QNB Economics
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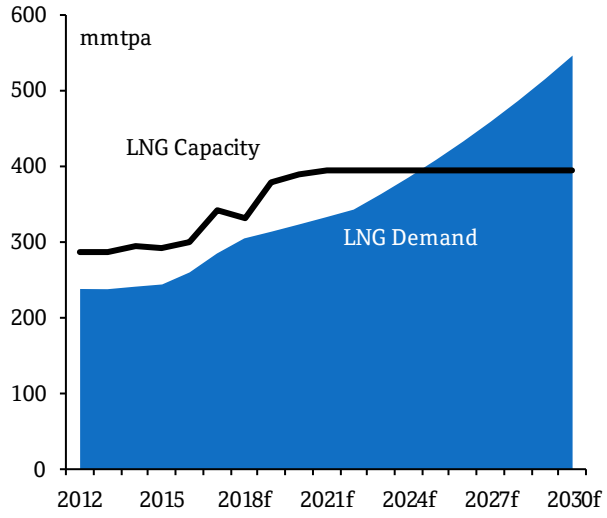
Global LNG market to tighten from around 2024

In early April 2017, Qatar lifted a moratorium on the development of the North Field, the world's largest non-associated gas reservoir. The moratorium had been in place since 2005 and its removal clears the way for an increase in production and export of liquefied natural gas (LNG). In July 2017, Qatar announced a new development from the North Field would produce 23m tons per year by 2024; an increase of 30% from current total LNG production levels to about 100m tons per year, thus cementing Qatar's position as the leading LNG producer. The lifting of the moratorium might be motivated by the dynamics in the global LNG market over the next decade. The decision was taken after extensive studies to assess the North Field reservoir to better understand the fields production potential. A wave of new LNG supply is expected up to 2020 but little confirmed new projects beyond then.

Global LNG markets are expected to be oversupplied until 2022 with capacity utilization expected to be in the range of 81-88% on average between 2019-22, but become undersupplied thereafter. New LNG supply is expected up to 2020 mainly from the US and Australia, boosting global production by up to 96.5 mmtpa (million metric tons per annum) - or about 30% compared to the 2017 level. However, around 2024, the market is expected to tighten with supply broadly flat as few new LNG projects (which take 5-7 years to complete) have been given the green light since the sharp decline of prices in 2014. At the same time, according Bloomberg New Energy Finance, global demand is expected to grow by a compound annual growth rate of about 5% over the period 2023-30 as domestic production in Europe and South East Asia declines, and the demand for clean energy in economies such as China gathers pace.

Nonetheless, there are a number of potential projects waiting on the side-lines. According to Bloomberg New Energy Finance, about 362 mmtpa additional capacity at the pre-FID (final investment decision) stage has some chance of coming online before 2030. Japan LNG spot import prices have risen from a low of USD4 per million British thermal units (mbtu) in mid- 2016 to an average of USD10 for the first three months of 2018. Qatar is the world's lowest cost major producer of LNG (see below), which could deter some entrants. Nonetheless, if prices continue to rise, it could increase the likelihood that producers can achieve agreements for long-term sales contracts at prices above the breakeven level for new projects.

Global LNG supply and demand*
(million metric tons per annum)



*Assumes projects under construction are completed on schedule with no new projects initiated
Sources: IGU, Bloomberg and QNB Economics forecasts

Hence, now is a good time for Qatar to step back into the market to deter new investments elsewhere given its comparative advantages. First, Qatar already has existing infrastructure and LNG facilities that could help keep costs down. The total cost of new production is estimated to be USD2-5 per mbtu, below the level at which other potential new projects are viable. Second, as the world's largest producer, Qatar already has the reputation for reliability and the relationships to agree long-term supply agreements with importers.

Qatar's decision to lift the moratorium came as a surprise to markets. After 12 years with little word on when it would likely be lifted, many had begun to assume that it could remain in place indefinitely. However, the decision to lift the moratorium could help cement Qatar's position as the leading global LNG exporter. It will also help to boost growth and national income when production comes on stream, probably just after the World Cup in 2022.

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