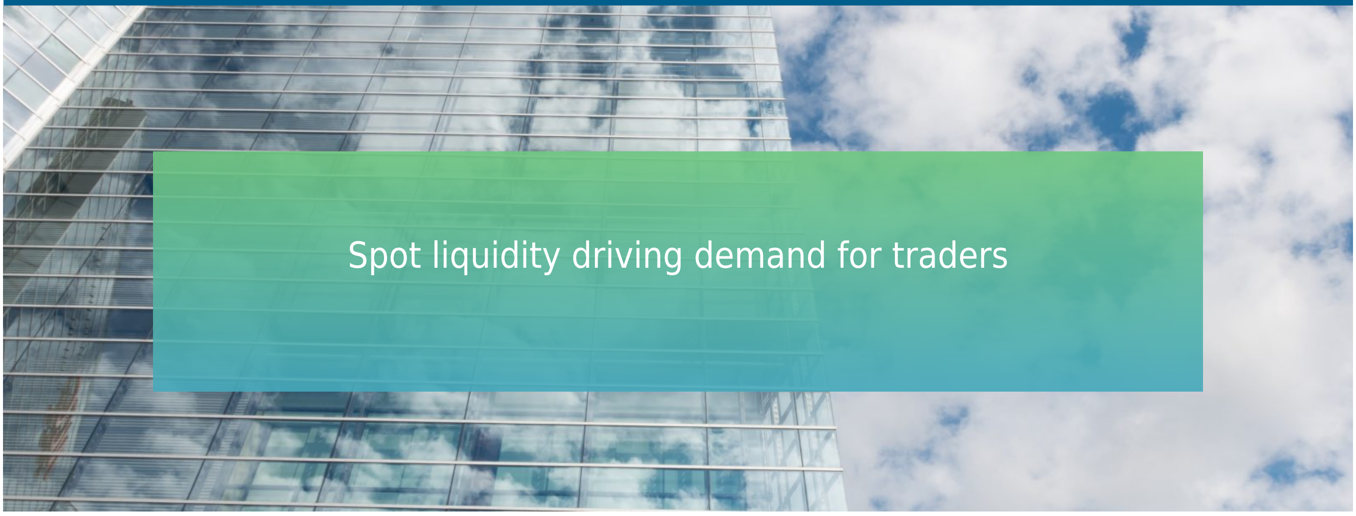
GAS & LNG|WEEKLY NEWS IN REVIEW



Spot liquidity driving demand for traders

23 JULY 2018

The continuing growth of the LNG spot market has been driving increased demand for skilled trading talent

The global LNG market has turned a corner, pulling away from being the almost exclusive province of term deals and into position as a liquid spot market in which skilful traders can identify and capture value. The market for LNG has evolved along the not-unusual route of index-linked term deals being the norm in the early-to-middle period, with the minority of material traded on a spot basis. The growth of spot liquidity and a shifting landscape of supply and demand fundamentals is drawing new blood to the market.

Until recently, LNG professionals have tended to come from the supply side, from big producers such as Royal Dutch Shell, BP or Chevron, but the evolution of the market is driving demand for talent that can buy as well as sell. The opening of this window of opportunity can be seen in the Asia-Pacific market, which has traditionally been the domain of supply-side majors like ExxonMobil and BP, with trading houses including Gunvor and Trafigura now becoming part of the scene.

The search for trading talent ready to move spot cargoes can also be seen in the trend of rising remuneration packages, with trading houses entering the market offering big packages to traders who are ready to move into an evolving – and therefore higher-risk – situation.

The rise of demand for LNG – and notably in Asia-Pacific – is one driver of the increase in spot trading activity. Chinese demand growth outperformed expectations in 2017, rising by a sharp 46pc year on year to 38.1mn t and bringing it closer to Japan in terms of import volumes. With an increasing number of buyers taking an increasing number of cargoes, the scope for spot traders to profit from the supply chain has grown.

Until recently, LNG professionals have tended to come from the supply side, from big producers such as Royal Dutch Shell, BP or Chevron, but the evolution of the market is driving demand for talent that can buy as well as sell.

The supply side has also played an important part. Investment in LNG production and export projects has fallen sharply in recent years in line with falling prices – and most notably benchmark crude oil prices, against which long-term supply deals have been made. With LNG export projects generally taking years to develop and being very capital intensive, falling crude prices since 2014 have put pressure on producers planning to supply under term deals and have therefore damaged the economics of debt-financed projects. The uncertainty surrounding index-linked pricing in a well-supplied global market has naturally drawn some participants away from price indexation to spot deals, which by their nature must reflect a perception of value shared by both parties.

A large proportion of the expected increase of global LNG supply can be traced to the US, which has been developing liquefaction and export infrastructure to monetise the very large volumes of natural gas that have been brought on line over the last decade following advances in unconventional production. Unlike in some other parts of the world, many US project developers have set up operations without committing the coming supply to buyers ahead of time. Instead of being sold under long-term arrangements at an oil-linked price, the LNG is more likely to be traded at spot prices linked to the US Henry Hub natural gas benchmark.

The combined force of increased global supply and incremental US supply expected to trade on the spot market is disrupting the traditional LNG model. US LNG is expected to displace some imports into Europe that have been sourced from Qatar, forcing the Mideast Gulf producer to increase its share in the growing east Asian market, but US suppliers will also be looking to take as much market share in Asia-Pacific as possible as export flows rise. The price competition and contract flexibility that this will drive will disrupt existing trade flows and create more opportunity for third-party traders. As this process continues, we expect to see more LNG market entrants making highly competitive offers to trading talent in other commodity segments.

This article was produced as part of HC Insider. HC Insider is Human Capital's dedicated media service. In addition to providing subscribers with relevant and informative editorials, we also report on people moves in the energy and natural resource world.

To receive free HC Insider alerts to your desktop or mobile, sign up here.

About Human Capital

Established in 2003, Human Capital identifies and recruits business-critical talent for organisations involved in the energy, mining, agriculture and nutrition supply chains.

From our offices in London, Geneva, Houston, Hong Kong, Singapore, São Paulo and Sydney, we have built our high reputation on delivering quality professional search services across multiple product, functional and regional markets.