



# Global Gas Markets – trends & discontinuities

## *Implications for GB and Europe*

*Kong CHYONG*  
EPRG, Cambridge Judge Business School,  
University of Cambridge

05 May 2017  
*EPRG-FTI/CL Spring Seminar, Cambridge*

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China's Push to Stabilize Financial System Leaves Markets in Disarray



Drop in Commodities Damps U.S. Stocks



Big Oil Gets In Early on Argentina Shale



House Panel Approves Plan to Undo Parts of Dodd-Frank

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## Gas Glut Reverses Lucrative 2016 Trade

Natural-gas futures have fallen 25% in the oversupplied market, hurting plans to grow U.S. exports

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## Gas Gl

Natural-gas f

# Tanker's U-Turn Shows How Shale Is Changing World Gas Trade

by **Naureen Malik**

2017 M03 8 00:00 GMT Updated on 2017 M03 8 20:53 GMT

- In new world order, China and Mexico vie for a tanker of gas
- LNG market more fragmented with a spot market akin to oil

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## Sharp Turn

A tanker carrying U.S. LNG from Asia to Mexico in January suddenly changed course.



Source: Data compiled by Bloomberg via IHS and Genscape data

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## Gazprom Not Planning Price War Against U.S. Liquefied Natural Gas Exports

Gazprom 'very relaxed about U.S. LNG,' says Gazprom's deputy chairman Alexander Medvedev

# Gazprom and LNG markets

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## Global gas market braced for price war

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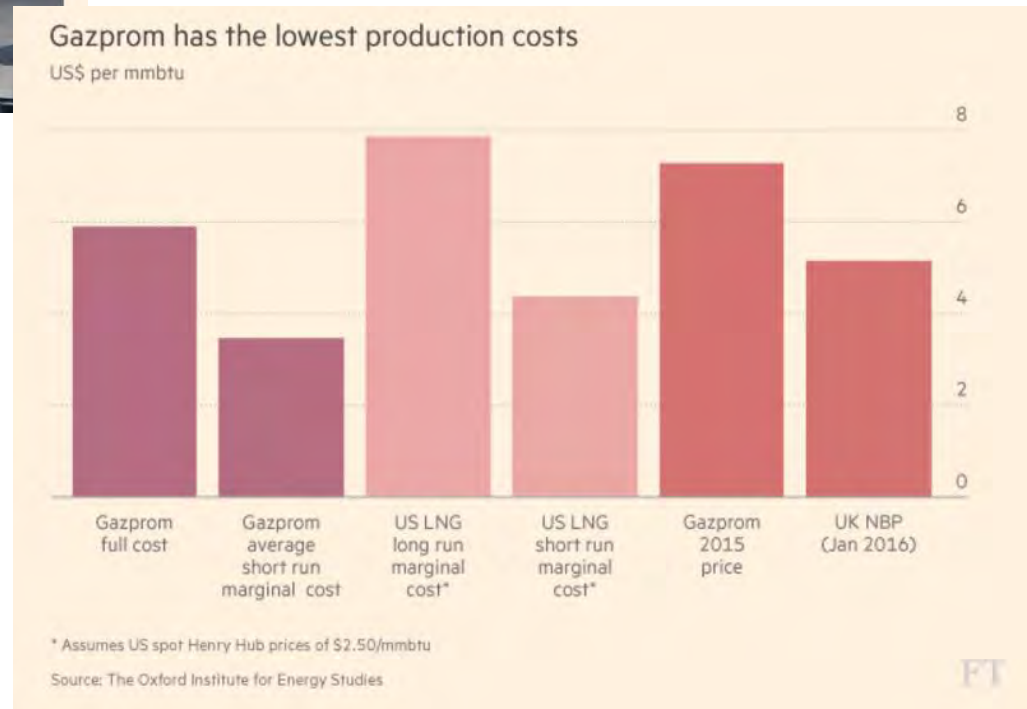
FEBRUARY 3, 2016 by: [Jack Farchy](#)



Global gas poised for price war

# Gazprom and LNG markets

The screenshot shows the top of a Financial Times article. The page header includes the FT logo, a search icon, and the title 'FINANCIAL TIMES'. Below this is a navigation bar with links for HOME, WORLD, UK, COMPANIES, MARKETS, OPINION, WORK & CAREERS, and LIFE & ARTS. The article title is 'Global gas market braced for price war', with a sub-header 'Natural Gas' and a '+ Add to myFT' button. Social media sharing icons for Twitter, Facebook, and LinkedIn are visible, along with a '51' comment count and a 'Save' button. The byline reads 'FEBRUARY 3, 2016 by: Jack Farchy'. A small image of an industrial facility with a 'Gazprom' sign is partially visible at the bottom of the article preview.



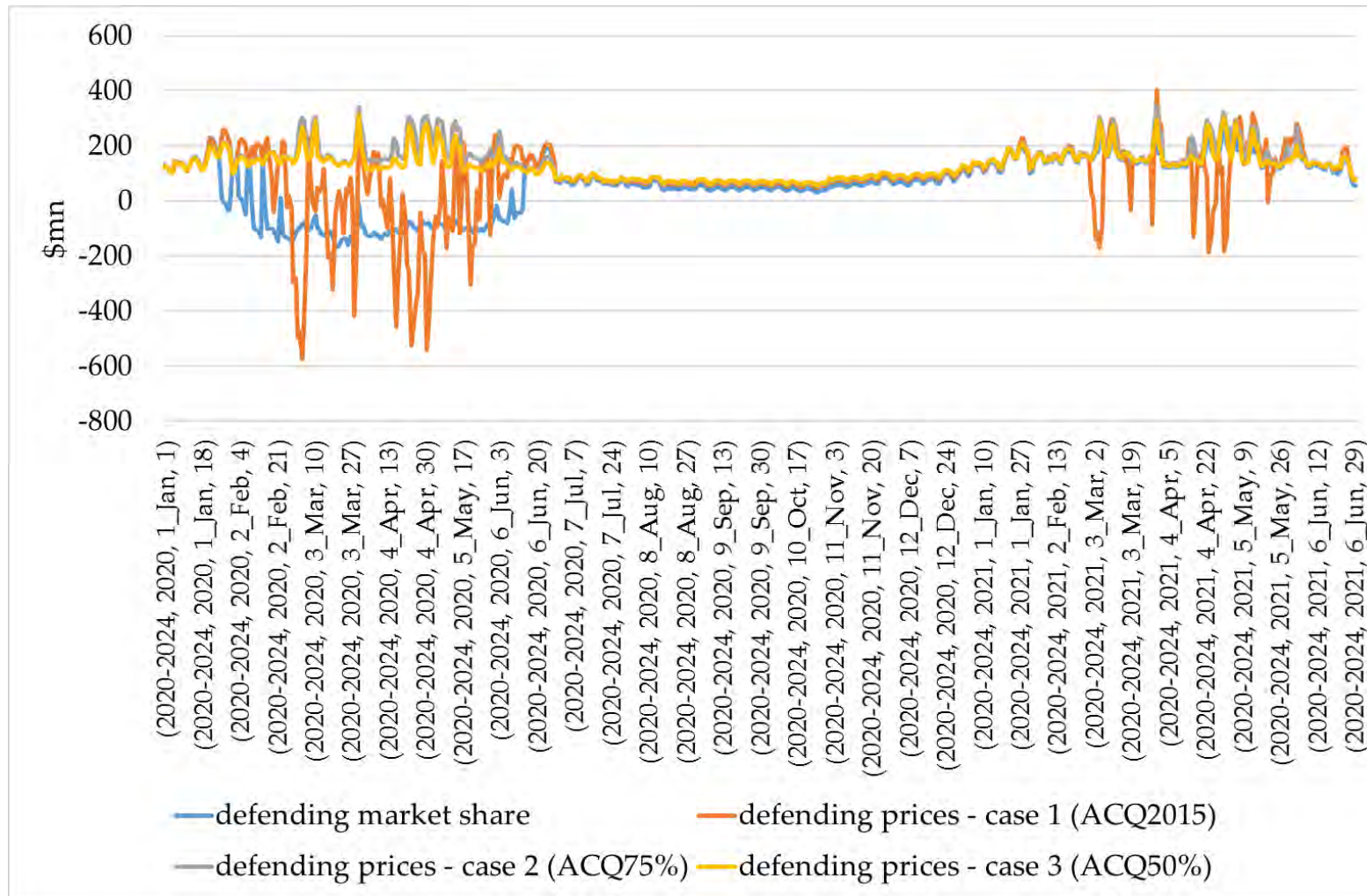
# Should Gazprom defend its market share in Europe?



- Gazprom can profitably raise prices in Europe
- A mix of fixed price long-term contracts and free (strategic) trading volumes will ensure it can game the market
- With lower forward selling coverage (anything less than 75% of the 2015 ACQ level) Gazprom's profit begins to fall

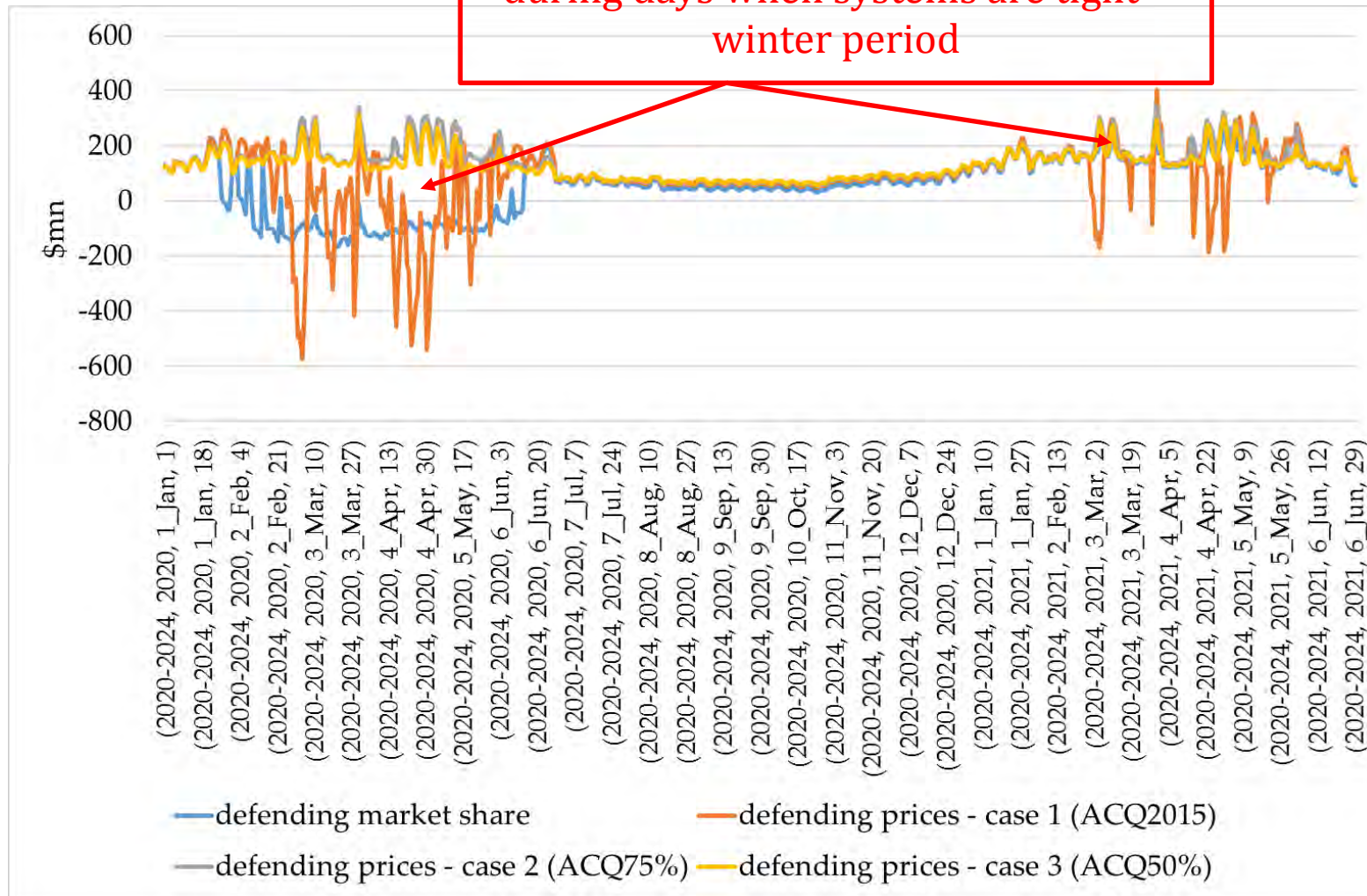


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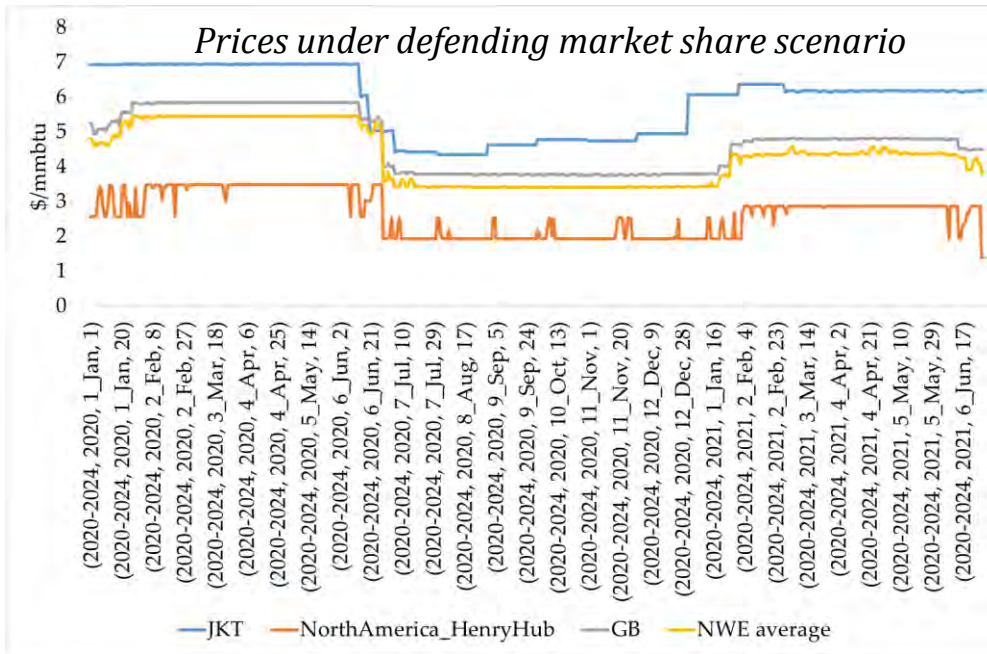
# Should Gazprom defend its market share in Europe?

Trading and profits are to be made during days when systems are tight - winter period



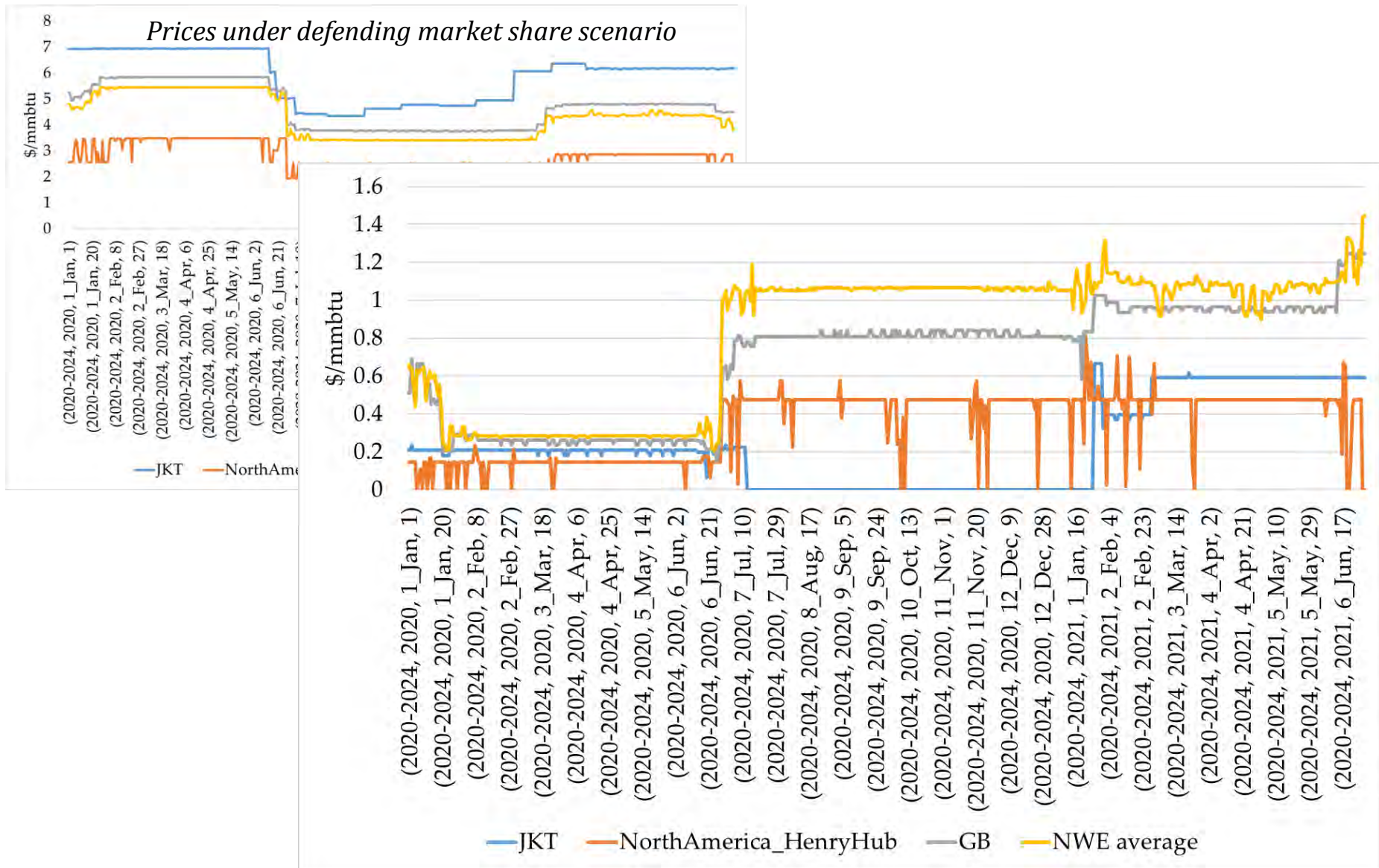
# Will US LNG respond?

## *Short-term perspective*



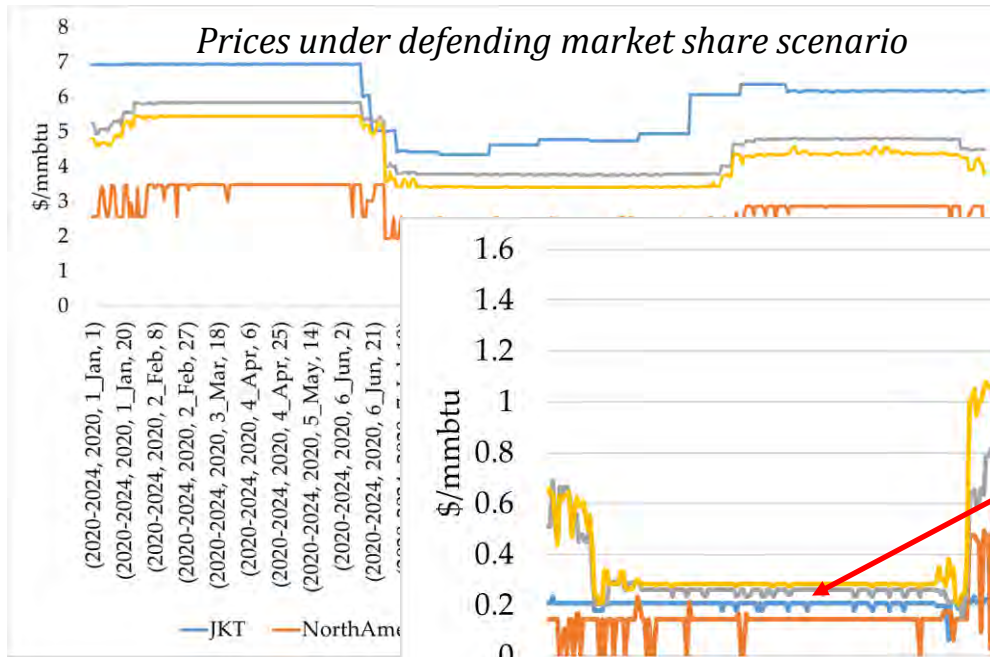
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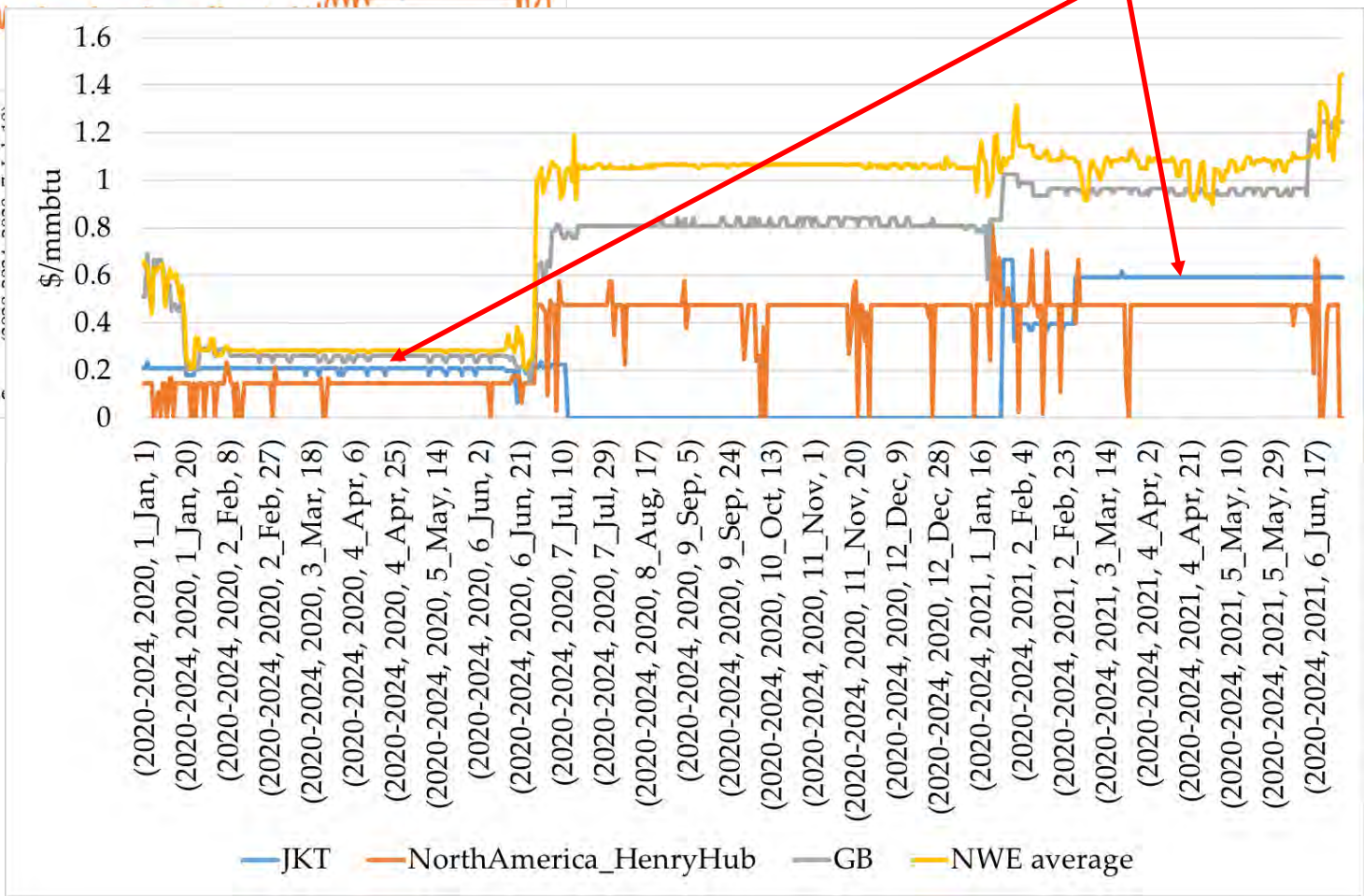


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## Short-term perspective

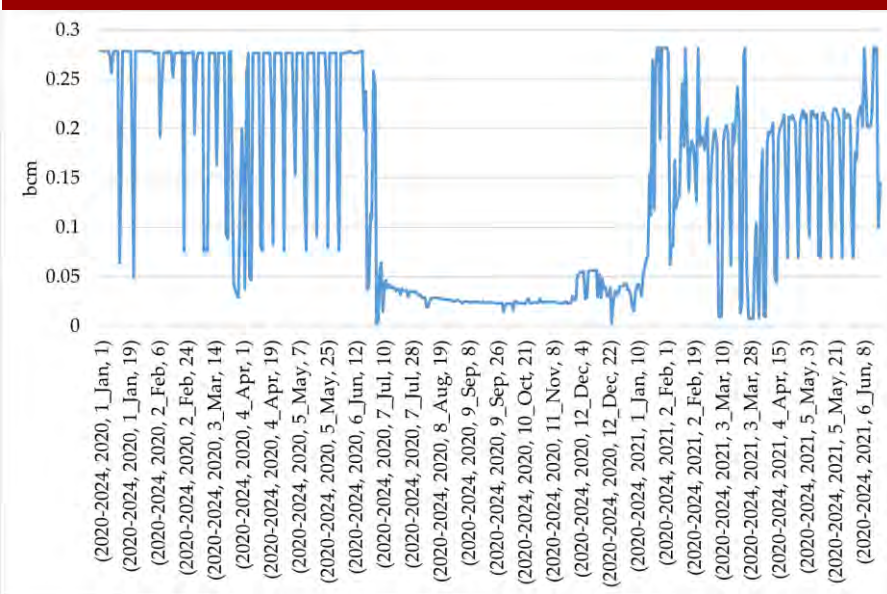


JKT price increase means US LNG is directed to Europe



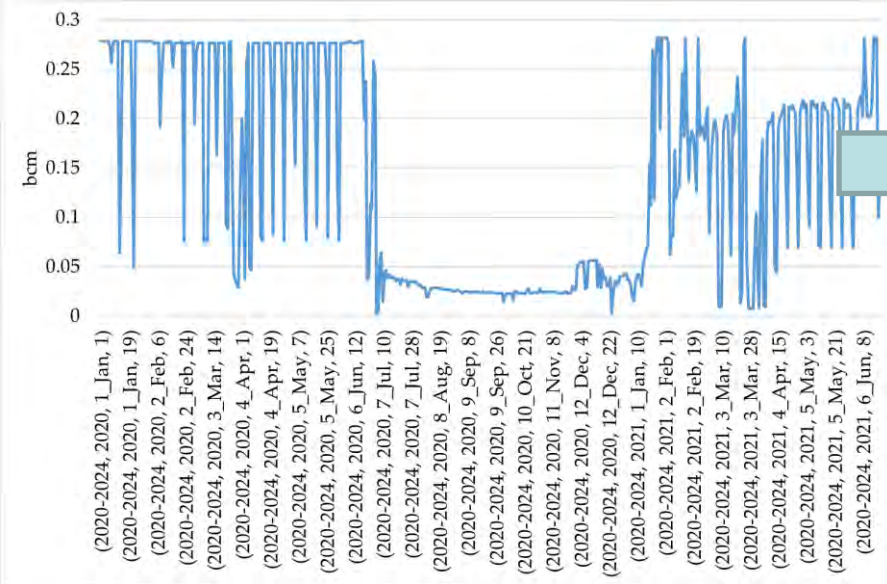
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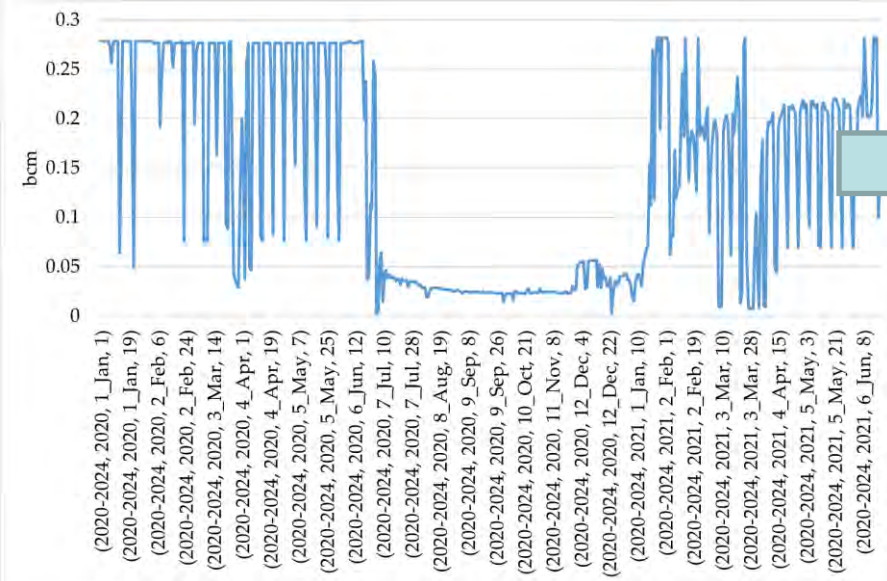
## *Short-term perspective*



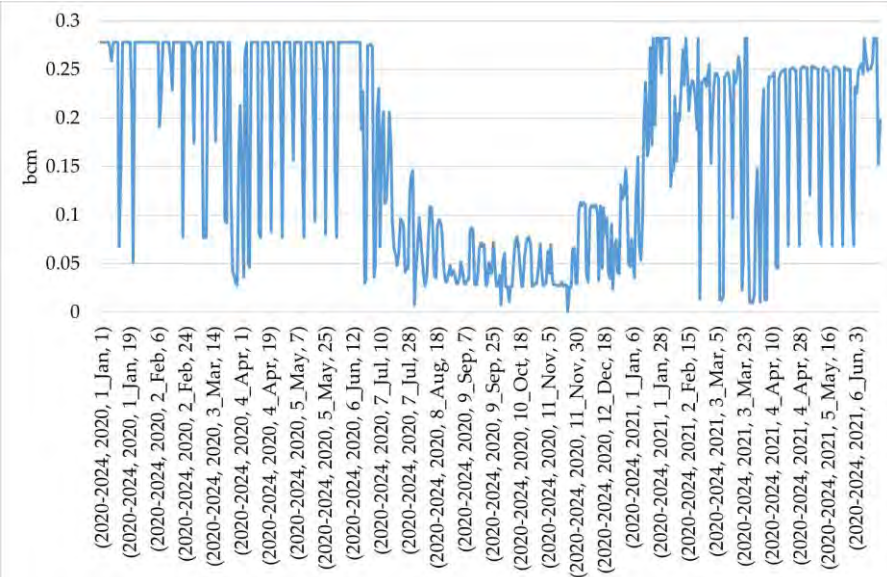
71.5 bcm for 1.5 years, or 54%

# Will US LNG respond?

## *Short-term perspective*



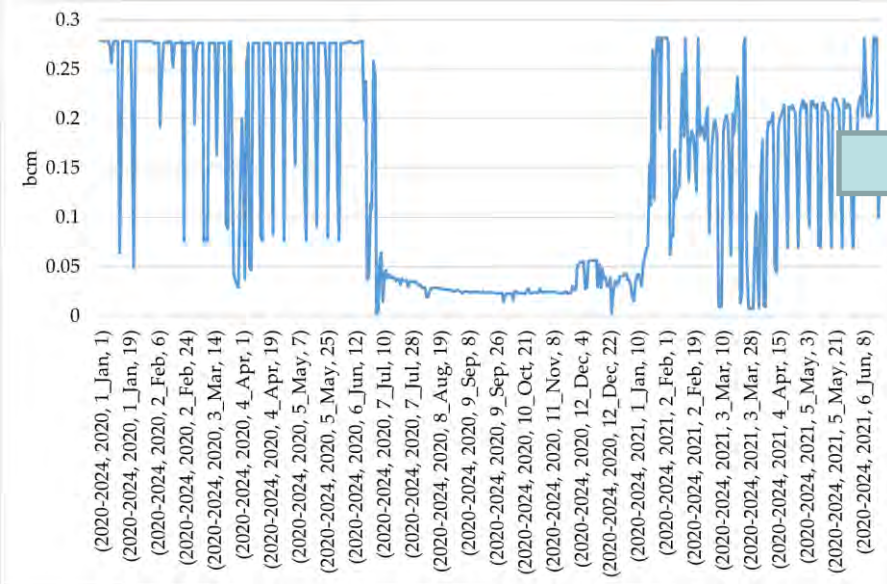
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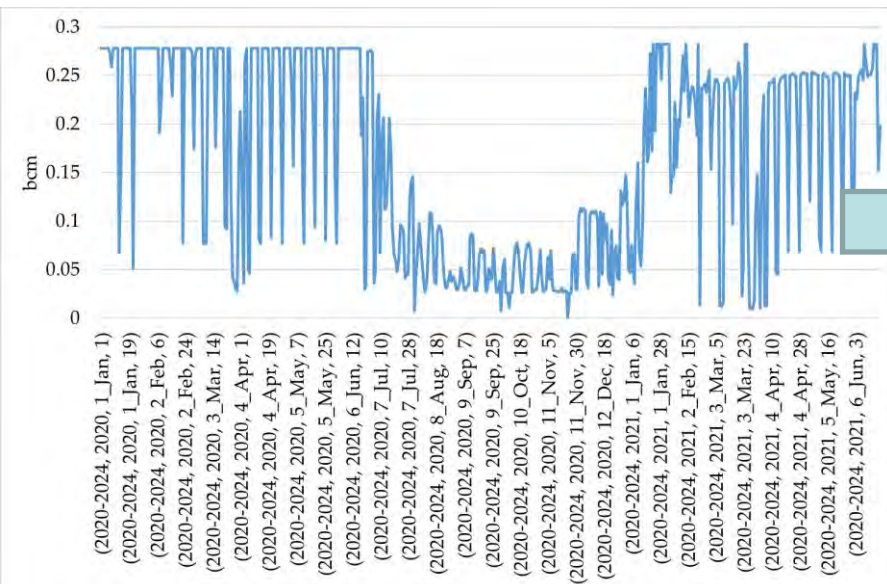


# Will US LNG respond?

## *Short-term perspective*



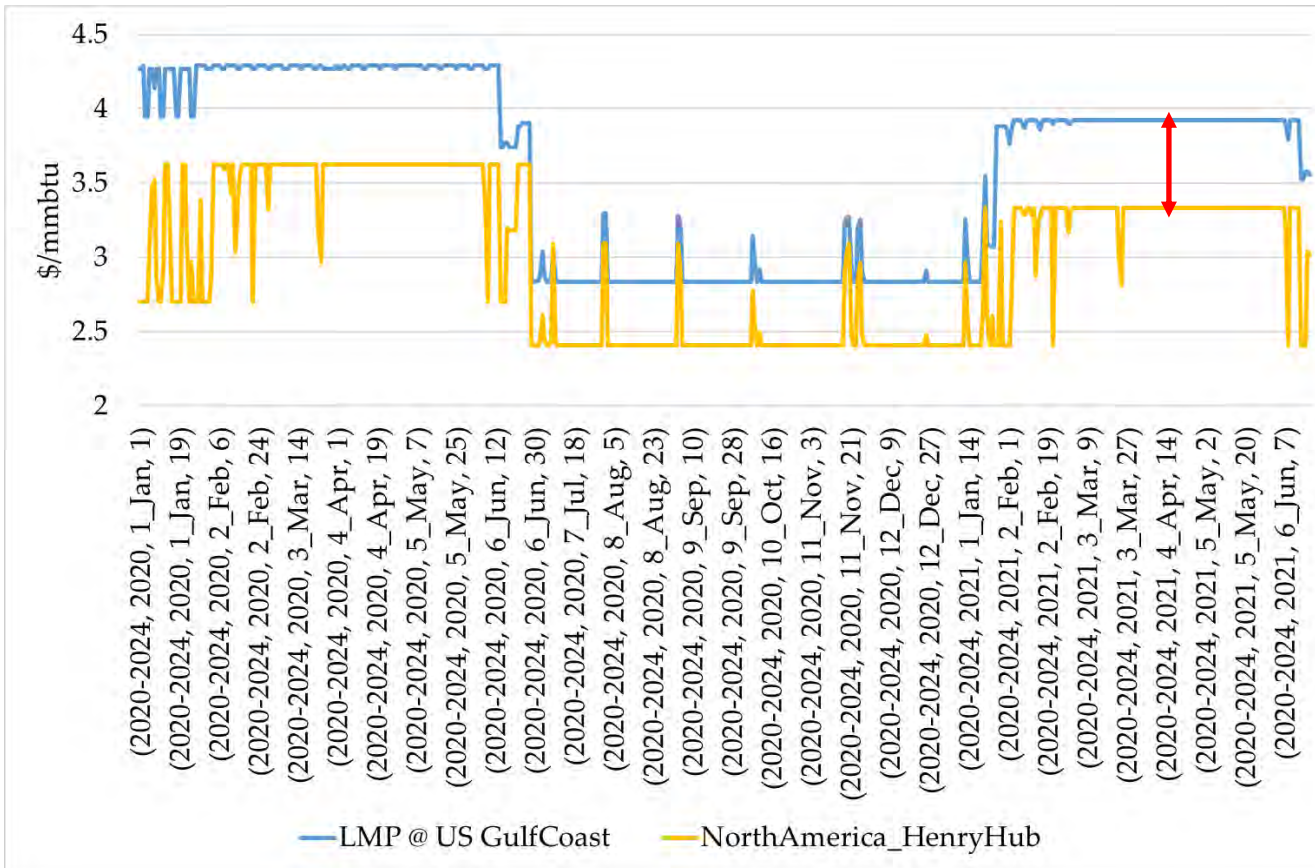
71.5 bcm for 1.5 years, or 54%



84 bcm for 1.5 years, or 64% utilization

# Will US LNG respond?

## *Long-term perspective*



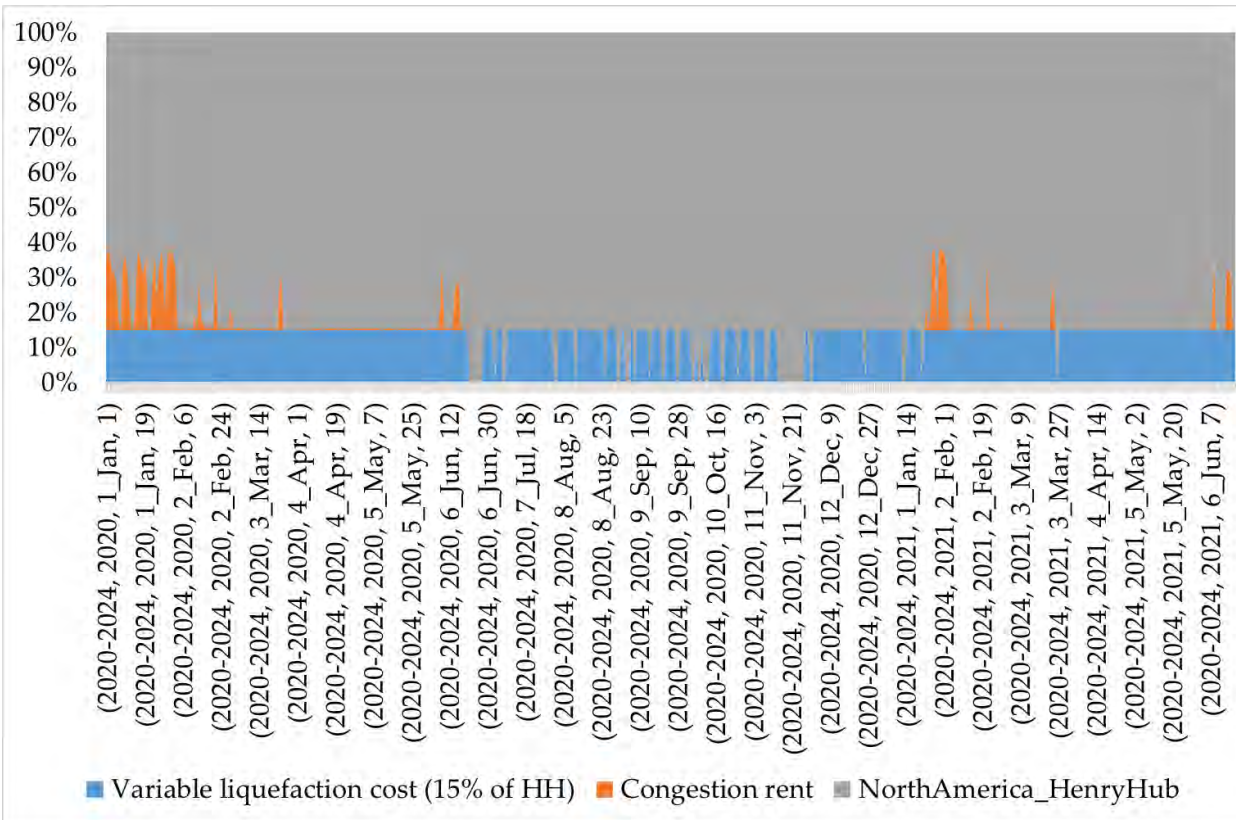
Export Price  
@Liquefaction site =

Henry Hub  
+  
15% to cover var. cost

+ Congestion rent (if  
capacity is saturated)

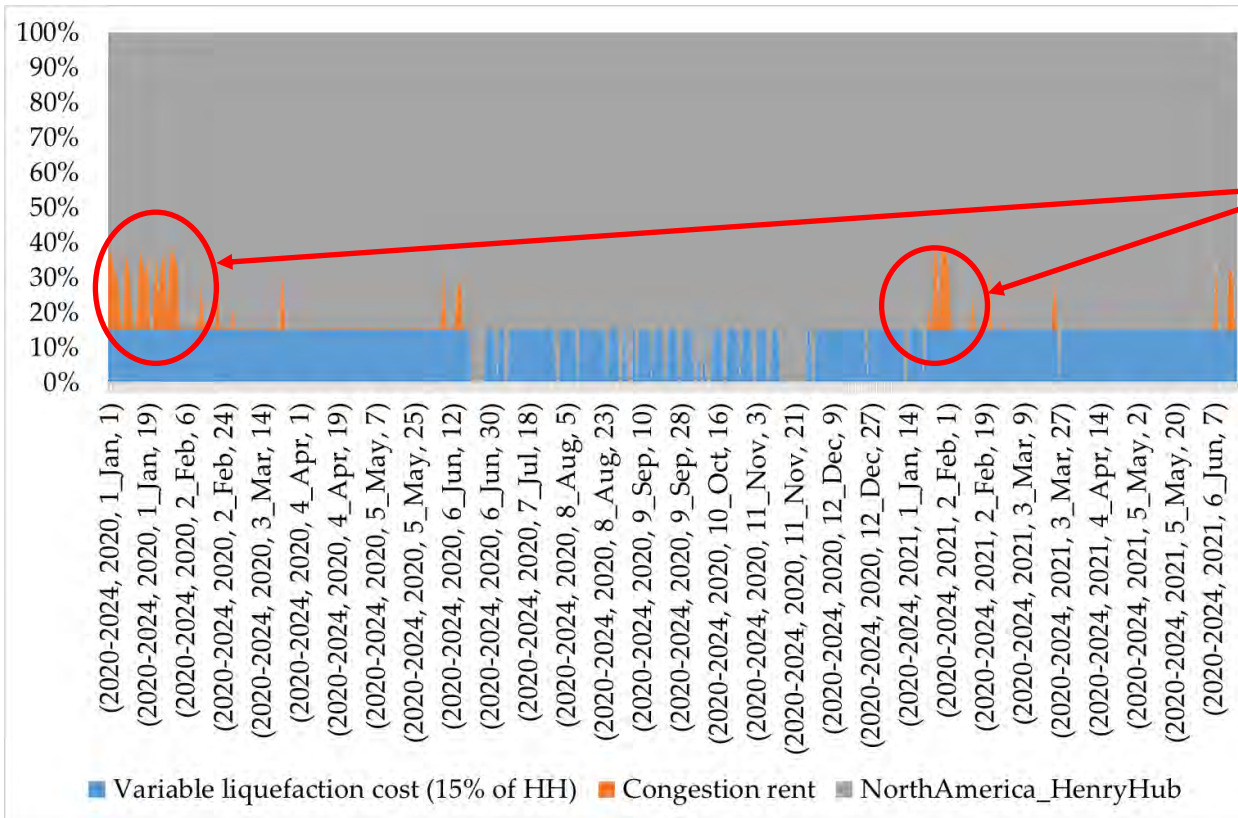
# Will US LNG respond?

## *Long-term perspective*



# Will US LNG respond?

## *Long-term perspective*



- Investment signal for new LNG export capacity
- 'congestion rent' ca. \$1/mmbtu
- Capacity cost for Cheniere is ca. \$3/mmbtu
- Thus, NO new investment even if Gazprom defend prices in Europe

# Conclusions

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- Should Gazprom raise prices? – Yes

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- Is it enough for US LNG to run at full capacity? – No



# Conclusions

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- Should Gazprom raise prices? – Yes
- Will Gazprom do so? – No
- If it does, will US respond? – Yes
- Is it enough for US LNG to run at full capacity? – No
- What is the problem then? – Australia and lower than expected demand in Asia

# Conclusions

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- What is the outlook for 2025?

# Conclusions

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- What is the outlook for 2025? – come to 2017 EPRG Winter Seminar

# Conclusions

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- What is going to happen if Australian projects are delayed or Asian demand recovers?

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# Conclusions

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- What is the outlook for 2025? – come to 2017 EPRG Winter Seminar
- What is going to happen if Australian projects are delayed or Asian demand recovers? – come to 2017 EPRG Winter Seminar
- Implications of all of these for your business?

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Thank you for your attention

Questions & comments are welcomed

[k.chyong@jbs.cam.ac.uk](mailto:k.chyong@jbs.cam.ac.uk)