

OIL & GAS

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Expert call: Near-term LNG price likely to stay above US\$ 15/mmbtu

- LNG price to remain well above US\$ 15/mmbtu through Q1CY22 even assuming a normal winter and approval of Nord Stream-2 in Q1
- Market balance to tighten over CY23-CY25 with slower supply growth; prices to remain at or above oil parity level
- LNG price to ease post CY25 as the latest wave of project approvals start contributing

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We hosted Mangesh Patankar, Director, Gas and LNG Consulting from Wood Mackenzie's Singapore office. Key takeaways:

LNG price likely to stay above US\$ 15/mmbtu through Q1CY22: Even in case of a normal winter in Europe/Asia and EU approval for the Nord Stream-2 pipeline in Q1, LNG prices may stay above US\$ 15/mmbtu during the quarter. Prices are unlikely to return to sub-US\$ 10/mmbtu levels unless there is significant demand destruction or an accelerated buildup of volumes through Nord Stream-2.

Medium-term prices to remain at or above oil parity level: Market balance is likely to tighten over CY23-CY25. With slow investment decisions over CY15-CY18 and 1-2 years of construction delays due to Covid-19, supply is constrained. The projects approved over CY19-CY21 will not suffice to relieve this tightness.

Implications for contract structures: A tighter market could accelerate the move away from spot to long-term contracts. With increased volatility in JKM pricing, we may see growing acceptance of linkage to Brent and US Henry Hub rates.

Strong long-term demand....: Global LNG demand is likely to grow by 200mmtpa (4.4% CAGR) over CY20-CY30, above the current 370mmtpa liquefaction capacity. The Pacific basin will be the main demand driver (160mmtpa) and the rest will come from the Atlantic including the EU. The Asia Pacific will be another driver at 145mmtpa, with contribution from China (50mmtpa), SE Asia (50mmtpa) and India (10mmtpa).

...but LNG prices to ease: The latest wave of final investment decisions (FID) over CY19-CY21 for 120mmtpa of liquefaction capacity will support supply growth over CY26-CY28. There is no dearth of potential LNG supply but liquefaction plants take at least 4-5 years to be commissioned after the FID.

India to see limited demand growth over next decade: With a significant increase in domestic gas in the offing, LNG demand is expected to grow at a slower pace of 10mmtpa over the next decade from current demand of 27mmtpa.



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