



CEDIGAZ, the International Association for Natural Gas

Oil prices and the gas market

Geoffroy Hureau - Secretary General - CEDIGAZ



Outline

- ❑ Gas pricing overview
- ❑ Global market dynamics
- ❑ Recent developments and medium term outlook
- ❑ Conclusion

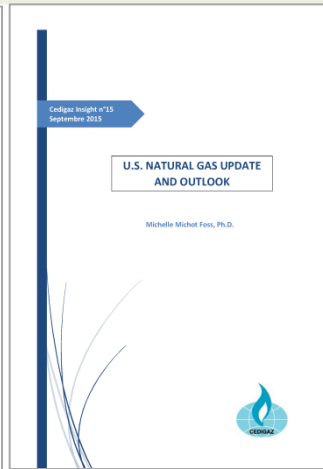
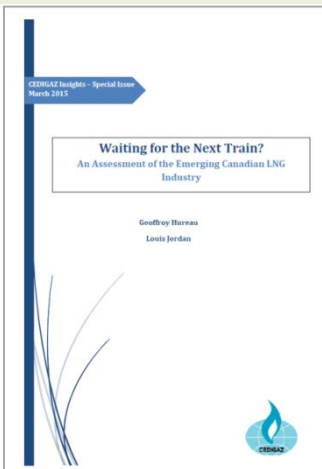
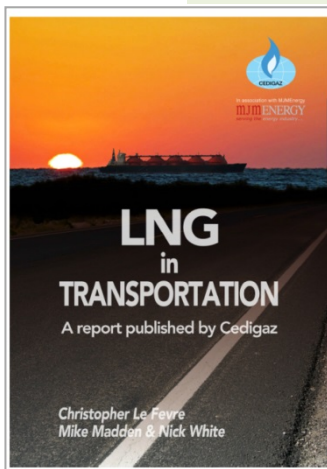
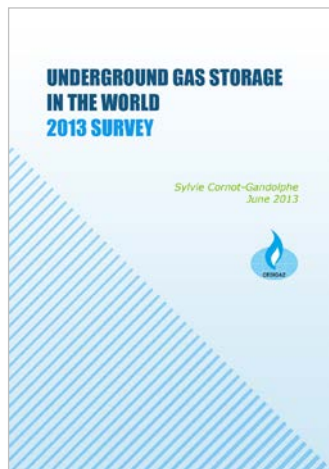


CEDIGAZ - More than 50 years of gas market intelligence

- ❑ Founded in 1961, 90 members in 40 countries
- ❑ Databases (gas statistics, supply contracts, UGS, LNG)
- ❑ Annual surveys and thematic studies
- ❑ News reports

WORLD UGS STUDY (June 2013)
Published since 1990

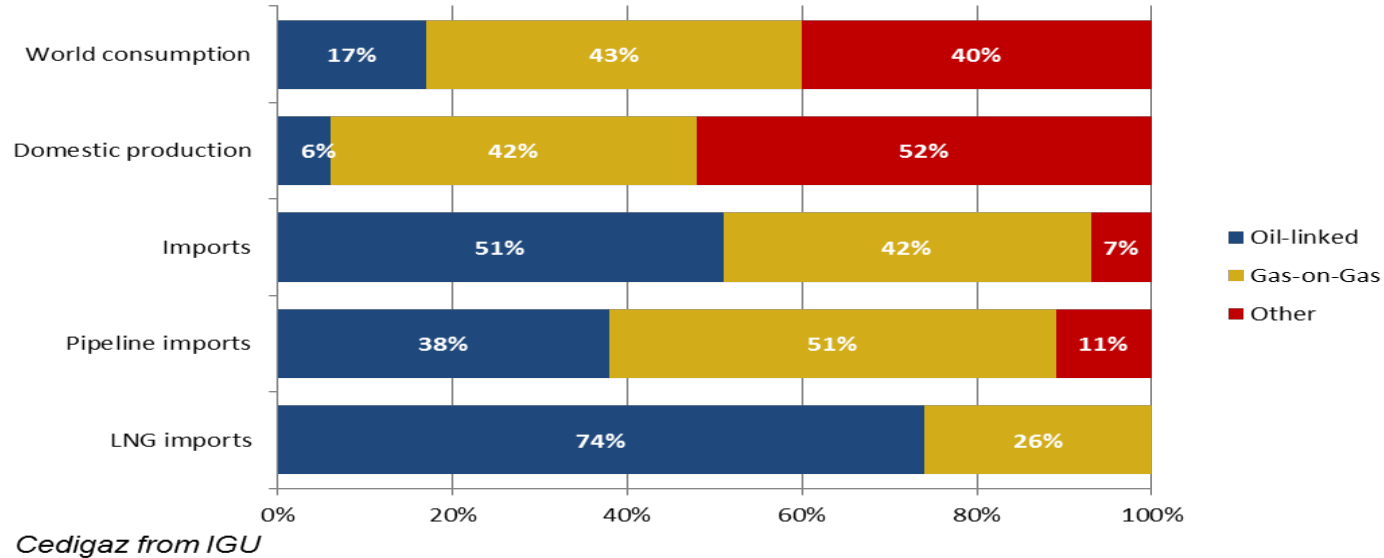
RECENT STUDIES



GAS PRICING OVERVIEW

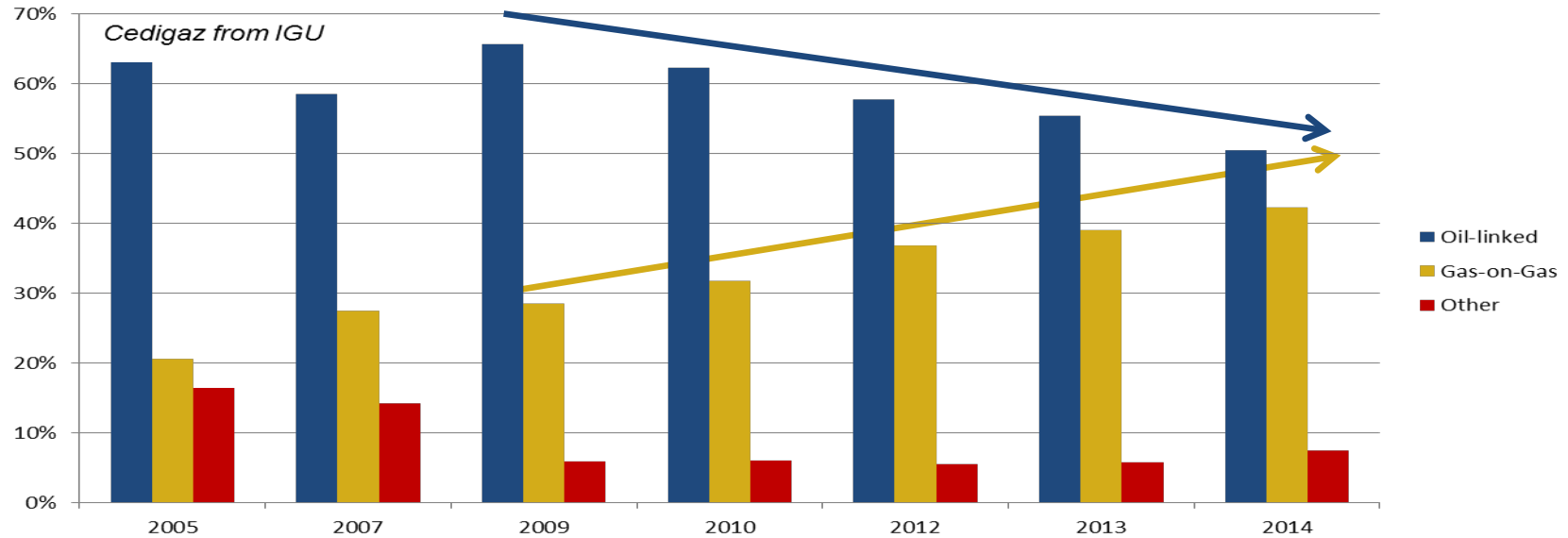


51% of gas imports are still linked to oil prices



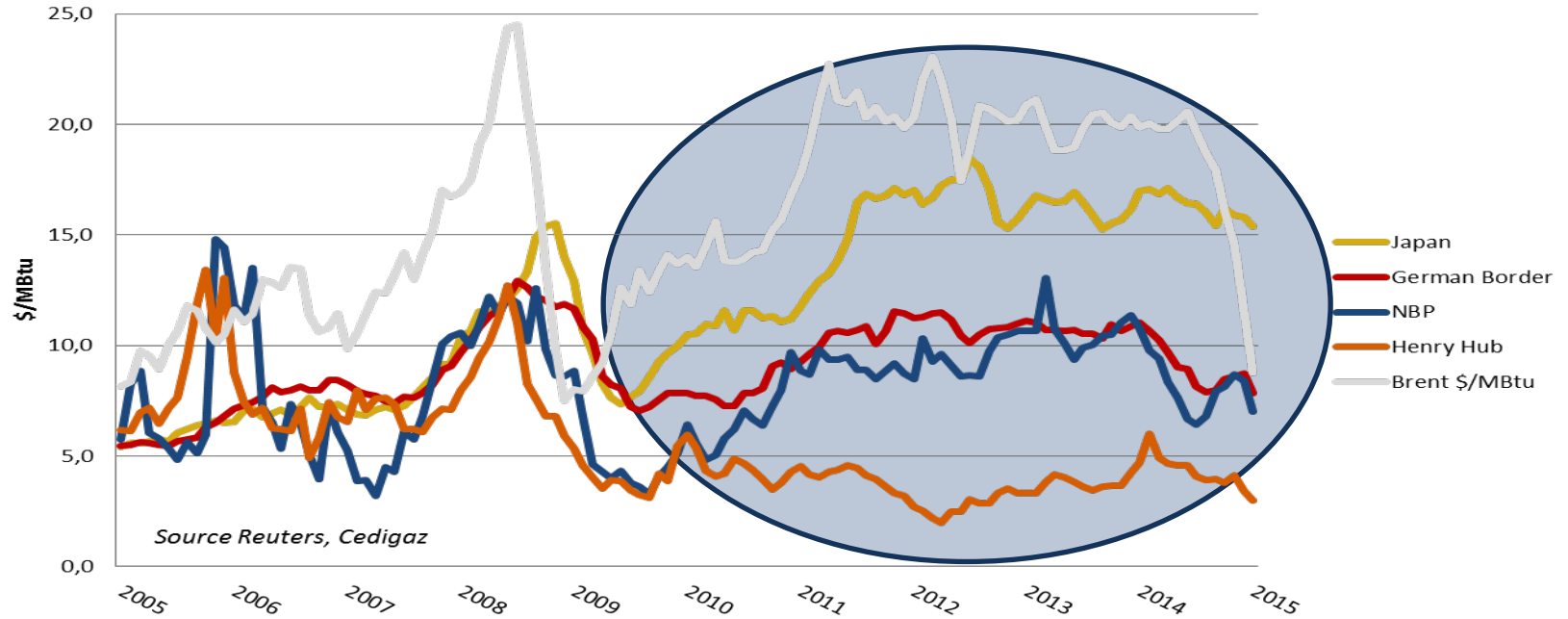
➤ Overall, oil directly impacts less than 1/5 of marketed gas, but 51% of imported gas

But this share has been going down since 2009

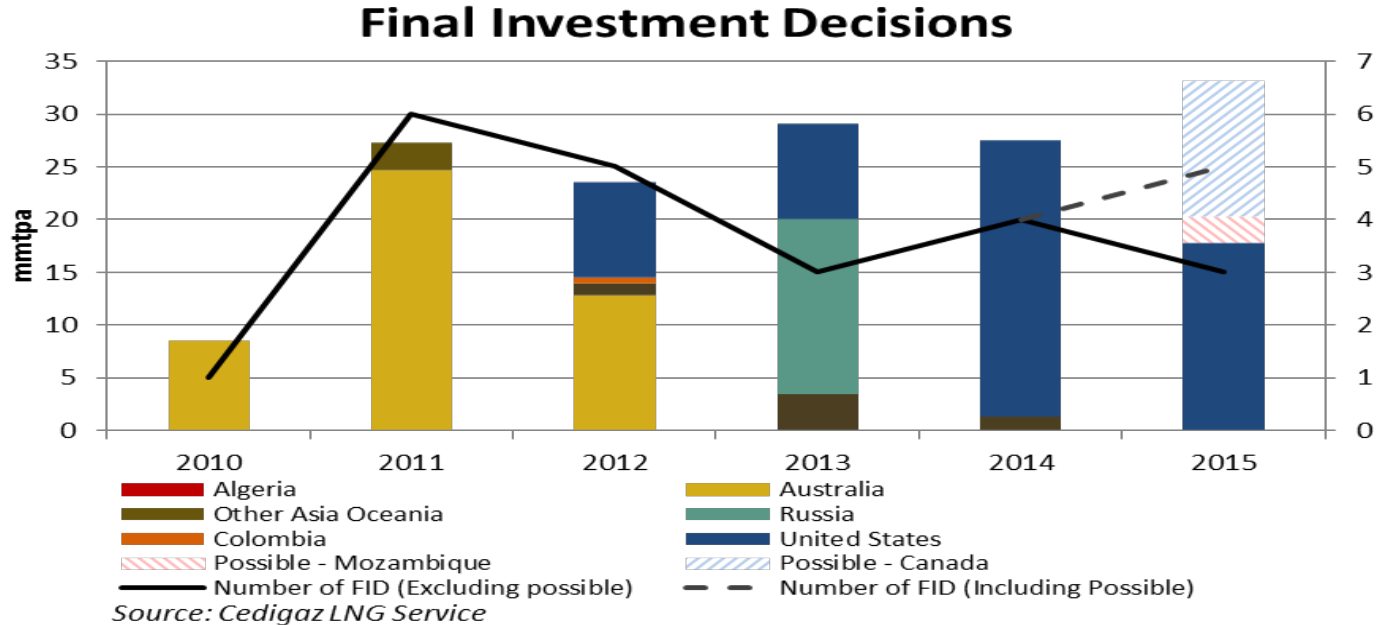


- Growing influence of hub indexation in Europe
- Growing share of spot/short-term LNG

Regional price differentials



US LNG, a new business model, hub indexed and flexible



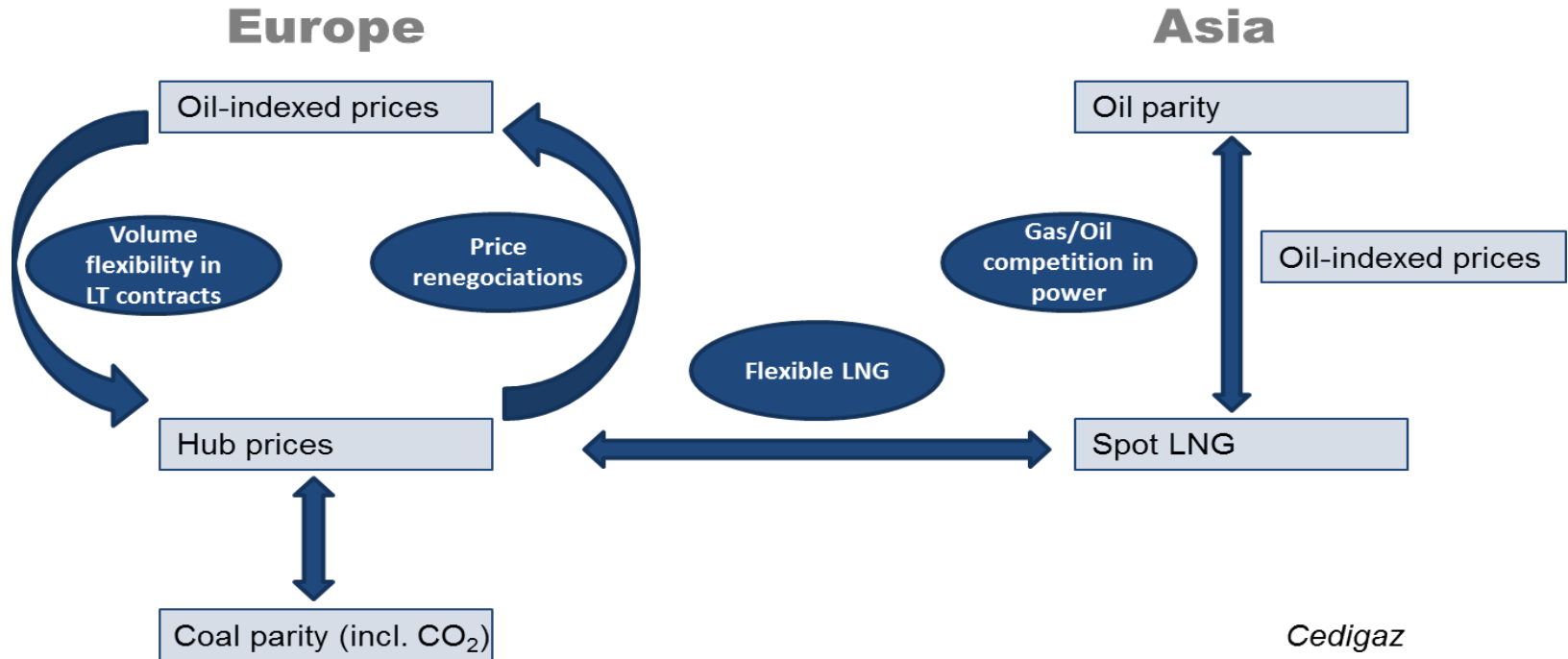
US projects: 36% (volumes) of LT LNG contracts signed since 2011



GLOBAL MARKET DYNAMICS



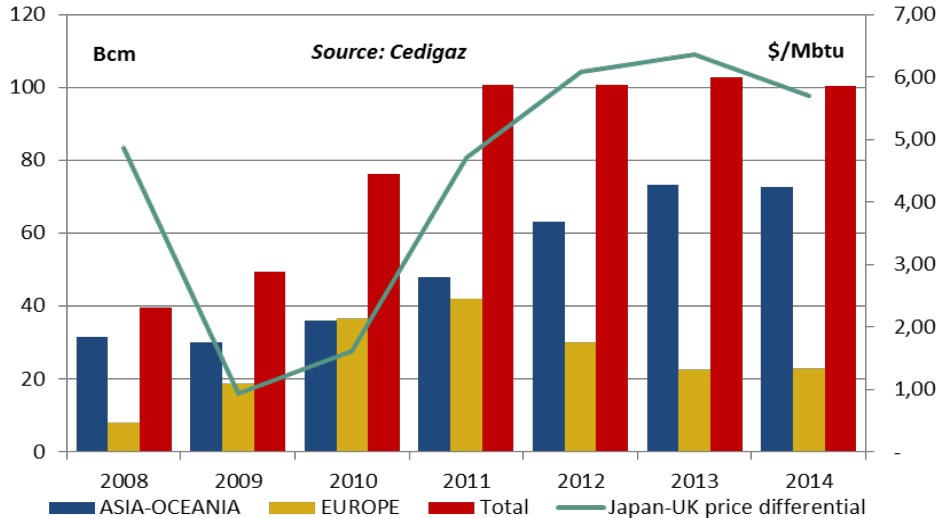
Spot/LT price dynamics



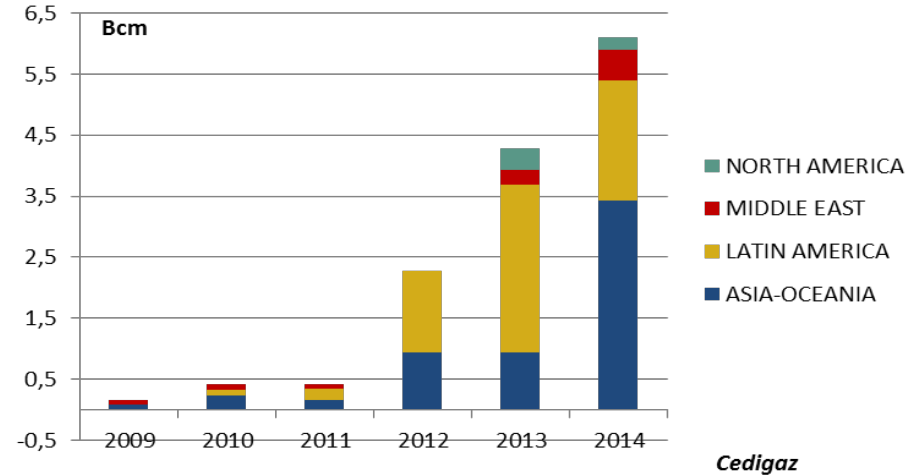
In Europe oil-indexed prices act as a cap (volume flexibility in LT contracts)
In Asia, spot prices fluctuate around oil-indexed prices, capped by the oil parity

Flexible LNG: linking markets

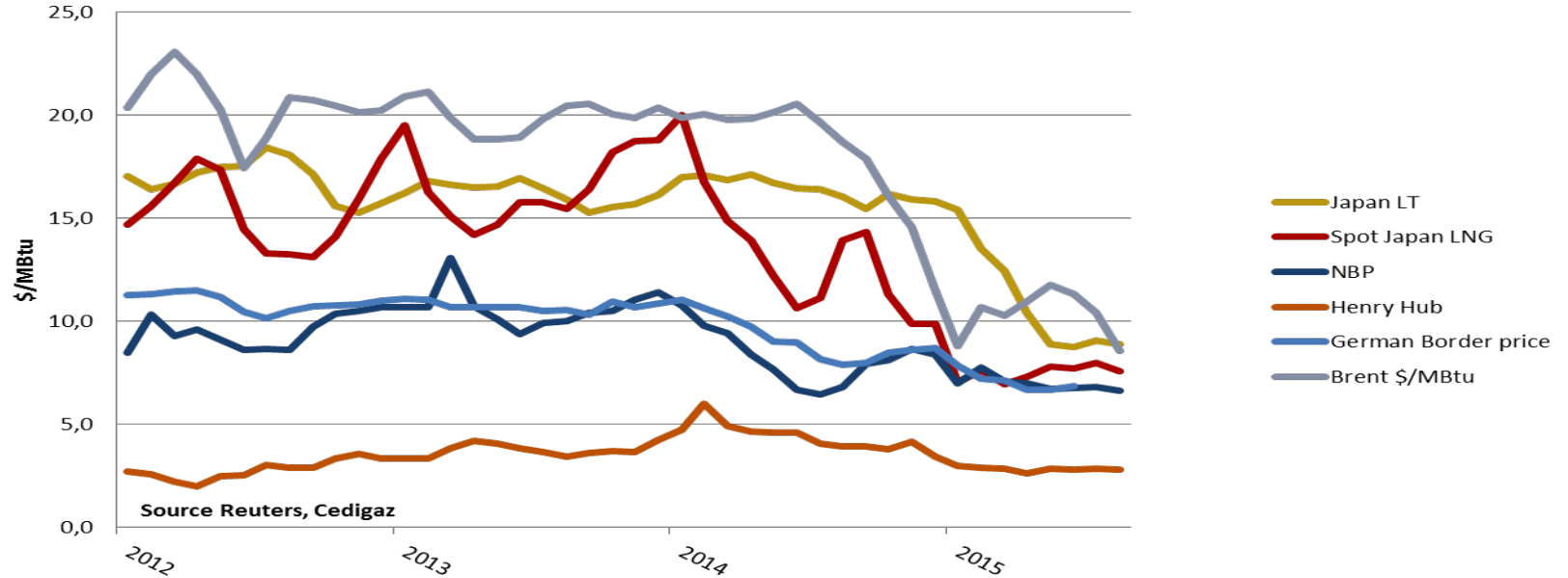
Qatari LNG flows



European Reexports



Double price convergence Asia/Europe, LT/spot



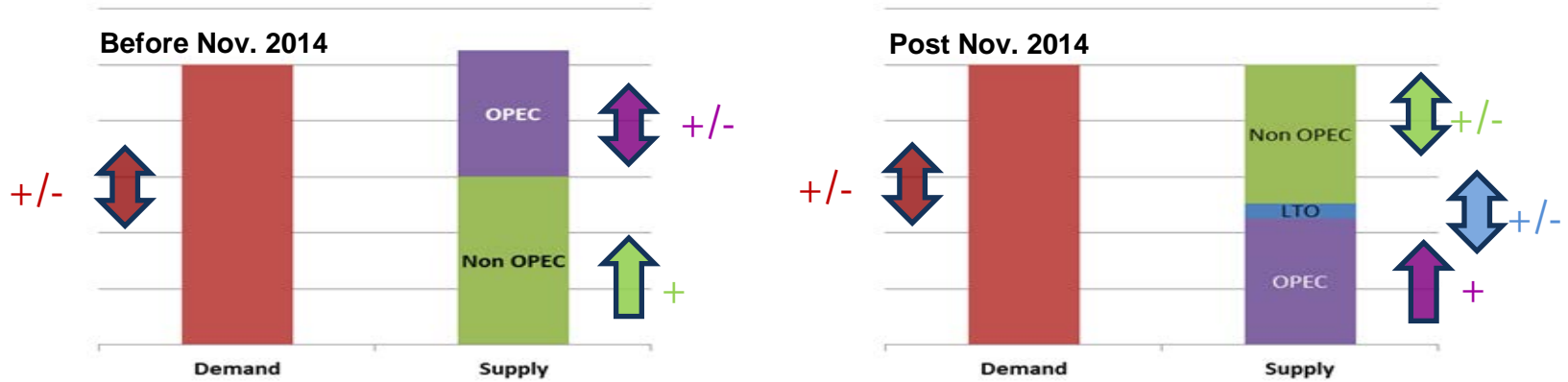
US prices remain significantly lower



MEDIUM TERM OUTLOOK



New oil market dynamics



Key elements for MT evolution:

Supply

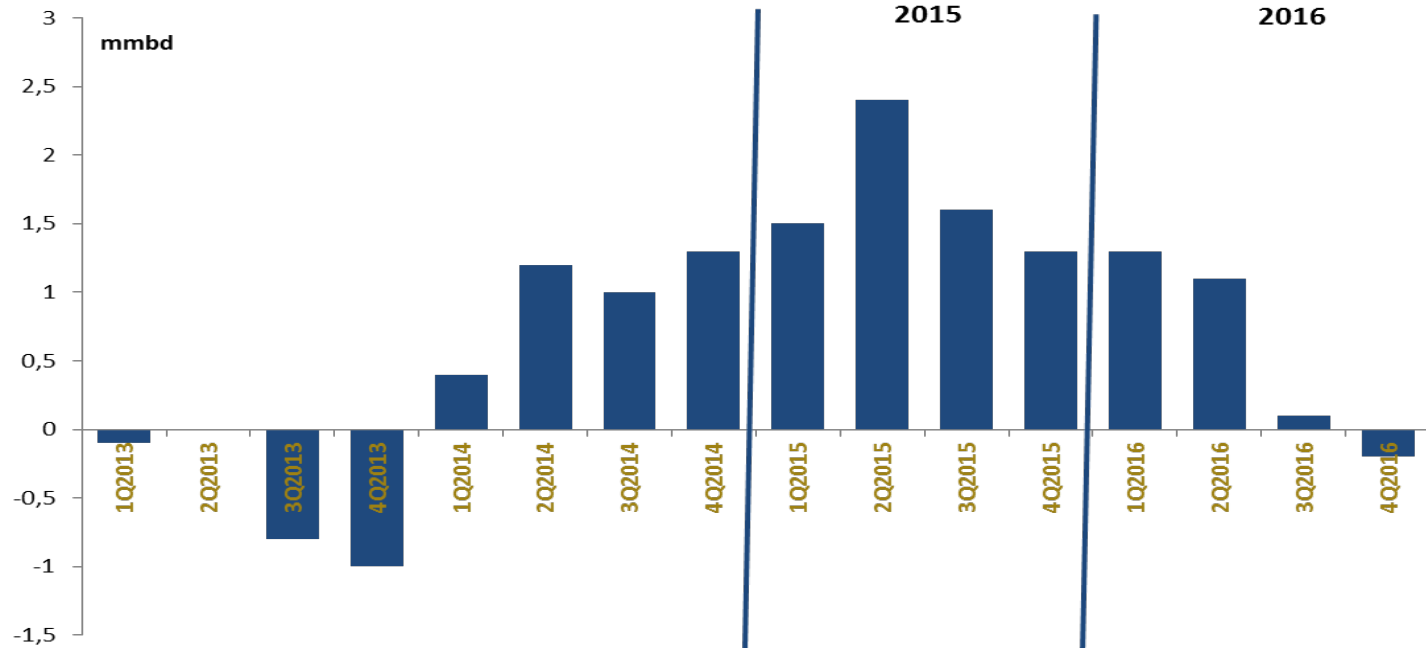
- US production
- OPEC production (Iran, Irak...)
- MENA geopolitics

Demand

- Price effect
- Global growth (China...)

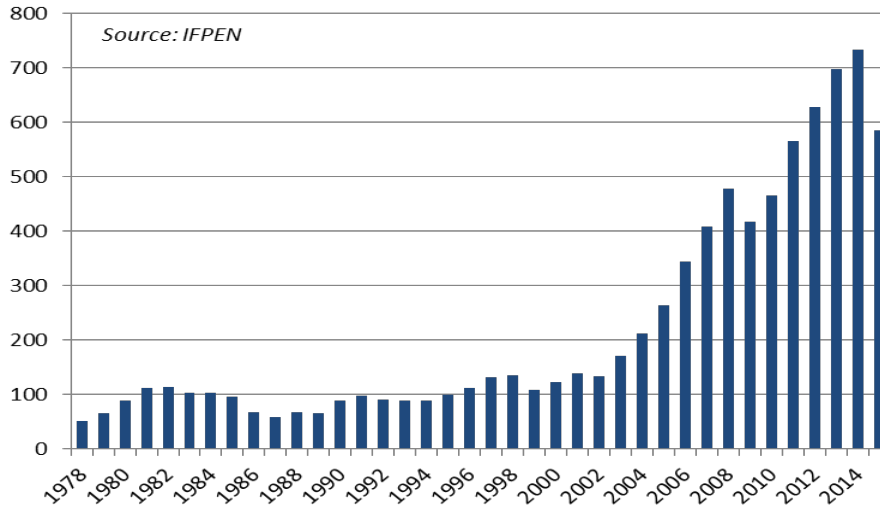
Oil market to remain oversupplied in 2016

Oil Supply/Demand balance (IEA oct.2015)



Oil Prices – Bearish factors

E&P spendings (\$ billion)

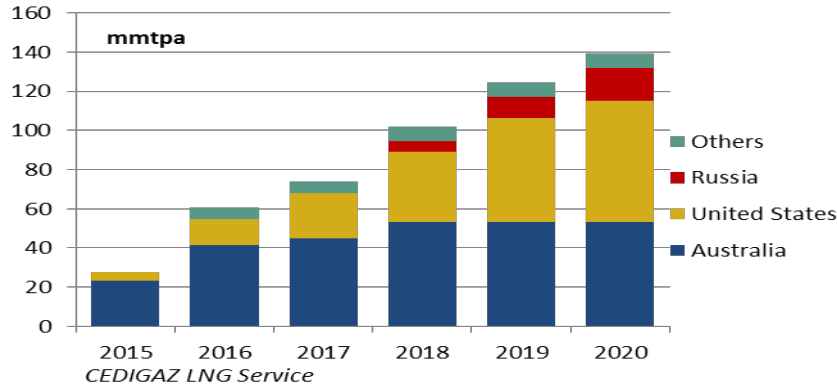


- Huge growth in E&P investments in recent years to develop LT assets
- Producing countries incentivised to produce to the maximum to balance their budgets
- « Shale technology » also helps increase recovery in conventional fields
- Costs reductions will lower break-evens

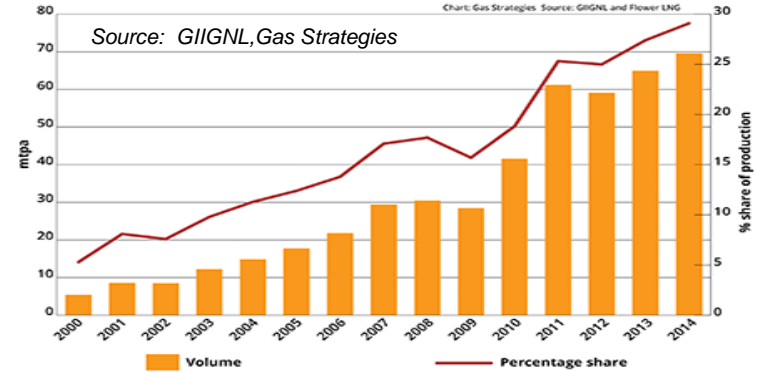
>> Price could remain significantly below \$100 bl (\$60-70) for many years

LNG capacity to grow 50% to 2020

New LNG volume (2015-2020, cumulative)



Short-term LNG

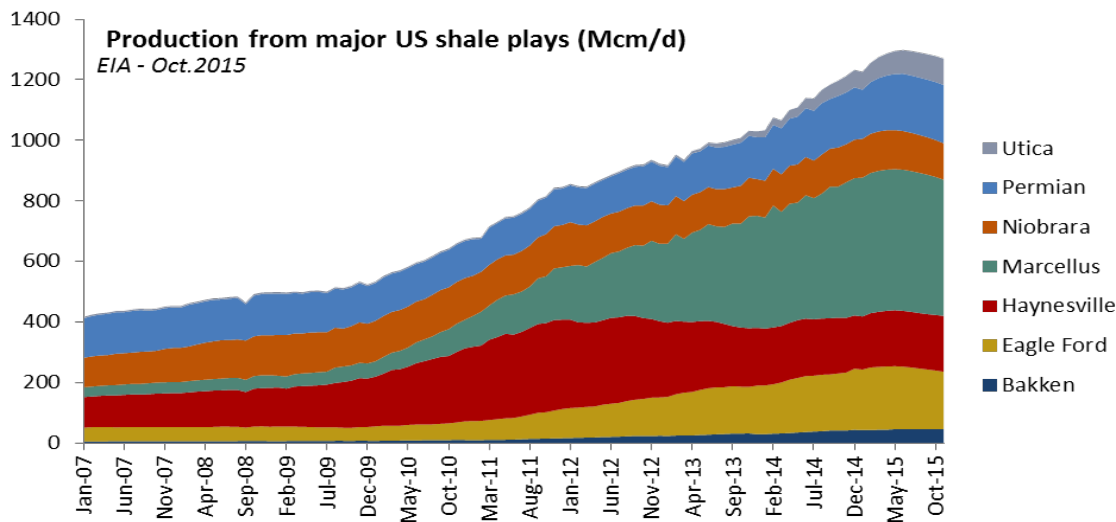


The gas market is likely to be oversupplied until the early 2020 at least:

- *140 mmtpa New LNG coming online*
- *Russia has at least 100 bcm spare production capacity*
- *Short-term trading should continue to grow*
- *In the first half of 2020-2025 the market could tighten as current and MT price perspectives do not favour new projects*
- *Uncertainty on demand: Europe, Asia (China, Japan...), new markets...*



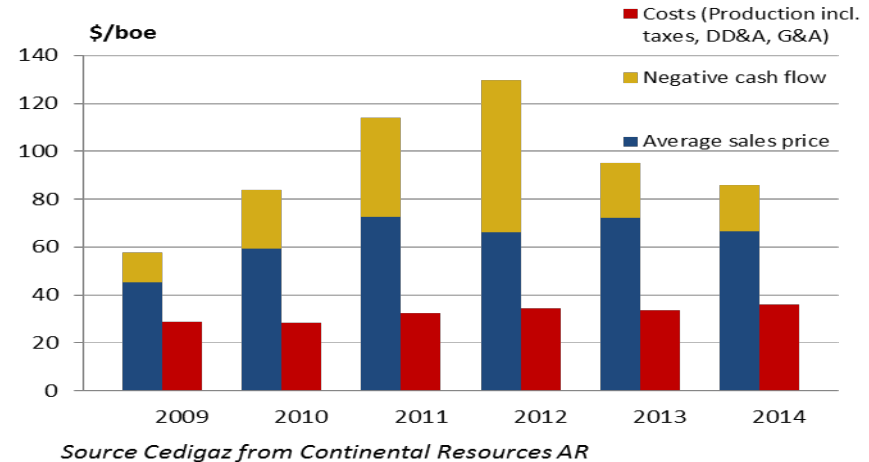
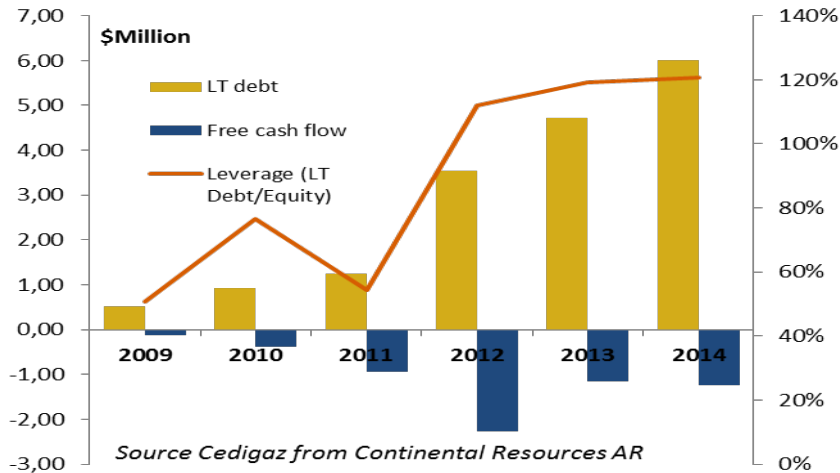
Could the US become short on gas?



- In the US gas production is correlated to oil prices (CC 70% vs 8% between gas prod. & gas prices)
- Most of the shale gas produced in the US comes from tight oil / liquids or wet gas plays
- Low oil price → lower oil production → lower gas production
- Lower production + growing demand → **high gas prices in a low oil price context is possible**
- **Impact on LNG exports competitiveness** (already challenged at today's prices)

US shale firms as indebted as Greece

“...if you include privately held companies, shale firms owe almost as much debt as Greece.”
The Economist July 4th 2015



Many companies had negative cash flows even before the oil price drop



Conclusions

Oil prices:

- expected to remain depressed in 2016
- LTO, Iran and geopolitics will be key
- Post 2017: will depend on the above + global economy (demand growth)
- New equilibrium could be found at lower prices (\$60-70?)

Gas market:

- Expected to remain well supplied until 2020 at least

Gas price:

- LT oil-indexed price (see oil prices above)
- Spot price should remain under pressure
- HH indexed LT not competitive

LNG Projects:

- In a low oil, low gas (spot), higher HH environment project development will be challenging



Thank you for your attention

geoffroy.hureau@cedigaz.org

www.cedigaz.org

