



All Prices	OPEC Blends	Canadian Blends	U.S. Blends	1D	1M	3M	1Y	ALL CHARTS	Heac	1 hour	3 hours	3 days
WTI CRUDE	63.17 ▼	-0.14	-0.22%	LOUISIANA LIGHT	67.98 ▼	-0.58	-0.85%		2.98		Libya's NOC Restarts Oil Fields	
BRENT CRUDE	68.58 ▼	-0.03	-0.04%	BONNY LIGHT	68.87 ▼	-0.83	-1.19%		2.95			
NATURAL GAS	2.938 ▼	-0.003	-0.10%	MEXICAN BASKET	58.39 ▼	-0.64	-1.08%		2.92		US Orion To Develop Gas Field In Iraq	
MARS US	63.47 ▼	-0.93	-1.44%	NATURAL GAS	2.938 ▼	-0.003	-0.10%				U.S. On Track To Unseat Saudi Arabia	

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# New Importers Keep LNG Markets Tight

By [Alan Mammoser](#) - Jan 20, 2018, 2:00 PM CST



As the [U.S.](#) and Australia join Qatar as major natural gas exporters, the LNG supply surge that began to materialize in 2014 continues. Yet despite growing supply, the long-anticipated glut in global LNG markets hasn't occurred.

Indeed, physical markets haven't loosened, but remain tight as global demand continues to rise. This partly helps to explain this winter's spike in Asian spot market prices, with the spread between European and Asian spot prices rising from almost nothing last summer to between \$3 and \$4 per MMBtu.

The largely unexpected rise in global demand is explained in a new report from Columbia University's Center on Global Energy Policy. In "They Might Be Giants: How New and Emerging LNG Importers Are Reshaping the Waterborne Gas Market," researchers Akos Losz and Teddy Kott identify key demand and price factors shaping today's LNG markets.

Losz and Kott's analysis begins with the observation that when global supply started taking off in 2014, European imports did not increase significantly during the period from mid-2014 through late 2017. They expected to see a large increase in cargos to Europe during a period of global oversupply, but this did not occur.

"Europe's hubs from Italy to England function like a global swing buyer," reports Losz, explaining how the continent's flexible gas hubs can absorb additional LNG when supply exceeds demand elsewhere.

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As the researchers continued to pinpoint the cause of physical tightness in LNG markets, they tracked shipments to a group of small, relatively new importers. Here they found a surprising new source of demand. A dozen countries, each individually insignificant in scale, were collectively absorbing a large amount of the supply growth during the past three years. They are spread across Eurasia and the Caribbean, including Egypt, Jordan, Pakistan, Kuwait, UAE, Thailand, Indonesia, Singapore, Poland, Lithuania, Jamaica and Malta. Among them the largest importer, Egypt, accounted for just 2.3 percent of global imports in the first three quarters of 2017.

As an unexpected source of new demand, this group of emerging importers accounted for about 11 percent of global LNG trade as of the end of September 2017, up from just over 3 percent in mid-2014. By comparison, China — up until the third quarter of last year — accounted for 12 percent of global LNG consumption, although its recent demand spike has likely boosted its market share a few percentage points higher this winter. While booming Chinese demand has captured the headlines, the emerging dozen have accounted for nearly 60 percent of net global demand growth since mid-2014.

"Back in 2014, who would have foreseen another China appearing out of nowhere in the global LNG market?" asks Losz. "Expectations of oversupply would probably have been tempered dramatically."

According to Losz and Kott, what's facilitated the rapid opening of this new market segment is the expansion of a worldwide fleet of floating storage and regasification units (FSRUs). These ocean-borne vessels reduce a country's initial investment to access the waterborne market. Up until 2014 it was thought that becoming an LNG importer would require 3-5 years lead time and a large capital investment. Now, LNG regasification can be achieved with a leased FSRU, requiring a smaller capital outlay and shorter lead time. Their development has in many cases been supported by multilateral organizations such as the World Bank.

Losz thinks that market tightness, with demand rising to meet or exceed available supply, is in large part due to the rise of the "emerging" group of countries. This, in turn, is affecting price volatility.

***"It behaves like billions of tiny solar cells, all connected in parallel."***

— Lawrence Berkeley National Laboratory

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"Part of the reason for the seasonal price swing is the lack of sufficient gas and LNG storage capacity in China," he says. "But I think this seasonal price volatility is also an indication that, at least seasonally, the market is still tight, and that the full-on oversupply has not quite arrived yet."

He does foresee some market loosening in the next 2-3 years, with a surplus leading to more predictable price

movements. He bases this expectation upon general uncertainty about whether demand will continue to increase at rapid rates in China, India, and among the new importers, even while the export capacity of the big producing countries continues to increase in the next couple years.

Among the 12 'emerging' importers, Egypt, Jordan and Pakistan were the leaders. Pakistan is probably the fastest growing right now, having just opened one FSRU terminal and planning for two more. But Egypt, and possibly Jordan, will likely disappear from the group as they access nearby Mediterranean gas sources. Indonesia, Thailand and Singapore, as well as other smaller importers such as Malaysia, could see continued growth, but demand within the 'emerging' group as a whole may be tapering.

"Unlocking a second wave of emerging importers will be more challenging than the first wave," says Losz. In their report, he and Kott point to more complex infrastructure challenges and more political risk in other African and Southeast Asian countries looking to join the LNG importing club.

"The question going forward is, will another group of importing countries emerge in the next 2-3 years?" he asks.

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Losz says that Bangladesh is likely to enter the emerging group soon, with two FSRU terminals starting this year. Sri Lanka, Vietnam and the Philippines are at this point possibilities, while African candidates such as Ghana and Ivory Coast will need more time to develop import capacity.

Much future demand growth depends on what happens in China, India and the emerging markets, so it's hard to predict.

"My expectation is that we'll still see some amount of surplus in the next 2-3 years," says Losz. "But demand could continue to surprise to the upside, making this period of surplus shorter than most expected."

Should a period of sustained surplus occur, market watchers can expect tighter spreads among regional spot markets and less volatile seasonal price swings.

By Alan Mammoser for Oilprice.com

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