News
LNG glut seen persisting until 2021 – or later

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A new survey shows the global oversupply of liquefied natural gas is forecast to last at least into the next decade – perhaps longer – and put further downward pressure on prices.

Weaker-than-expected Asian demand has helped trigger a glut of the liquefied form of the power plant fuel at a time when more output is projected to flood the market. Four US export terminals are currently under construction in addition to Cheniere Energy's Sabine Pass facility that has been shipping cargoes overseas since February. Three others have been approved but are not yet under construction, while about a dozen proposed projects are being processed by regulators.

That makes for a supply dynamic that may persist for years. Forty-three percent of respondents to a survey of executives, engineers and other industry professionals said they don't expect the LNG supply overhang to be absorbed, and the need for the next tranche of supply to arrive, until 2021-2025. Another 11% predict the glut will ease between 2026-2030, while 4% don't expect that to occur until after 2030, the Black & Veatch survey found. Fifty-one percent believe additional export facilities will decrease global LNG prices.

“At some point the market will rebalance, but when is hugely dependent on economic growth and distribution of growth,” said Michelle Foss, chief energy economist at the University of Texas at Austin's Bureau of Economic Geology.

Overland Park, Kansas-based Black & Veatch, an engineering and consulting firm that specializes in infrastructure development in various sectors including energy, conducted its natural gas industry survey of 386 participants from July 15 to August 5.

US LNG exports are expected to reach 6 Bcf/d by 2021, data compiled by Platts Analytics' Bentek Energy show. At Sabine Pass, exports first broke the 700 MMcf/d mark when Train 2 came online in late July. Since then, exports averaged 902 MMcf/d until the terminal shut down on September 20 for maintenance, Platts Analytics data show.

Oversupply may cause some export facilities to be underutilized or projects to be scrapped altogether as buyers increasingly seek shorter, more flexible contracts. Consumer demand trends also are shifting.

Middle East, Latin America buyer interest is expected to shift

Some of the big-surprise buyers that have soaked up LNG capacity in the past two years, namely Egypt, are likely to go away by the end of the decade, according to Madeline Jowdy, senior director, global gas and LNG, at PIRA Energy Group in New York. In particular, gas fields under development in the Mediterranean could displace Egyptian demand for LNG.

PIRA, like Platts, is a division of S&P Global.

“Other buyers in South America ... Argentina and Brazil are also not great medium-term bets as Argentina ramps up more domestic production from shale,” Jowdy said. “Low oil prices will take a chunk out of potential LNG demand both in substitution markets like Kuwait, where LNG may be imported to free up more oil for export in a high oil price environment, or in places like Korea, Thailand and Japan, where more residual is now being used for power generation because it is relatively inexpensive.”

The market trends mean that the number of export projects reaching final investment decision will likely remain limited through 2017 and 2018, Jowdy said. A lot will depend on whether developers are able to cut liquefaction costs to make projects more economical, she said.

“Projects are dropping out – many deserve to be axed,” Foss said. “If demand proves to be more robust, then the picture shifts.”

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US LNG export forecast|graph Source: Platts Analytics' Bentek Energy

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