Global LNG Demand Resilient in Face of COVID-19

The COVID19 pandemic has led to lockdowns across the globe and severe downgrades for short-term macroeconomic indicators. A major re-evaluation is needed for the supply and demand of each traded commodity and LNG is no exception.

It is clear that natural gas demand will be negatively affected, overall. But IHS Markit expects LNG demand to show impressive resilience. IHS Markit has downgraded our estimate for total LNG demand in 2020 by 14.4 MMt—or 3.8 percent relative to our pre-COVID outlook. Nevertheless, IHS Markit expects LNG demand to still register a slight annual increase with 2020 volumes projected to be up 4.4MMt year-on-year. LNG demand has risen each year since 2012.

It is pipeline gas more than LNG that feels the full brunt of reductions in gas demand. The price of pipeline gas is often less directly linked to oil price movements than LNG because of time lags and other formula in long-term contracts. IHS Markit projects that overall gas demand in the main LNG importing markets will decline 4% relative to 2019. However, approximately two-thirds of the demand reduction is expected to come from reduced pipeline supplies (primarily in Europe). Another one third is expected to come from reductions in indigenous production.

“LNG is often the lower-priced option thanks to a strong supply push. Major pipeline suppliers, such as Russia to Europe, are choosing not to flood the market any further. It all adds up to LNG being relatively resilient in the face of gas demand declines.” – Michael Stoppard, chief strategist, global gas, IHS Markit

Just how competitive LNG will be relative to other sources of supply varies from region to region and depends on the composition of supply.

Key Insights on LNG Competitiveness by Region:

- Europe sits at the intersection of a strong global LNG supply push and a local gas demand collapse. Gas demand has been revised down from 550 to 497 Bcm for 2020. Nevertheless, IHS Markit continues to project rising and record levels of LNG imports in 2020. In the first quarter, LNG had already seen record volumes and pipeline supplies
were down. This trend away from pipeline supply will continue as buyers are opting to receive less pipeline gas as allowed by their contracts and instead favor low priced LNG.

- Mainland China’s gas demand for 2020 has been downgraded from 327 Bcm to 312 Bcm. Despite weak oil prices, gas pipeline contracts from Central Asia are expected to be the most expensive source once delivered to demand centers on the Chinese coast and are expected to take the biggest hit. Russian pipeline supplies from the north through the Power of Siberia pipeline can supply the northeast more competitively and are still expected to ramp up as planned. Space remains for LNG imports to increase 2.5 MMt in 2020.

- India is often seen as a potential absorber of low-cost LNG, especially now that there is surplus regasification capacity. However, the economic impact of COVID19 and lockdowns now makes this unlikely in the next couple of years. New indigenous production is still forecast to come on in the middle of the year which is unlikely to be shut in. LNG volumes may decline modestly.

- Competition between pipeline and LNG will play out differently across Southeast Asia. In Thailand, for example, the bulk of reduction in supply is likely to be from piped gas since it is more expensive compared to LNG. By contrast, in Singapore LNG demand in 2020 is likely to be at minimum contracted levels, with some additional spot.

- In Latin America we expect that low LNG prices and lower hydro reservoirs has the potential to increase the cargoes to Argentina and Brazil. Bolivian pipeline prices will struggle to compete with the low LNG prices. In Brazil specifically, reduced imports of Bolivian gas in the Northern region and newly inaugurated regasification capacity open a space for increased LNG volumes.

- In Mexico, LNG imports have been substantially reduced owing to fierce competition from U.S. gas flowing through new pipelines. LNG still has a narrow stronghold in stranded areas in the West where U.S. gas cannot yet reach because of pipeline project delays.