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LNG Surges as Japan Vies With China, Exxon’s Shipments Grow (2)
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(Updates gas price in fifth paragraph, adds PetroChina purchases in 24th.)

By Dinakar Sethuraman

Sept. 19 (Bloomberg) -- Liquefied natural gas prices are surging to a three-year high as demand from Japan, China and India outpaces supply increases, boosting sales for producers from BG Group Plc to Exxon Mobil Corp.

Record Japanese imports to replace nuclear power after the Fukushima Dai-Ichi disaster, plus a 27 percent jump in China’s first-half purchases, may send prices to about $20 per million British thermal units this winter, up 71 percent from 2010 and the highest since 2008, according to data compiled by Bloomberg.

The world’s spare production capacity shrank about 50 percent this year as consumption grew, and will continue to decline through 2014, Sanford C. Bernstein & Co. says.

Rising LNG prices are encouraging Exxon and BG, which got 27 percent of its operating profit from the fuel in the first half, to develop and transport more. That may spur North American exports by 2016 and help the world’s fastest-growing economies contain inflation from rising oil and coal costs.

“LNG demand will go up, there’s no other alternative,” said P.K. Jain, the New Delhi-based director of finance at GAIL India Ltd., the nation’s biggest gas distributor and a co-owner of Petronet LNG Ltd., the largest buyer. “Demand will rise in Asia as Japan increases LNG use after Fukushima and even in Europe, with countries moving away from nuclear, long-term demand for LNG may rise.”

More Optimistic

Demand for gas cooled to liquid and transported by ships may be making U.S. forecasters more optimistic about natural gas. Bulls outnumber bears by about six to one, a reversal from the one-to-two ratio a month ago, according to Bloomberg data.

While gas futures on the New York Mercantile Exchange have slumped 14 percent this year to $3.802 per million British thermal units, LNG, which is not exchange-traded, has gained.

Liquefied gas costs surged about 33 percent after Japan’s March 11 earthquake and tsunami caused reactor meltdowns at Tokyo Electric Power Co.’s Fukushima plant, and have since climbed toward $16 per million Btu, according to Mark Greenwood, an analyst at Citigroup Inc. in Sydney. They may rise to $20 this winter, according to the median forecast in a Bloomberg News survey of eight analysts.

The country bought spot shipments at $15 per million Btu in July, according to Ministry of Finance data. Spot deliveries, typically from utilities facing emergency and weather-related needs, reached a 33-month high in June and July. The 10 regional power suppliers bought and consumed record amounts for a second month in August amid all-time low utilization rates at nuclear plants, the Federation of Electric Power Companies said.

Price Forecasts

"We see prices going to $20," said Peter Buchanan, an economist at CIBC World Markets Inc. in Toronto. His forecasts for natural gas at Henry Hub in Erath, Louisiana, the benchmark for futures traded on the Nymex, were the second-most accurate after Bank of America Corp. for the eight quarters ended June 30, according to data compiled by Bloomberg.

Sixty percent of the 19 analyst forecasts compiled by Bloomberg on Sept. 9 were bullish on U.S. gas, while 13 percent were negative. That compares with 29 percent that were optimistic and 57 percent bearish a month earlier.

Global LNG demand grew 9 percent in the first half and 13 percent over the past 12 months, Bernstein Research said in an Aug. 29 report. Spare production capacity is likely to shrink to 26 million metric tons a year in 2011 and to 2 million by 2014, stoking prices and benefiting BG, Royal Dutch Shell Plc, Total SA and PetroChina Co., according to the report.

'Insufficient Supply'

"Given the underlying strength in demand from emerging markets and Japan, there is insufficient supply coming onto the market over the next three years which will lead to tighter spare capacity and higher prices," Neil Beveridge, the Hong Kong-based senior analyst at Bernstein, said in an e-mail.
"Asian customers will increasingly be competing with European customers which will lead to higher gas prices outside of North America."

Atomic power provided about 30 percent of the electricity in Japan, the world's third-biggest economy, before March 11.
About 76 percent of Japan's 54 reactors are offline, with more scheduled to shut for maintenance. Demand is unlikely to ease anytime soon as Prime Minister Yoshihiko Noda, who replaced Naoto Kan as premier on Sept. 2, struggles to win public support for restarting reactors.

German Decision

"The Japanese tsunami certainly did increase the demand quite dramatically for LNG imports into the region, which effectively tightened the global LNG market more quickly than most people had anticipated," said Allison Nathan, a senior commodities economist at Goldman Sachs Group Inc. in New York.
"We now see the global market as tight."

Supplies have become scarcer partly because Germany decided on March 15 to close eight of its 17 atomic stations following Fukushima. Qatar, the world's biggest LNG producer, said Sept. 5 it will shut three of seven production lines for maintenance through October.

Japan's senior vice minister of trade and industry, Seishu Makino, asked U.S. Energy Secretary Steven Chu at a meeting in San Francisco last week to increase exports.

Cheniere Energy, the Houston-based Blackstone Group LP- backed owner of the Sabine Pass terminal in Louisiana, got approval to ship fuel to Japan in May. The Freeport terminal in Freeport, Texas, and the

Lake Charles facility in Lake Charles, Louisiana, are also seeking clearance for exports, according to Akinobu Yoshikawa, deputy manager for Japan’s Petroleum and Natural Gas Division.

“The impact for our imports will be big,” Yoshikawa told reporters in Tokyo Sept. 14.

North American Exports

Before the tsunami, Japan used about 70 million tons of LNG a year. The demand will rise as much as 15 million tons, or 21 percent, in the 2011 fiscal year and as much as 20 million tons in 2012, the Institute of Energy Economics said in August.

North America may export about 5 billion cubic feet a day of LNG, or roughly the combined LNG export capacity of Nigeria and Algeria, globally by 2017 from projects that turn surplus gas from shale-rock formations to LNG for shipment to customers in Asia and Europe, according to the Eurasia Group, a New York- based consultant. That’s about half of the six proposed developments by companies including Cheniere in the U.S. Gulf Coast and British Columbia.

The U.S. may produce more than 12 trillion cubic feet of shale gas a year by 2020 in a “high-case scenario,” about a three-fold jump from last year’s level, as it boosts output by hydraulic fracturing, or fracking, of gas trapped in shale deposits, Gaffney, Cline & Associates, a unit of Baker Hughes Inc., the world’s third-largest oilfield-services provider, said in a presentation in Singapore on Sept. 12.

2020 Surplus

“In the high-case scenario, U.S. shale gas could provide an exportable surplus by 2020,” Stuart Traver, a consultant for the company in Singapore, said in the presentation. Shale gas accounted for approximately 20 percent of total U.S. production in 2010.

In fracking, producers force chemically treated water into underground shale wells to break up rock and let gas flow. About 84 trillion cubic feet of undiscovered, technically recoverable gas lie in the Marcellus Shale under New York and seven other states, the U.S. Geological Survey said Aug. 23. The U.S. Environmental Protection Agency is studying the effects of fracking because opponents say it’s a threat to drinking water.

Qatar and producers such as Australia, Malaysia and Indonesia are competing to satisfy demand for LNG from China and India, the world’s fastest-growing major economies. China’s imports rose 27 percent to 5.2 million tons in the first half of 2011 from a year earlier and reached a record in July, according to customs data.

PetroChina Terminal

PetroChina started trial operations at its 3.5 million ton- a-year Jiangsu LNG terminal in May and is buying two spot cargoes a month. It may boost purchases in coming months, Liu Wenfei, a director at the terminal, said Sept. 16. China National Offshore Oil Corp., operator of three terminals, may increase imports by 16 percent via its Guangdong facility this year, a company official said the same day.

India’s LNG imports increased 26 percent in the first half, according to Bernstein estimates. The country’s gas use may double to as much as 400 million cubic meters a day by 2016, while domestic supply may be about 200 million cubic meters, A.K. Balyan, managing director of New Delhi-based Petronet LNG, said last month. The company is planning a 50 percent expansion of capacity to convert LNG back into gas and has held talks with Cheniere on supply contracts, Balyan said in June.

While their LNG needs increase, the economies of Asia are struggling to damp rising prices, including the costs of coal and oil. China has raised interest rates five times since October to contain inflation, which has been above the government's 2011 target of 4 percent every month this year.

Indian inflation has held above 9 percent throughout 2011 even after six rate increases.

Higher Costs

Newcastle coal from Australia, an Asian pricing benchmark, surged 29 percent since Sept. 24, 2010, to $122.90 a ton. Brent crude oil futures rose 41 percent in the past year to $111.54 a barrel.

The U.S. may export enough LNG within five years to push down global gas prices if the cost disparity between domestic supplies and those in Europe and Asia remains about the same, Gerard Mestrallet, the chairman and chief executive officer of Courbevoie, Paris-based GDF Suez, Europe's largest LNG importer, said in a Sept. 9 interview in New York.

Asia's purchases of term LNG, or contractual supplies, are typically priced off a basket of imported Japanese crude oil, known as the Japan Crude Cocktail. Spot LNG is usually linked to the U.K.'s National Balancing Point, with Asia paying a premium to divert cargoes away from Europe.

U.S. Prices

Natural gas in the U.S. trades at about $4 per million Btu, while Asia pays at least $14, Traver said in the presentation.

North American LNG could be delivered at about $9 per million Btu, encouraging utilities in Asia to seek a new pricing regime linked to the U.S. benchmark, he said. Term supplies of LNG to Asia have been linked to oil prices since Japan first started buying the fuel more than four decades ago.

Australia may produce an additional 60 million tons of LNG from projects in western Australia and coal seam gas ventures in Queensland by 2016, according to Bernstein Research. That includes the Gorgon project, developed by Chevron Corp., Exxon and Shell.

Short-term demand will be affected by temperatures in the coming Northern Hemisphere winter, when heating requirements increase.

"If Japan gets terribly cold weather, they'll be out buying in the spot market, driving up prices," said Zach Allen, president of Pan Eurasian Enterprises Inc., a Raleigh, North Carolina-based tracker of LNG shipments who predicts prices may rise 26 percent this winter. "Prices can always spike much higher than that over very short periods."

--With assistance from Archana Chaudhary in Mumbai, Chua Baizhen in Beijing, Winnie Zhu in Shanghai, Ben Sharples in Melbourne, Christine Buurma and Moming Zhou in New York, Lars Paulsson in London, Yuji Okada in Tokyo and Christian Schmollinger in Singapore. Editors: Alexander Kwiatkowski, Philip Revzin

To contact the reporter on this story:
Dinakar Sethuraman in Singapore at +65-6212-1590 or dinakar@bloomberg.net

To contact the editor responsible for this story:
Alexander Kwiatkowski at +65-6212-1329 or akwiatkowsk2@bloomberg.net