Prices and trade in global gas & LNG markets

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Overview of this talk

Understanding global gas prices & LNG trade

① Global gas & LNG prices are the result of imperfect competition

② LNG shipping constraints have created further limits to price arbitrage

③ A more “liquid” LNG market may, in parts, be bad for security of supply
Global gas prices have diverged – irrationally?

10 years ago: Single global gas price due to LNG trade?

2010s: LNG exporters failing to arbitrage prices?

- Qatar: “Forgone profit” up to US$100 million per day?
  - Estimates for short-term sales to UK vs Japan during 2011

Source: IMF World Economic Outlook (October 2014)
Imperfect competition explains gas prices

A competitive model fails to explain gas prices… … exporter market power rationalizes prices & trade

Key prediction: Netbacks equal across export markets

Exporters with market power recognize impact on prices
– Price sensitivities of demand vary across regional markets

BUT

Market power not always bad: raises investment incentives
– Static vs dynamic perspective

Source: Ritz, R.A. (September 2014, Energy Economics)
LNG shipping creates limits to arbitrage

“Entry barriers to LNG trading are surprisingly high – new entrants ... must have access to cargoes, but the market's liquidity is typically held captive by the LNG liquefaction owners/upstream suppliers”

“Traders must also have access to shipping, via owned vessels or the charter market.”

Key role of shipping in the LNG value chain

① Centre of vertically integrated ownership structure

② Does exporter market power raise transport distances?

③ Optimal timing & risk profile of shipping investments

Source: JP Morgan Cazenove – Global LNG (January 2012)
High UK LNG imports projected for 2020s…

Large-scale new entry across LNG value chain

Fewer concerns about security of supply?

Source: National Grid UK Future Energy Scenarios (July 2014)
More “liquid” LNG market – two-edged sword?

New sellers & infrastructure constrain market power

More tankers & financial instruments facilitate arbitrage

All buyers benefit from more choice & lower prices

Winners: High-price regions

Losers: Low-price regions

prices rise & supply falls
References

Thank you for listening!

 Disclaimer: The views expressed here are mine

Feedback welcome:
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References
