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Gas 'Golden Age' Heralding Asia LNG-Trading Hub: Energy Markets
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Dec. 16 (Bloomberg) -- Record demand for liquefied natural gas in Japan and a boom in North American supplies are boosting the prospects for an LNG-trading hub in Asia and the region's first benchmark price for the fuel.

Japan, the world's biggest LNG consumer, is increasing purchases to replace idled nuclear capacity, and China is building terminals to handle more cargoes to feed its expanding economy. At the same time, supplies are growing as the U.S. and Canada extract more gas from shale, putting them on course to join countries such as Russia and Qatar as LNG exporters.

It's a "golden age" for gas in Asia, with spot trading poised to replace long-term contracts linked to oil prices, Fatih Birol, chief economist at the International Energy Agency, said in a Dec. 14 interview in Singapore. The city-state's location and stature in container shipping and oil trading make it a "very appropriate" base for spot LNG trading, he said.

"If you see liquidity in regional gas trade, then you see possibilities for real-time gas-price discovery for the first time in Asia," said Tilak Doshi, chief economist at the Energy Studies Institute, a research group at the National University of Singapore. "It gives buyers the chance to convince suppliers to stop pegging gas prices to crude oil," said Doshi, who led a study of gas trading in Dubai and says Singapore may become a global LNG hub in four or five years.

An LNG center would need to store fuel from different producers for distribution throughout the region, said Andrey Okhotkin, commercial director at Sakhalin Energy Investment Co., an LNG producer that is 51 percent owned by Russia's OAO Gazprom. That would facilitate a benchmark price and open the door to trading financial contracts based on Singapore as a delivery point, he said in an interview from Yuzhno-Sakhalinsk, the main city on Sakhalin.

Premium Price

Spot trading has the potential to narrow the premium paid by gas consumers in Asia. Japan and South Korea, the world's second-biggest consumer, have traditionally agreed to long-term contracts linked to crude because they lack alternatives, domestic output or pipeline supplies.

Japan paid about \$15.30 per million British thermal units in October, according to Bloomberg calculations based on data from the country's finance ministry. The Japan Crude Cocktail, a basket of oil imported into Japan and used as a price for term LNG supplies, averaged \$106.10 a barrel this year, or about \$17.70 per million Btu in energy-equivalent terms.

Gas at the Henry Hub, the U.S. benchmark price, rose 0.2 percent today to \$3.133 per million Btu and averaged \$4.06 this year. U.K. futures averaged 58.4 pence a therm in 2011, or about \$9 per million Btu.

Sabine Pass

Cheniere Energy Inc.'s Sabine Pass terminal in Louisiana, initially conceived to import gas, has signed three contracts to export LNG. GAIL (India) Ltd. agreed to buy 3.5 million metric tons of LNG a year from Houston-based Cheniere, with deliveries from Sabine Pass scheduled to start in 2017, the companies said in a Dec. 11 statement.

“Why can’t we create a hub which is relevant in the Asia- Pacific region, and why can’t we run all our prices linked to that?” Prabhat Singh, director of marketing at GAIL, said at the World LNG Summit in Barcelona last year.

Deliveries from Sabine Pass to Asia would cost between \$9.40 and \$13.28 per million Btu, including liquefaction and terminal charges, according to Leslie Palti-Guzman, a New York- based analyst for Eurasia Group, a consultant.

Global LNG-export capacity has grown 48 percent in the past four years as producers anticipate rising demand, the Paris- based IEA said Nov. 9. Seaborne cargo trade will keep increasing at least through 2035, it said.

After the Quake

Natural gas will be the fastest-growing major fuel source through 2030 as electricity generators shift away from coal to cut greenhouse-gas emissions, according to Exxon Mobil Corp., the world’s biggest company by market value. Gas will overtake coal as the second-largest global energy source after oil, the Irving, Texas-based company said in a report this year.

Japan’s 10 biggest power utilities increased imports of LNG by 36 percent in November because of nuclear-plant closures in the wake of March’s disaster at the Fukushima Dai-Ichi plant, according to data released Dec. 12 by the Federation of Electric Power Cos. Demand may grow to 97.4 million tons by 2020 from 70 million tons last year, according to Hong Kong-based analysts at Sanford C. Bernstein & Co.

China’s LNG purchases were a record 1.1 million metric tons in July, or 55 percent more than a year earlier, according to government figures. While imports in October fell to 853,130 tons, China is the least reliant on gas for power among the world’s leading economies and may triple its demand this decade as it aims to reduce its greenhouse-gas emissions, the IEA forecasts.

Better Positioned

Singapore, the world’s second-biggest container port, is better positioned than Tokyo or Dubai to link LNG producers with growing demand centers in Asia, Okhotkin said.

Gazprom Marketing & Trading Ltd., a unit of the world’s biggest gas producer, opened an office in Singapore last year and ships to Japan and Korea among other countries. It joined Glencore International AG, the world’s largest publicly traded commodities supplier, BP Plc, Vitol Group, Sumitomo Corp. and Morgan Stanley among companies starting or expanding gas-trading operations in Singapore in the last several years.

Sumitomo is among Japanese trading houses that moved oil- and gas-trading departments out of its Tokyo headquarters. It established a Singapore-based subsidiary, Petro Summit Pte., in 2004 to expand its trading business, Koji Furui, a spokesman, said by telephone from Tokyo.

‘Carry the Load’

Singapore may need a shipping fleet to succeed as an LNG center, Okhotkin said. It would also benefit from facilities to service ships of various sizes, and ample storage space, he said.

“Today there are willing buyers and sellers but sometimes no ship to carry the load,” Okhotkin said.

The cost of shipping LNG almost tripled in September from a year earlier, according to Drewry Maritime Services Ltd., as record summer import volumes in China and India strained transport capacity.

State-run Singapore LNG Corp. is scheduled to complete the city’s LNG terminal in the second quarter of 2013, Neil McGregor, chief executive officer, said in an interview. The terminal is designed to be Asia’s first so-called “open access” LNG import terminal. It will accommodate multiple user and

shipping types, allowing the fuel to be imported and re-exported, according to the company's website.

"Singapore will become an LNG hub in less than five years," McGregor said. "It has a great location with oil and petrochemicals and a major marine hub. Environmental regulations may push ships to use LNG as fuel, and given that Singapore is the world's biggest bunker-fuel market, some may switch to LNG in the medium to long term."

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