creating a flood of homeless LNG that may need to be sold on the spot market
- However, traditional LNG buyers are becoming suppliers

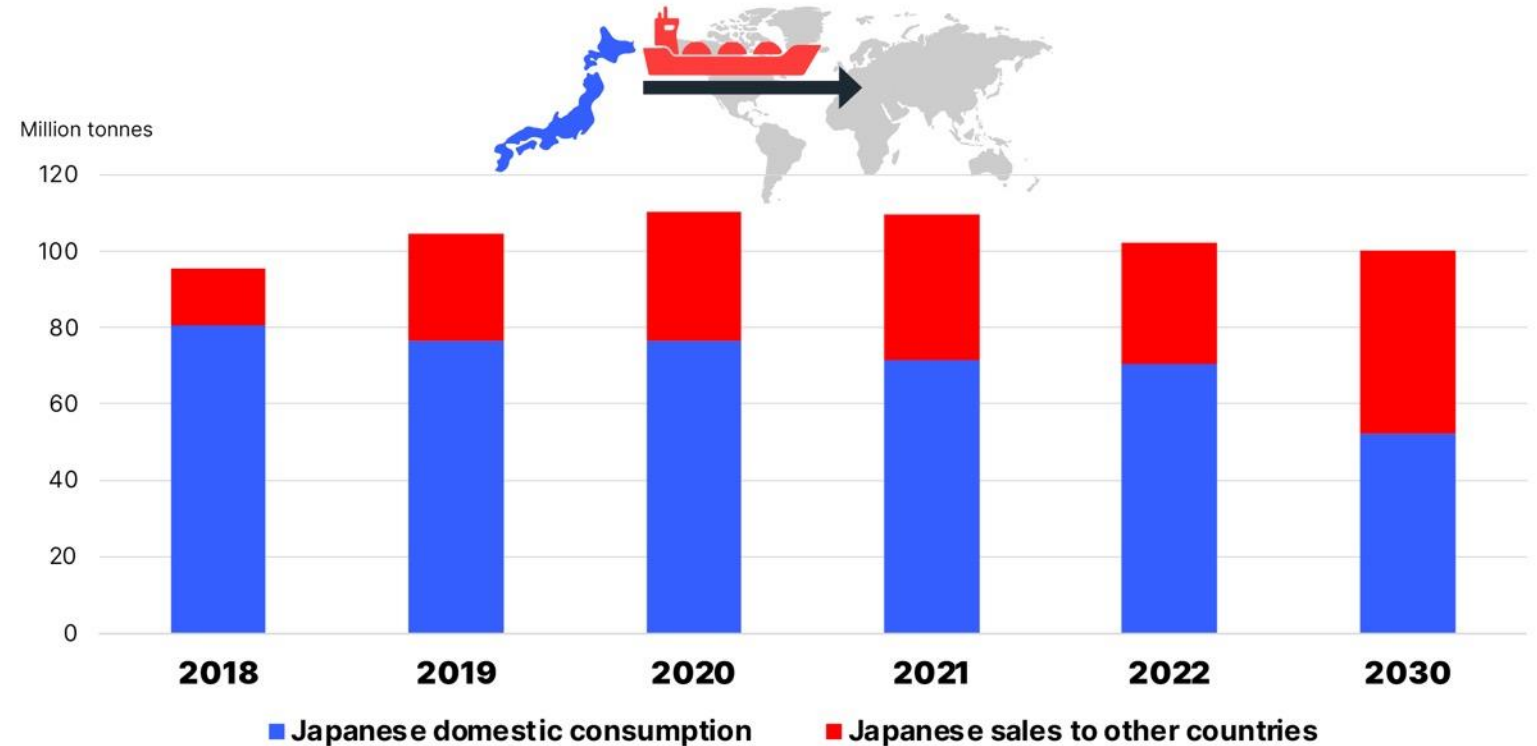
Source: IEA

Buyers are becoming more active in the LNG trading space

Traditional buyers see surplus LNG as an opportunity to trade LNG like portfolio players. This could:

- Put large-scale buyers, like China and Japan, in competition with traditional buyers, like marketers, traders, and portfolio players, for end users of their surplus LNG
- Further depress prices
- Drive surplus holders to cultivate demand across Asia

Japan's role as an LNG trader set to increase as domestic demand falls



Sources: JOGMEC, Kpler, IEEFA calculations based on METI Strategic Energy Plan and METI's LNG handling target. Note: Historical values are fiscal years, 2030 estimate is calendar year

Conclusions

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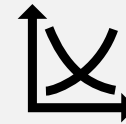
Supply capacity already under construction through 2028 may exceed long-term industry demand forecasts. The flood of new supply is likely to result in a global glut.

2



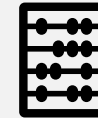
With demand set to fall in traditional markets, LNG suppliers are hoping for China, South Asia, and Southeast Asia to absorb the surplus.

3



Lower prices will elicit a demand response, but a supply response and structural barriers are likely to impede a rapid, sustained growth of demand, and limit the ability of these emerging LNG adopters to absorb the surplus.

4



The encroachment of merchant utilities into the portfolio space will add more competition for the emerging demand market, adding risk to those players reliant on spot volumes for their revenues.



Thank you!

Contact

Christopher Doleman

cdoleman@ieefa.org



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www.ieefa.org
