Chinese Buyers Advance Term Contracting

Chinese buyers – both the state-run majors and next-tier firms – continue to push ahead with LNG long-term contracting activity, as they eye volumes for projected domestic demand as well as for trading and optimization purposes.

There is a diverse range of sellers, supply sources and pricing indexes involved – reflecting the varied considerations of Chinese buyers. But locking in sale and purchase agreements (SPAs) remains challenging, amid issues like timing, market conditions and source, pricing and shipping risks.

Several Chinese firms are also reselling LNG supply – mostly on short to mid-term structures to other domestic companies.

State-run majors stay active in long-term contracting

The big three state-run Chinese majors are at various stages of discussions for long-term LNG supply.

PetroChina announced an LNG SPA in April that essentially repackages two existing LNG SPAs. The old SPAs were reworked to change the buying entity from PetroChina subsidiary Kunlun Energy to PetroChina itself, following an internal restructuring that sought to use just one PetroChina entity for all the LNG contracts, market sources said.

The repackaged deal is comprised of two tranches. The first tranche includes an old deal where volumes were downsized to around 300,000-400,000 t/y of LNG coming from Petronas' portfolio and going to PetroChina's Shennan terminal in Hainan. PetroChina and Kunlun Energy were joint developers of the regasification facility in southern China. The original deal was to start in 2018 but was delayed.

The restructured deal will now start this year for nine years; for the first five years PetroChina will lift the volumes on a free on board (FOB) basis using a small vessel then over the next four years it will lift 400,000 t/y on conventional vessels, delivered ex-ship (DES) China. Pricing for the FOB supply is under a mid-12% slope of Brent.

The second tranche for approximately 600,000 t/y of DES supply will come from the LNG Canada project for five years from 2025. There is a mutual option for a contract extension. This deal was signed in 2018 between Kunlun Energy and Petronas. Pricing for the new deal is at a high 12% slope of Brent.

PetroChina is also focused on finalizing its 4-MMt/y, 27-year contract with QatarEnergy – there were some delays related to equity discussions, sources said.

Sinopec and CNOOC are seeking long-term LNG, too. CNOOC's requirement may be related to a long-term supply deal that failed to advance to SPA stage.

Chinese discussions that fail to progress to SPAs mostly break down on difficulties in securing credit and persistent buyer-seller price gaps. Some sellers are referencing recent high-priced deals between Oman LNG and Asian counterparties at DES equivalent Brent slopes of around mid-14%, when discussing new deals.

Some Chinese buyers also lack access to regasification and storage facilities, while others are reluctant to commit, amid concerns on locking in overpriced supply in a volatile market.

Lower-tier firms seek various indexes, incoterms

Chinese second- and third-tier buyers are seeking both Brent and Henry Hub (HH) pricing for long-term SPAs.

A buyer from southern China is talking with an Asia-Pacific producer for Brent-linked free-on-board (FOB) term volumes starting 2025, sources said. Another southern Chinese buyer is heard to be discussing a contract extension with an existing mid-term supplier but is seeking Brent indexation in lieu of LNG pricing.

A state-run firm, meanwhile, is in advanced talks with a portfolio and trading company for long-term LNG supply starting in 2025, with pricing at a Brent slope of around a low 13% with no constant.

The low 13% slope under discussion is a touch higher than the approximately mid-12% levels discussed in the last year or two. Some deals were eventually signed at Brent slopes in the mid-to-high- 12% range – but these were for huge volumes with long contract tenors or had significant sellers' flexibility and optionality that buyers gave to keep prices capped.

A few are talking directly to US and Mexican projects for supply, although it remains unclear if these firms can manage the shipping risks related to FOB volumes. Many lower-tier Chinese firms have limited to little experience in managing a shipping fleet.

Many Chinese firms are also wary of HH indexation, due to basis risk exposure, Panama Canal congestion, potential production and delivery issues, and US-China geopolitical tensions.

But some Chinese firms want HH indexation. Several have exposure to Brent-linked volumes at low slopes of under 11% signed several years ago and believe they will not be able to get oil-linked supply at such competitive levels anytime soon. Others see HH contracts as a cost-plus structure that is easy to manage and pegged to a relatively stable, low-priced index.

Some Chinese lower-tier buyers are talking to portfolio firms and trading houses to buy US volumes on HH pricing and DES terms. These buyers want HH indexation but not the shipping exposure that comes with lifting US and Mexican FOB cargoes directly.

At least one Chinese firm is in advanced discussions. Gas distributor Towngas is working to finalize a SPA with Hartree Partners for DES supply from the Delfin LNG project in the US, which has yet to make a final investment decision. Towngas will take the volumes back-to-back on HH prices from Hartree Partners, which recently announced a binding deal to take 600,000 t/y of LNG from Delfin for 20 years on a FOB basis.

China reselling

The three Chinese state majors have been marketing LNG to lower-tier domestic firms on mid-term structures, sources said. The majors are offering LNG for five years from 2023-2027 and are pricing the supply at back-to-back Brent slopes of around 13.5%.

The slopes are low for near- to mid-term supply, but the Chinese majors have asked potential buyers to take on more 2026 and 2027 volumes, sources said. The Chinese state majors' portfolios likely reflect global LNG markets, where supply is expected to stay tight and ease only from late 2026 at the earliest.

Some larger Chinese second-tier firms are also looking to resell term LNG supply to both domestic and international buyers. These Chinese firms are looking to trade and optimize their new term supply, not all of which they intend to bring back home.

Some intend to capitalize on price spreads by reselling term LNG and buying gas, if cheaper, from the state majors to meet their own domestic demand. Others, meanwhile, are reselling some of their term supply as planned regasification capacity has yet to come online.

Short-term demand still lackluster

In the near term, Chinese LNG demand remains soft, although March imports rose considerably against the earlier months of the year. China took around 5.56 MMt of LNG in March, up from 4.64 MMt in February and 4.98 MMt in January, according to Kpler data. April imports are poised to dip slightly from March levels, with around 5.1 MMt as of April 28.

March imports likely rose on incremental spot buying, as some Chinese firms bought cargoes to utilize take-or-pay PipeChina terminal regasification slots that were expiring. Such procurement, however, is unlikely to be sustained with the arrival of the shoulder season. And many of the spot purchases were loss-making as domestic trucked LNG prices tanked.

LNG inventories are high across China and elsewhere in Northeast Asia. Chinese buyers were heard to have declined the purchase of discounted Russian LNG cargoes this month, a sign of how amply stocked Chinese tanks are, sources said.

There are expectations of an uptick in Chinese LNG demand from 2H 2023, although much of that should be met by new term contracts commencing deliveries. Pipeline gas imports and domestic gas output are also set to ramp up later in the year.

China is expected to add close to 30 MMt/y of regasification capacity via new terminals in 2023 and 2024 (see LNG Terminals Table). There are concerns, however, that many of them will be under-utilized amid possible demand weakness.