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LNG in Market Outlook

Covid-19 adding to challenges in global LNG market

The Covid-19 outbreak is having a large impact on the global LNG industry. Cargo cancellations have begun, reacting to the drop-in demand amid an already weak market. Some cargoes that are on the water are having trouble finding a home: the latest news indicates that more than 20 cargoes are currently being used as floating storage and that at least 15 cargoes have been diverted from China.

Spanish lifters of US volume have cancelled cargoes for April and May due to weak supply-demand fundamentals even though margins from the US to Europe still theoretically give some room for maneuver. Other lifters are looking closely at following suit beyond April due to a combination of an already weak market and the drop-in demand due to the virus. Discussions have been heard with Cheniere, Cameron and Freeport.

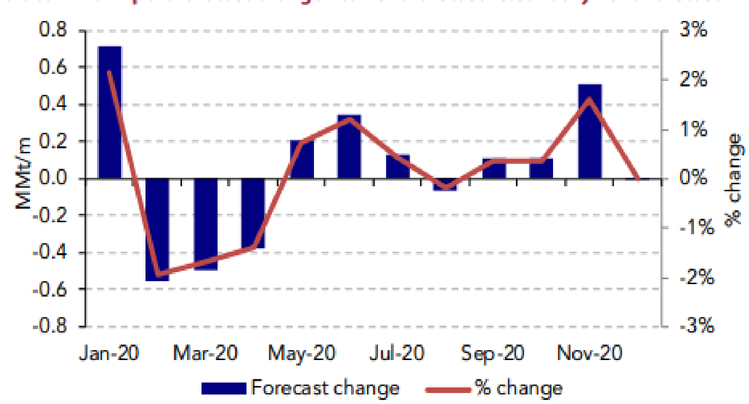
There are a wide range of buyers from traders to end-users looking to cancel. Some Australia projects also appear to have issues with off takers, especially for contracts with Chinese players; however, production levels, at least for now, are expected to remain steady.

The Netherlands announced they will be cutting supply from Groningen by more than originally expected to prevent earthquakes. Such a decline is indicative of a belief around the availability of cheap gas. Malaysia's Petronas is also expected to cut back production from March, resulting in a loss of four cargoes per month.

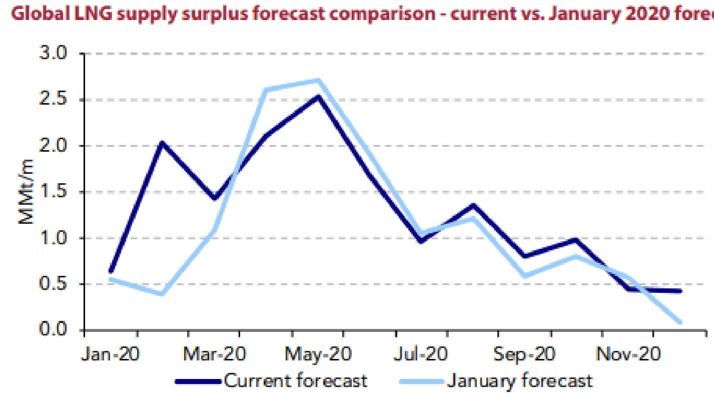
In China, full tank tops, closed factories and lack of workers have led some Chinese companies to declare force majeure. Some of these declarations have been rejected, but the cargoes are still not being received. What is not clear is whether the loss of demand is permanent or will be made up for in later months of the year. As shown in the China section following, the base forecast assumes a combination of the two. The duration of the outbreak and the severity of its impact on the LNG market is unclear. Every day, different statistics are released on the virus's transmission and mortality rates.

The two graphs illustrate the impact on the forecast. The top one shows the change in global imports as a result of the outbreak. The decrease in the forecast from February through April is the result of Covid-19. The step up between May and July is, in part, a result of receipts of deferred cargoes in China.

Global LNG import forecast change - current forecast vs. January 2020 forecast



Global LNG supply surplus forecast comparison - current vs. January 2020 forecast



The second graph shows the impact of the virus on the forecast for surplus LNG. Note that the only month with a sharp increase in the surplus volume of LNG is February. In March and April, adjustments to both supply and demand are being made to compensate for the decreases in demand due to the virus. These include decreased production, especially in the US, and increased demand, especially in India. Even if these adjustments are made, the market will still be fundamentally long with much of this excess volume expected to continue heading to Europe where some storage room has become available.

Export economics from the US to Asia are still very poor; however, if the cost of shipping is considered sunk, then lifting cargoes still makes sense. The shipping market is worth watching, with deferments and use of ships as floating storage providing information on the overall market.