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LNG Traders Compete for Cargoes as Volumes Drop

(Bloomberg, excerpt, Nov. 20, 2013) – Exports of liquefied natural gas are contracting for a second year, diminishing the number of available cargoes at a time when companies from Vitol Group to Glencore Xstrata Plc are expanding their trading teams.

"Interest has been growing particularly as participants find new uses for LNG," said George Stein, the New York-based managing director of Commodity Talent LLC, a recruitment company. "Interest on Wall Street has grown as well as interest in the large merchant trading firms."

The LNG market is valued at more than $150 billion, according to Rob West, an analyst at Sanford C. Bernstein in London. That's based on the 240 million tons traded last year at an average price of $13 per thousand cubic feet. Demand will reach 480 million tons by 2035, Bernstein said in a September report.

While previously only companies with stakes in liquefaction plants bought and sold the fuel, more trading houses are now transacting cargoes, said Laurent Maurel, the senior vice president for strategy, markets and LNG at Total.

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While demand is still growing as nations favor cleaner fuels, the number of spot cargoes stagnated at about 25 percent of the total since 2011. Rising domestic demand, fewer-than-expected Angolan shipments and disruptions in Nigeria and Egypt have cut the number of tradable sources, meaning "nobody's making a fortune trading LNG," Vitol Chief Executive Officer Ian Taylor said last month.

"With output from Angola still limited, it is very difficult for newcomers to source reasonably priced flexible cargoes," said Yves Vercammen, the general manager at the trading and shipping unit of Eni SpA, which has long-term contracts for LNG from Algeria, Nigeria and Qatar. "On the other hand, there is a growing financial trading market that LNG traders definitely need to be in now."

Price Boost

Spot and short-term imports, defined as

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contracts lasting four years or less, reached a record 25.4 percent of total trade in 2011, from 16.3 percent in 2009, before dropping to 25 percent last year, according to the International Group of LNG Importers, or GIIGNL, a Paris-based industry group. The ratio probably will be little changed in 2013, Javier Moret, head of LNG origination at RWE Supply & Trading, predicted in September.

The lack of cargoes is boosting prices, with LNG for delivery to northeast Asia in the next four to eight weeks averaging $18.10 per million British thermal units in the week ended Nov. 11, or 30 percent more than a year earlier, according to data from World Gas Intelligence in New York.

Traders, producers and consumers are meeting in Paris today for the three-day World LNG Summit, with representatives from more than 120 companies as well as government officials.

Traders can profit from the difference in costs between regions. LNG for delivery to southwest Europe cost $12.60 per million Btu in the week ended Nov. 11, compared with $18.10 in northeast Asia, according to WGI assessments.

Angola LNG, the only production plant with no long-term contracts, is operating at about 20 percent capacity and will ship three more cargoes this year, on top of five since it started in June, Oil Minister Jose Maria Botelho de Vasconcelos said in an interview this month. The $10 billion facility expected to load at least 13 cargoes this year, George Kirkland, vice chairman at operator Chevron Corp., said Aug. 2.

Force Majeure

Supplies to Nigeria LNG's Bonny Island plant were disrupted this year by leaks in a pipeline caused by people trying to steal fuel and a three-week blockade of the terminal because of a dispute over levies. A six-month force majeure, a legal clause that excuses a supplier from meeting its delivery commitments because of events beyond its control, was only lifted in April.

Egypt stopped supplying gas to the Segas LNG plant because of rising domestic demand, Sherif Haddara, chairman of state-run Egyptian General Petroleum Corp., said in February. Egyptian LNG, the country's second liquefaction plant, diverted half its gas to the domestic market, BG Plc, which buys from the facility, said in May.

Global LNG exports, including reloads from import terminals, were equivalent to almost 209 billion cubic meters of gas in the first eight months, compared with 220 billion a year earlier, the Poten data show. Shipments fell 0.6 percent in 2012, the first annual drop in the data starting in 2002. Trade contracted 1.9 percent last year, the first decline in three decades, GIIGNL estimates.

Wonderful Colleagues

"There are very few freely tradable sources, therefore we will bid on every single one of them," Vitol's Taylor said at a conference in London on Oct. 1, sitting on a panel with Gunvor CEO Torbjorn Tornqvist and Alex Beard, the head of Glencore's oil unit. "The trouble is our wonderful colleagues here on the platform will also bid on every single one of them."

Supply will fail to keep pace with consumption until at least 2015, according to Bank of America. Regasification capacity, a proxy for demand, will expand as much as five times faster than production capacity next year, and prices in Asia

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may reach a record in the next several months, the bank said in a report Nov. 13.

Japan, the biggest buyer, shut most of its atomic plants after the Fukushima disaster in 2011 and South Korea, the second-biggest consumer, decided in May to halt two nuclear reactors. Import capacity in China, India, Singapore and Malaysia is increasing, boosting demand for cargoes, Bank of America said.

Capacity Increase

Global production capacity will increase by 130 billion cubic meters by 2018 as 12 new liquefaction plants open, the Paris-based International Energy Agency said in a report last week. There were 89 liquefaction plants operating at the end of last year with annual capacity of 384 billion cubic meters.

Supply will be boosted from 2015 as projects from Australia to the U.S. start producing, GIIGNL said in June. Trade will increase 31 percent by 2018, from last year's levels, the group said. International trade in LNG reached 236.6 million tons in 2012, from 171.1 million tons in 2007, GIIGNL estimates.

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