

LNG price fall poses questions for sector

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Oil and gas prices have travelled in opposite directions recently, with crude hitting four-month highs and liquefied natural gas plunging to four-year lows.

Brent crude futures have climbed above \$68 per barrel, boosted by Opec supply cuts coupled with US sanctions against Iran.

Values would be higher if it were not for concerns about economic slowdown in China denting confidence and demand.

Recent data also showed manufacturing in Germany, Europe's largest economy, falling for a third month in a row. However, many commodity traders and analysts are hopeful oil prices will now stay around the current level for the rest of the year.

This view is supported by the stance of Saudi Arabia, which has signalled its backing for higher prices.

Meanwhile the picture for LNG is quite different, with Asian spot prices dropping to \$4.65 per million British thermal units.

This is not a long way off the 20-year low of \$4 for that part of the world and compares with almost \$12 at Christmas.

Abnormally low Asian LNG prices have been caused by unseasonably warm weather just as new capacity comes on stream.

And there is a lot more production in the pipeline, with the US sector targeting heavy new investments. This week Shell and Energy Transfer said they would push ahead with plans to make the Lake Charles LNG terminal a major export facility, adding one more candidate to the project queue in North America.

US export capacity is now up to 66.2 million tonnes per annum and is set to double by 2030.

In Australia too, Shell is getting close to shipping its first commercial LNG cargo from the Prelude field. A first cargo of condensate was exported from the project's giant Prelude floating liquefied natural gas vessel off Western Australia in recent days. The adjacent 8.9 million tpa Ichthys LNG project, operated by Inpex of Japan, started up last year.

And Woodside Petroleum is determined to bring on more, pressing ahead with the Scarborough and Browse field gas projects.

In November Australia exported 6.8 million tonnes of LNG, nudging Qatar off the top spot to become the world's largest supplier.

However, Qatar — which still has the world's largest non-associated recoverable natural gas reserves — recently left Opec to underline its commitment to LNG over oil.

There are LNG projects being planned and upgraded all over the world including Russia, the Caribbean, Mozambique and even the Mediterranean with the latest gas finds there. Global demand for gas rose 27 million tonnes to 319 million last year, but a further 35 million worth of supply will enter the market in 2019. China is moving ahead strongly with plans to use gas much more, as are other Asian countries including India. But will global demand grow quickly enough to push up prices sufficiently to justify the amount of new investment being readied for LNG?

There are compelling reasons why gas is a much cleaner fuel to burn in power stations than carbon-heavy coal, even if some cite wider arguments about the extent to which new LNG volumes can be justified under the 2015 Paris Climate Change Agreement.

Most in the industry see LNG's market prospects as bright, though based on expectations of healthy demand growth — even if the current price plunge brings pause for thought.