



Alternative supply and demand scenarios for LNG market tightening

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Alternative tightening scenarios — LNG market

A general consensus is that liquefied natural gas (LNG) markets will remain oversupplied until around the middle of the next decade. However political, policy and economic drivers could lead to a market rebalancing sooner rewarding new supply capacity sanctioned in the near-term, including in Western Canada, to capitalize on an early 2020s market recovery. Below is a set of factors that could drive earlier rebalancing in their own right or give added lift together.

Overall demand drivers

- **Global climate change framework strengthens** as countries revisit climate targets and progress under the Paris Agreement on climate change in 2019; public sentiment and diplomatic pressure push governments, including in large emerging markets, toward taking on more stringent 2030 emissions targets, which boost incentives for gas-fired generation over coal, and stimulate LNG demand, particularly in Asia.
- **Air quality problems take hold in Southeast Asia** that reverse large build-out of coal-fired generation to quell public outcries and motivate government to prioritize gas builds instead (bolstered by cheaper LNG).
- **Electrification pace accelerates and/or a greater role is realized for natural gas use in energy systems.** Resolving barriers to greater electrification for industrial and transportation uses; reversing pent up demand and its drag on economic growth which fuels more demand; unlocking infrastructure barriers, breaking bulk and size to allow greater and accelerated penetration would both increase demand and the role of natural gas in energy systems.
- **Market elasticity arising from low prices** that is currently not reflected in many widely used industry

demand models triggers significant unanticipated and new long term demand at the right price.

Unique country political, policy and economic factors demand drivers

- **Japanese economic growth** from Abenomics, Bank of Japan policies and possible reforms on immigration.
- **Japan gives up on nuclear** under nuclear restart challenges and public and local opposition especially if confidence in the longer-term affordability of LNG improves.
- **Korea's air quality pushes coal out of its mix** under a new left-leaning government and growing public outcry over pollution.
- **China accelerates its air quality agenda** by more concerted efforts to close coal-fired facilities and replace them with natural gas, extending from the coast into interior provinces.
- **Beijing aggressively cuts citygate gas prices** with additional price cuts on top of earlier action to narrow the gap between natural gas and cheaper oil products, further supporting natural gas demand recovery by industrial users.
- **Chinese stimulus** from bolstering the industrial sector to stem public unrest in current slowdown.
- **India goes green** as air quality becomes a similar public problem as in China and bolstered by confidence in affordable access to LNG, triggering a build out of gas-fired generators.
- **New US industrial demand** materializes that has not been fully reflected in industry models from chemical build on top of new gas fired demand amid are likely LNG exports are set to increase US domestic consumption and likely to increase Henry Hub prices as the reference point for new supply.

- **EU tightens up ETS** under significant reforms to bolster carbon prices, eroding the competitiveness of coal relative to gas.
- **EU puts more firepower — and financing — behind interconnectors** addressing impediments for European LNG imports to get LNG from where it's imported to where it's needed and in flowing gas from West to East and granting access for Central and Eastern European countries currently beholden to Russian pipeline supply.

Supply scenarios:

- **Political instability in supplier countries reverses current sense of low supply risk** spurred by increasing local unrest and rising militancy that puts exports at risk of disruption.
- **South China Sea flare-up** arising from a miscalculation in the South China Sea triggering military conflict with China that shuts off trade routes for LNG to North Asia, pushing buyers such as Japan to seek alternative supplies, including from North America, that do not cross the challenged sea lane.



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- **Middle East instability** arising from a major bout of instability and terrorism risks to LNG facilities in Yemen, Algeria, and even Qatar that quickly tighten markets and drive expectations of a sustained tightening in supply.
- **Russia cuts supply — again** which boosts political commitment to diversifying Europe's import sources, including with LNG.
- **US caps further growth in LNG exports** In the "national interest," limits to exports could be a response to stem either pricing concerns from a run-up in Henry Hub prices as new LNG export projects get underway at the same time that other demand drivers for US natural gas hit (power, industrial).
- **Australia imposes a retroactive DMO** based on surging domestic gas prices due to LNG exports that forces reservation of gas for domestic consumption, cutting into export volumes.

Savvy players can closely monitor these signals and for sellers be ready to capitalize for an earlier supply tightening and for buyers to mitigate their exposure in contracting.



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