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Contents

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Tight outlook: Europe's LNG buying spree poised to clash with China's market return

- Return of China to spot buying set to compete with Europe's need to fill up storages for next winter
- Europe's push for new regasification infrastructure jeopardises continent's climate goals, critics say
- Limited amount of new liquefaction capacity due on stream will keep supply tight; five FIDs expected
- Tight market also limiting availability of LNG carriers as most units are committed on long-term basis

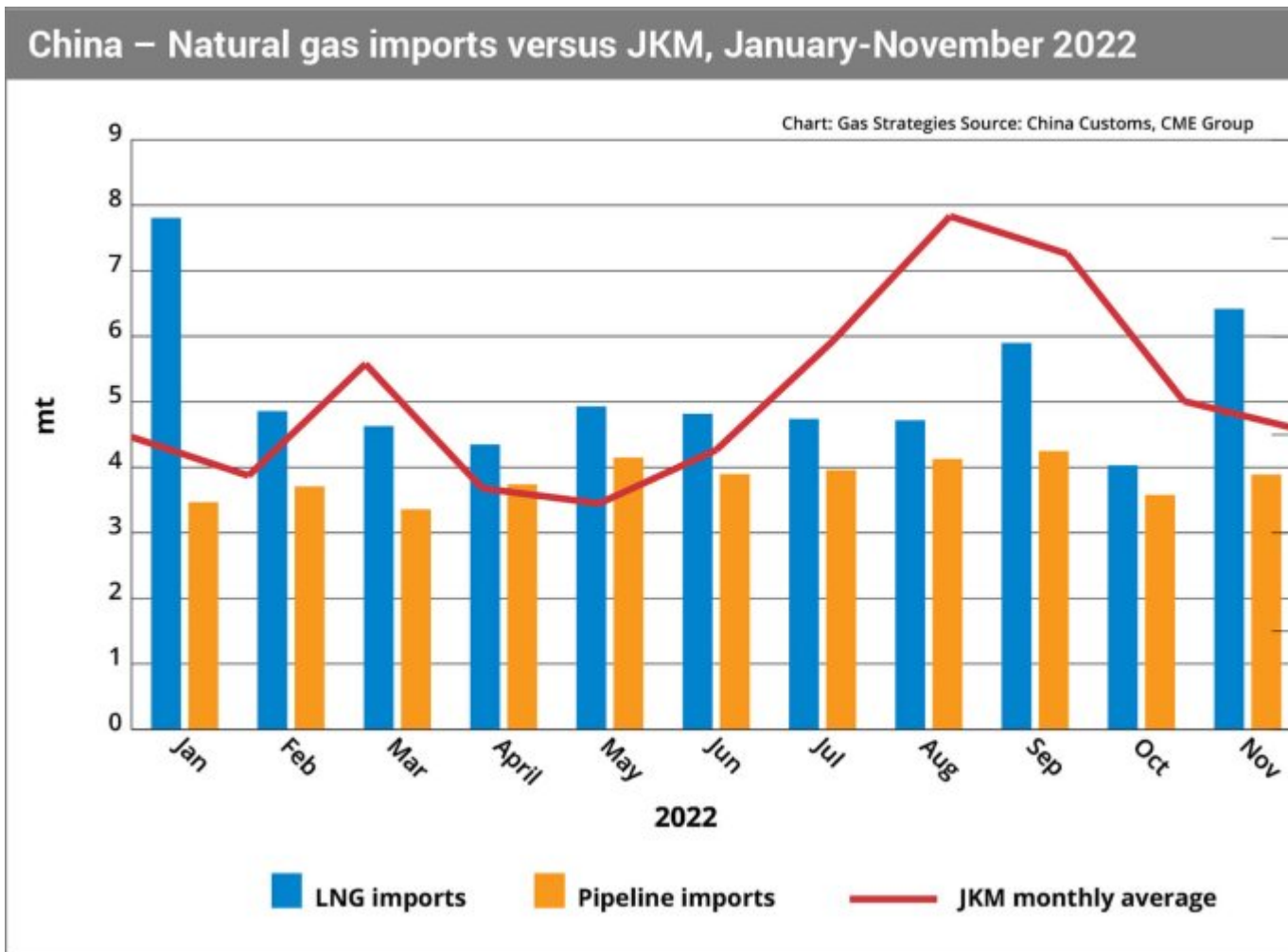
Wholesale gas prices in Europe may have fallen back to more sustainable levels compared to last summer's record highs, but uncertainty continues to pervade the global LNG market. As Russian pipeline gas flows to Europe slip lower and lower, how big a role LNG can play in 2023 in ensuring the continent has enough gas in storage next winter is up for debate, with a potential rebound in China's demand for spot LNG following the relaxing of Covid-19 restrictions in the country by Beijing set to be a key driver for the market this year, industry sources tell LNG Business Review.

China eases Covid-19 curbs

According to Joey Chua, LNG market and data analyst at independent shipbroker Simpson Spence Young (SSY), strict Covid-19 restrictions and record-high [1] Russian pipeline gas flows to China in 2022, estimated at ~15 Bcm compared to ~10 Bcm in 2021, "curtailed the north-east Asian country's LNG appetite, reinstating Japan as the world's largest LNG buyer after China took over [2] [Japan's] position the year before." The easing of Covid-19 curbs by Beijing, which started last December [3], "could stimulate gas demand and push some Chinese buyers back into the spot market," she tells LNG Business Review.

Though the strength of Asian LNG demand in 2023 will depend on various factors, such as weather conditions over the next summer and winter, as well as supply availability against planned and unplanned outages at liquefaction facilities, "LNG is expected to remain an essential component of the region's energy mix and a highly sought-after fuel," says Chua.

"Chinese LNG demand collapsed in 2022 [but] we will see a very strong rebound that will gather pace over the first half of the year," an industry expert tells LNG Business Review. Demand has the potential to rise back to 2021 levels, but "much will depend on price," he adds, highlighting that a key factor in the Chinese LNG decline last year "was the record level of prices in the spot market."



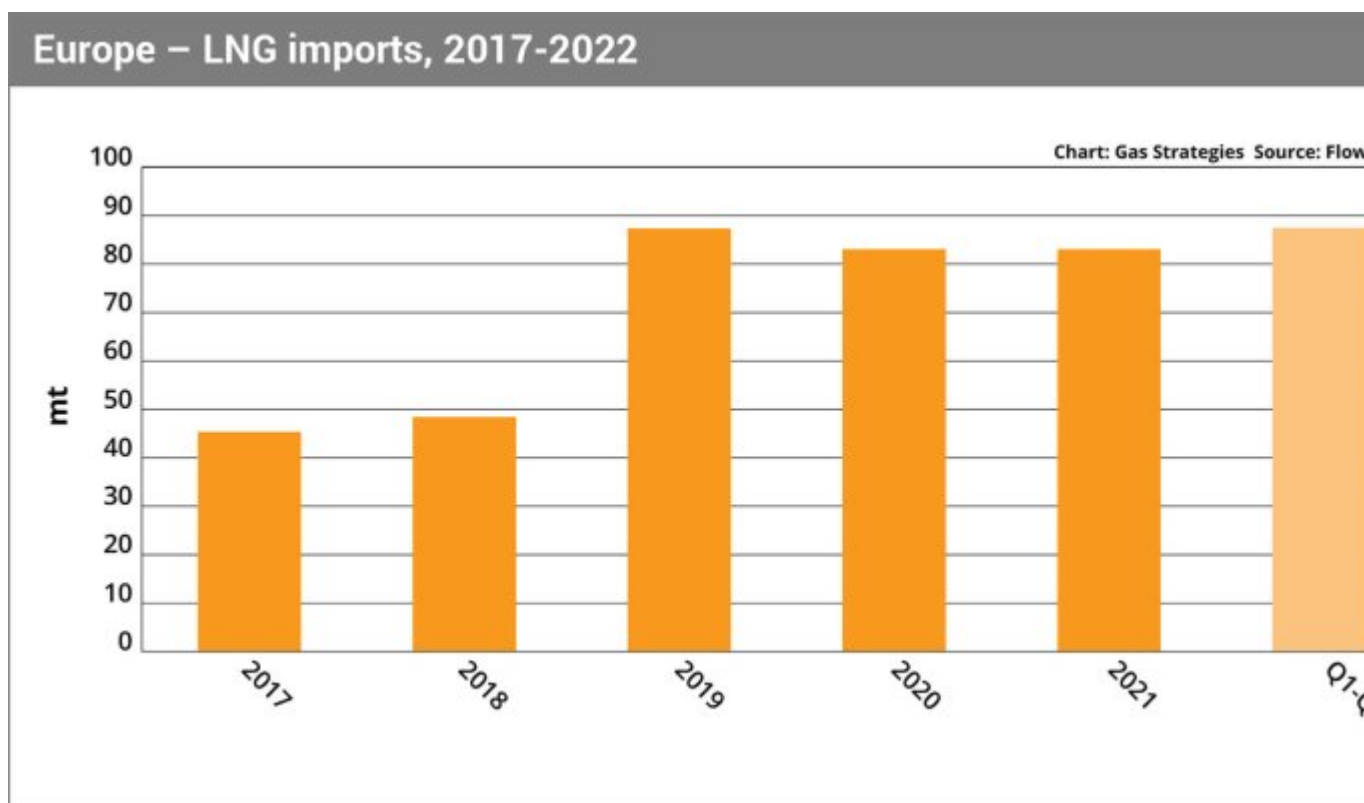
[4]

Overall, “China’s climate targets [5], the 14th Five-Year plan, and the desire to move away from coal while expanding renewables on a grand scale mean there will be a need for more gas,” the industry expert says.

Europe’s stranded assets risk

In Europe, where LNG imports more than doubled in Q3 ‘22, rising to 26.32 mt from 12.66 mt in the same quarter in 2021, an additional 195 Bcm – or ~143 mtpa – of additional LNG import capacity has been announced to come online between now and 2026, as the continent sheds its long reliance on gas imports via pipeline from Russia, according to a report [6] published last December by non-profit research organisation Global Energy Monitor (GEM). While the floating storage and regasification units (FSRUs) that serve the new terminals at Eemshaven [7] in the Netherlands and Wilhelmshaven and Lubmin [8] in Germany have now begun receiving cargoes, GEM warns of the risk of stranded regasification assets later in the decade.

“An awful lot of time, money, and cutting of environmental guardrails” went into Europe’s “big LNG capacity bet” in 2022, Greig Aitken, Europe Gas Tracker project manager at GEM, said in the report. “Limited and expensive global LNG supply remains the fundamental problem that these new projects cannot overcome in the short-term. When supply tightness eases in 2026, this excessive capacity infrastructure would need to be used to avoid becoming stranded assets, but by doing so, Europe’s climate goals will be put in jeopardy as they require substantial cuts in gas consumption.”



[9]

For her part, Esther Ang, head of LNG at Swiss-based multi-commodity trader MET Group, tells LNG Business Review that, as China loosens its Covid-19 policy, “we see that Chinese LNG demand will remain significant and a key part of determining sentiment on the LNG industry.”

MET Group, which is active in Europe’s gas and power markets, holds 3.4 TWh of gas storage capacity in Germany and imported just over 3 Bcm, or ~2.2 mt, of LNG through Croatia, Greece, Spain, Belgium and the UK in 2022. It recently announced [10] it had secured long-term LNG import capacity at the new Lubmin terminal on Germany’s Baltic Sea coast.

“With changes in policy and citizens returning to work places, we can expect some natural gas demand to pick up in China,” says Ang. “The global LNG market appears relatively balanced [though] a tightness in terms of gas in Europe is likely to remain mid-term, subject to weather.”

The current tightness in global LNG balances is the result of Europe’s need to offset lost Russian gas supply, but also declining gas production in the Netherlands, highlights Nick Boyes, senior gas analyst at

trading firm Axpo. In April last year, the Dutch government said [11] that despite supply concerns and gas price volatility in the wake of Russia's war in Ukraine, they still planned to shut Groningen, Europe's largest gas field, in 2023 or 2024 due to concerns over safety and earthquakes.

"We see LNG supply growth as limited until 2024 and further accelerated growth from 2026, however, we expect demand growth to match supply growth mid-decade from oil-and-coal-to-gas switching globally," says Boyes.

Extra liquefaction capacity

According to Chua, though "at least five" new liquefaction projects in the US and Mexico are expected to take a final investment decision (FID) in 2023, these projects will not begin production "until at least 2026 onwards." They include Mexico Pacific's 9.4 mtpa Puerto Libertad facility [12] in the Mexican state of Sonora, Energy Transfer's 11 mtpa Lake Charles, NextDecade's 16 mtpa Rio Grande [13], Semptra Infrastructure's 13.1 mtpa Port Arthur Phase 1 [14] and Delfin Midstream's 13 mtpa Delfin LNG offshore project.

Limited new liquefaction capacity means that "LNG buyers will have to vie for a finite amount of supplies, with volumes heading towards whichever region is able and willing to pay up," says Chua.

A second industry source agrees: "The market will remain tight in 2023 and 2024 because of the limited amount of new liquefaction capacity due on stream." This year, new capacity is scheduled to come through the third, 3.8 mtpa train at the BP-operated Tangguh facility in Indonesia [15], while the floating production, storage and offloading (FPSO) vessel for the Greater Tortue Ahmeyim [16] floating LNG project offshore Senegal and Mauritania is set to add 2.3 mtpa.

Additional supply – around 6 mt – should come from the restart of Freeport LNG, which appears to be on track to re-start production [17] within weeks following the June 2022 explosion that led to one of the costliest outages in the LNG industry's history, and Calcasieu Pass, which by March will be operating at full capacity for 12 months, while an extra 2 mt is expected from the Snohvit project in Norway, which restarted in June last year.

Another 2 mt is expected to be supplied by the Eni-led Coral South floating LNG (FLNG) facility in Mozambique, where a first, partial cargo was lifted in November 2022 [18]. Capacity growth could reach 22 mtpa if performance improvement at other existing LNG terminals, where output was down in 2022, is taken into account, the industry source stresses.

Further down the line, major projects in North America, such as the 14 mtpa LNG Canada facility in British Columbia and, in the US, the 18.1 mtpa Golden Pass project in Texas – an ExxonMobil and QatarEnergy joint venture – as well as the 6.8 mtpa Phase 1 of Venture Global's Plaquemines project in Louisiana, are set to start-up in late 2024. The first train of Russia's 6.6 mtpa Arctic LNG 2 project could also be operational by then, says the industry source. "It was scheduled to start up in late 2023 but looks certain to be delayed," he explains.

In the meantime, "Europe's demand will continue to be strong with the war [in Ukraine] unlikely to end any time soon [and] imports into the Americas were well down in 2022" to below 7.3 mt, "so a recovery there would further strengthen demand," he adds.

When it comes to Chinese LNG demand, it will "likely remain largely price-dependent [as] the still-elevated LNG prices amid relatively strong global demand and tight supply availability could put a lid on

Chinese demand in the presence of cheaper alternatives such as coal,” Chua argues. She notes that some Chinese buyers “were in early January enquiring bilaterally about cargoes for deliveries in April and May amid a substantial inter-month backwardation, where April and May deliveries were priced in the sub-USD 20/MMBtu level and at a significant discount to prompt deliveries.”

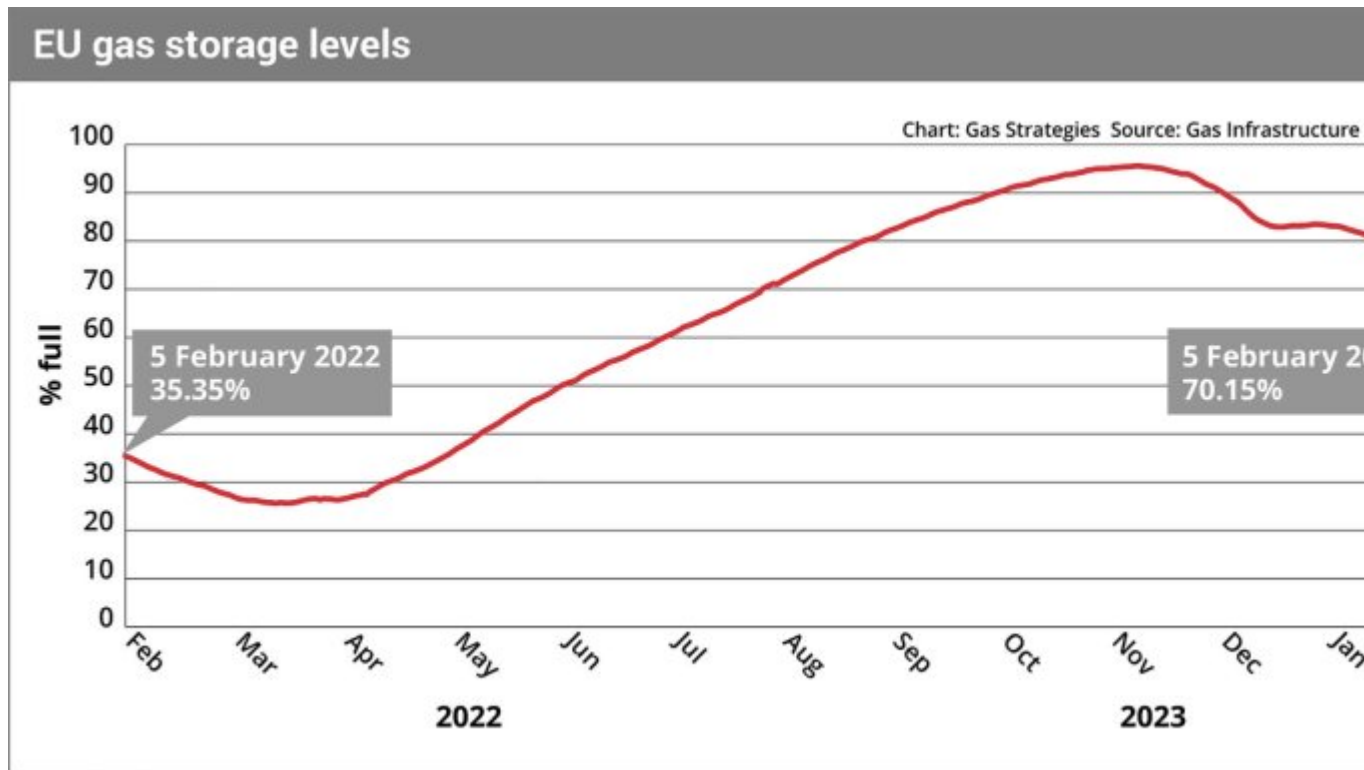
Russian LNG flows

Meanwhile, “unless sanctioned, the expectation remains that Russian LNG will flow to Europe [19],” Ang says.

“There has been no indication that Europe has any intention of reducing Russian LNG imports nor does Putin seem to want to use LNG to put pressure on Europe in the way he has with pipeline imports,” the second industry source agrees. Having banned Russian-owned or controlled ships from its ports, the UK “is the only European country that has halted imports of Russian LNG. The rest of Europe has continued to import Russian LNG,” with volumes increasing in 2022 by 4.32 mt year on year to 15.52 mt, he adds.

“The LNG supply-demand situation is heavily dependent on the trajectory of the Russia-Ukraine war, with 2023 being the first full year that Europe will receive minimal gas supply from Russia,” Chua points out. “Pressure to replenish gas inventories post-winter to hit storage targets in the near-absence of Russian gas will likely push Europe to compete with Asia for a limited pool of LNG supply.”

According to Gas Infrastructure Europe (GIE) data, storage facilities in the EU were 70% full on 5 February compared to just 35.3% on the same day in 2022. “Gas storages in Europe are currently enjoying a very healthy inventory as we move into mid-Q1,” says Ang. “What will happen for next winter 2023-24 will be mostly weather-driven – Europe is still missing baseload energy volumes,” she adds.



[20]

Uncertainty over market tightness moving forward is also affecting the freight market, Scott Leong, LNG shipbroker at SSY, tells LNG Business Review: “Whilst physical demand-supply forecasts suggest ample freight, the behavioural aspect amongst the traders within portfolio players has caused physical freight tightness in the market. This is reflected in the physical commodity space where the volatile swings in LNG prices have created significant opportunity costs if physical freight is not available on hand.”

Moreover, “head owner vessel availability in 2023 and 2024, especially for the modern units, is in tight supply,” adds Leong. “Most of them have been committed on longer term basis, and this has tightened the space incredibly.”

Asian demand picks up

China aside, the rest of Asia is also likely to continue showing interest in securing LNG supplies. According to Chua, north-east Asia, including Japan, South Korea and Taiwan, “is expected to continue accounting for a huge portion of global LNG demand, though factors including the availability of alternative fuels, such as nuclear and coal, could influence actual LNG demand from the region.”

She adds: “Growing ambition by market players, including end-users in north-east Asia to optimise their portfolio, especially in the presence of inter-basin arbitrage opportunities, may encourage them to hold on to vessels in order to afford them greater flexibility on the destination of their cargoes.”

In particular, Thailand is expected to remain an active LNG spot buyer in the next three years, ahead of the start of PTT's 20-year sale and purchase agreement (SPA) with Cheniere [21] for 1 mtpa in 2026.

"State-owned buyer PTT has been especially prolific in recent months, issuing eight tenders since November last year to buy as many as 50 spot cargoes for delivery to Thailand," Chua explains. Declining domestic gas production and limited term volumes have been the main drivers of Thailand's robust spot LNG demand. However, "it has at times not awarded cargoes when offers were above the government's mandate," Chua adds.

Meanwhile, "high LNG prices are expected to keep typically price-sensitive buyers, such as Indian firms, on the market sidelines this year," Chua anticipates.

Higher-than-usual spot LNG prices in 2022 have curbed Indian buyers' spot buying activity, turning them instead to relatively cheaper alternatives, such as furnace oil, naphtha and LPG. However, "as most importers have over-imported in 2022 in response to the Russia-Ukraine conflict, and also in anticipation of a [colder] La Nina winter [22] for the 2022-23 season, we expect some adjustments by some counter-parties in terms of their imports for the new financial year in 2023, which may in turn also cause some changes in the freight balance this year," Leong concludes. - BB

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