Gas Strategies Interview – Vincent Demoury, general delegate, International Group of LNG Importers

With the available LNG volumes at all-time high, demand outlook becomes increasingly important. Gas Strategies sat down with Vincent Demoury, the general delegate of the International Group of LNG Importers (GIIGNL) to talk about some of the key trends in 2015 and the industry body's outlook for 2016.

What key trends has GIIGNL seen emerging in 2015 compared to 2014?

At 245.2 million tonnes, we have reached the highest level of global trade flows since 2011. This is a trend that will continue, with new supply coming online from the US and Australia.

Also, the commoditisation of LNG is not really happening yet. Trading very much still takes place in the regional markets. Gas prices are low, so shipping becomes the most important component of bringing LNG to customers. The closer suppliers are to buyers, the easier it is. Additionally, existing long-term contracts are still inhibiting the commoditisation of LNG, although opportunities to supply new regions exist. We are still seeing Asian markets being supplied largely by Asia Pacific suppliers. Global LNG prices have converged, but overall flows have remained regional.

Another key trend has been a drop in re-exports. Re-exports from Europe fell 40% in 2015 compared to the previous year, because the arbitrage opportunities were no longer there. As a result, Europe's LNG imports increased 15% year-on-year, because LNG remained in Europe instead of being re-exported to Asia or South America. Spot LNG prices in Asia are now almost the same as in Europe, so it does not make sense to reload LNG on ships to be sent to Asia.

India has re-exported a few cargoes from the Kochi regas terminal, and we have also seen a few new terminals becoming re-exporters, such as the Isle of Grain in the UK and Singapore. There are still some opportunities to reload and store cargoes to take advantage of regional price differentials. If this price convergence lasts, these opportunities might become marginal in the future.

What are the key trends in spot LNG trading?

Surprisingly, we have not seen spot LNG volumes increase compared to 2015. We have definitely seen traded spot volumes increase over the last few years, when LNG supply did not grow as much. We had expected to see an increase in spot trading – with nearly 15 million tonnes of additional capacity coming online – but that has not been the case.

The production stoppage in Yemen took more than 2 million tonnes of flexible LNG off the market. Weakening demand in Asia and the decline in European re-exports also contributed to limit spot and short-term trade. Some suppliers moved to maximise their long-term contracts to retain market share. For example, Qatar postponed its cargoes to China from the first half of the year to wintertime, to fulfil the maximum long-term delivery obligations, instead of trading those volumes on the spot market. India took the opposite approach and minimised its long-term offtake by buying more LNG on the spot and short-term market from various suppliers, such as Nigeria and Australia.

India took only a proportion of its long-term volumes from Qatar, not because they had too much supply, but because spot prices were more attractive.

New liquefaction capacity developers are looking for long-term SPA's to underpin their projects. How challenging has it been to secure SPA's in this market environment?

Most buyers are wary of signing long-term contracts that lock them in for 10 to 20 years when there is a lot of new LNG supply coming on-stream. This is because buyers are waiting as long as possible to gauge how the market will look before locking themselves into long-term supply deals. They want a diverse portfolio of both long-term contracts – which provide security of supply – complemented by a basket of shorter-term supply deals and spot LNG. Most importantly, they want more flexible contracts and solutions to mitigate price risk.

We have seen a number of new regas terminals starting up last year. What impact have the emerging LNG importers had in absorbing the excess volumes?

We are increasingly seeing emerging countries popping up as new LNG demand pockets. Egypt, Pakistan and Jordan joined the importing ranks last year and they have been substantial in absorbing the short-term volumes. Pakistan imported one million tonnes of LNG, Egypt had two FSRU's starting up in a very short space of time, which imported 2 million tonnes last year.

These new FSRU terminals have secured nearly 80% of their cargoes from the spot market and the number of tenders has also increased. There is new supply available, which is a good reason to buy through the spot market and through tenders, as the prices are low. At the same time this strategy is risky because of supply security. The lights will go out if you are supplying a power plant and you don't get the cargoes you bid for. This is precisely why Pakistan recently signed a long-term contract with Qatar.

What will be the next big demand markets?

Egypt will continue to be a large importer as its demand grows. India and China account for 60% of the total regas capacity currently under construction. Some of this capacity might not be fully utilised, but it clearly shows that these two countries have a strong intention of becoming large LNG importers over the coming years.

The demand from smaller markets too could be significant. There are tens of potential new FSRU's currently under consideration, but it is taking time. Ghana, South Africa, Columbia, Panama and the Philippines could all become net importers imminently.

What impact have the new LNG volumes from Australia and the US made on the market?

The US and Australian volumes have made their way to the market, and this is already having an impact on LNG prices. As far as we are concerned it has made a difference in diversification of the price indices and we are seeing different formulas emerging in long-term contracts. Some customers have achieved the price diversification they have sought for a long time, which is really the key change.

Will the market be able to absorb all the new supply coming online?

The global utilisation rate of terminals is around 31% so there is sufficient capacity to absorb this LNG. Whether the demand will be there is another question.