Lower oil price and its impact on natural gas markets

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Oil and LNG import prices and value

Import prices

Japan’s LNG import value

Source: Energy Intelligence, EIA, Custom Statistics

- Lower oil price is decreasing Japan’s LNG import price and value
- Asia Premium, especially on spot LNG, shrunk significantly
LNG outlook for Asia and Middle East

Not only lower oil price but “LNG surge” mainly in Australia and the US putting downward pressure on LNG price in Asia
While lower LNG price is good news for importers, new upstream projects face challenges for securing upstream investments.
## Natural gas pricing options for Asia

<table>
<thead>
<tr>
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<th>Gas on gas competition pricing</th>
<th>Hybrids</th>
<th>Indexation</th>
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</thead>
<tbody>
<tr>
<td>Domestic Hubs in Asia</td>
<td>Henry Hub, NBP</td>
<td>Spot LNG</td>
<td>Oil</td>
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<td>Other fuels (Electricity, Coal)</td>
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<td><strong>Advantages</strong></td>
<td>• Possible to reflect regional market balance</td>
<td>• Already available</td>
<td>• Possibly the quickest solution</td>
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<tr>
<td></td>
<td>• Already available</td>
<td>• Already available</td>
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<tr>
<td></td>
<td>• Lower prices (for now)</td>
<td>• Higher volatility</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Not yet available</td>
<td>• Higher volatility</td>
<td>• Gas market balance not reflected</td>
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<tr>
<td></td>
<td>• Higher volatility</td>
<td>• Asia market balance not reflected</td>
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<td></td>
<td>• Limited liquidity (so far)</td>
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- Although lower oil price incentivizes LNG buyers to stick to oil-indexation, the rationality issue remains
- Establishing benchmark pricing(s) through hubs in Asia and/or spot LNG pricing most rationale for Asia
How do we develop Asian benchmark price(s)?

### Domestic scenario
- Gas market liberalization
- Domestic wholesale prices (hubs) development
- Divergence of wholesale and import prices
- Hub price(s) applied to term import contracts

### International scenario
- Relaxation of destination clause/LNG surge
- Spot LNG market development
- Divergence of Oil-indexation and spot prices
- Spot LNG price applied to term import contracts

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**Asian benchmark price(s)**

- International scenario seems quicker for benchmark price(s) in Asia
- Flexibility in LNG trade is increasingly important to develop benchmark price