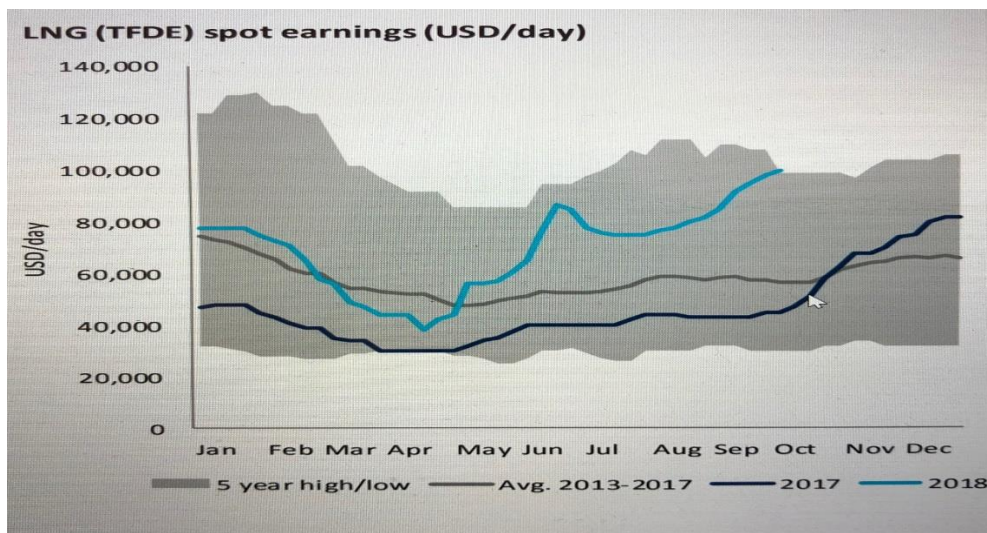


## Asia visit – LNG

Spending a few days in Tokyo and Beijing visiting local investors, shipping companies, brokers, government agencies, shipbuilders and utilities the other week, I came back with conviction on 2 themes I think will play out in the shipping markets over the coming 2 years.

- 1) *LNG-shipping is about to enter a boom period on the heels of surging Chinese and other Asia ex Japan demand for clean energy.*
- 2) *IMO2020 is a game changer for the shipping industry*

**LNG** is in my mind the most exciting trade in shipping now. Both short term, medium term and not least for the very long term. The China import stats speak for themselves, but the meetings in Beijing in particular added exciting colour. Amongst others, I learnt that Sinopec executives are getting increasingly nervous about their ability to supply gas for the upcoming winter season after having been called in to meet government officials demanding guarantees. The backdrop here is of course the swift forced conversion of households from coal to gas; Xi simply cannot afford walking into peoples houses replacing their old coalfired ovens if not able to provide the necessary gas volumes. Like e.g last winter, when people were freezing in their homes as gas supplies failed for a day or two. With 80pc of households in the Huabei province converted already, the fear of seeing people take to the streets to protest will keep officials on their toes for the foreseeable future. Like Japan, China is looking to stock up on gas in the low season, but with storage capacity of no more than 3pc of annual demand the flexibility is limited. Also, a warmer than usual summer has already taken it`s toll on stored volumes. Expect China to ramp up spot purchases during Q4 with LNG-tanker demand surging accordingly as seawards shipping is the quickest way to solve the immediate demand. With only a handful of vessels of the 480-odd LNG fleet immediately available the question is not IF but HOW MUCH rates will rise in Q4. When I landed in Japan a 160kcbm TFDE fetched around \$82k/d – now the 100k/d mark looks set to break any day. LNG brokers in Tokyo expect to see \$140k during Q4. I wouldn`t be surprised to see an overshoot even on that number.

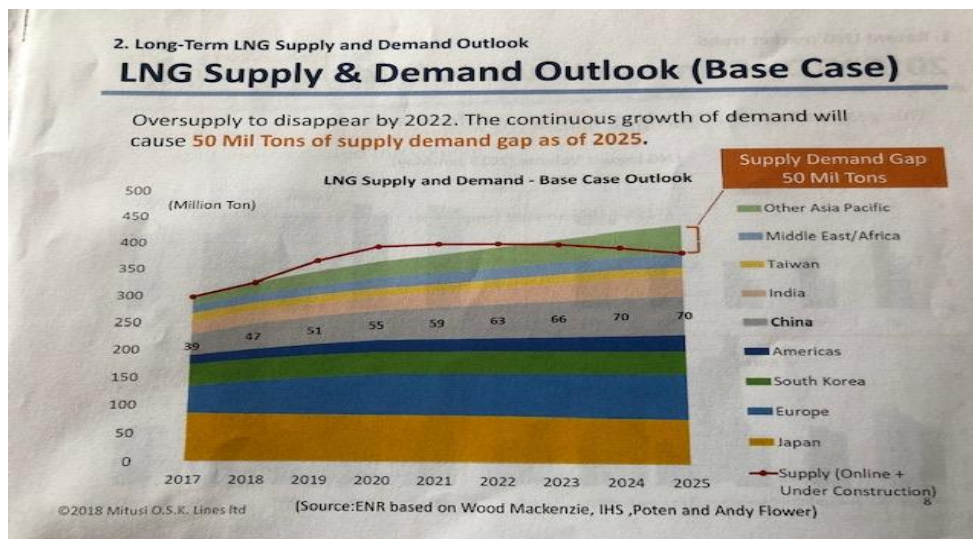


Source: Clarksons

For the last 8 years the LNG fleet has been growing with 5-8pc per year. Following a 12-14pc growth in 2018, deliveries look set to slow into the 5-8pc range for 2019 and 2020. More newbuild orders

are needed to sustain that pace after 2021. As the chart from Mitsui below shows, demand looks set to increase by approx 25pc over the 2018-2020 period, with an increase in the distance component of around 15pc (IEA: laden miles up from ca 4050 to 4700 by 2020) driving a tonnemile demand increase of 40-50pc over the same period. With the market already seasonally tight, 2019/20 increasing looks like boom years for the industry. Players with available capacity to fix into that market should benefit accordingly.

Of course, longer term other countries will also play an important role in driving demand. 18 years ago 20 countries imported LNG. Now there is 40 – and growing. Other Asian countries ex Japan are growing fast and Europe will begin to weigh in with scale any month now on the heels of rapidly declining internal supply and a strategic need to source outside of Russia. This is on top of the all-important question of how far China will go. Mitsui, e.g, has China demand going from 181mt in 2017 to 386mt in 2025 in their high case, implying LNG import going from 38mt to 100mt in 8 years. In short, the medium term risks to the market centers more around the ability to get new supply on-stream, and 3-4 new FID`s are needed to cope with demand before the mid-20`s.



Source: Mitsui OSK

On tariffs: I got less worried about tariffs on LNG during the meetings in Beijing. The basic premise here is that China really needs it, and 6 US projects are forking up at least 50pc of the 100mtpa new liquefaction capacity coming onstream up until 2022. Chinese authorities have already reduced the 25pc proposed tariff to 10pc following pressure from importers. Also, most US cargoes are FOB, easing the flexibility for Chinese importers to resell cargoes to other countries and in return source whatever they need from other exporting countries.

Risks? Loads, as usual in shipping.; China shale (large pockets difficult to access which could change with new technology), 2nd Russia pipeline (the first one is 27mt cap starting primo 2020, my understanding is a 2nd is not likely for strategic reasons, ie dependence on Russia), tariffs ( but more about rerouting volumes from Canada, Australia, Africa, Qatar as long as

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China`s demand is growing), Japan nuclear capacity and potential restarts (only 7 operating now after 1 restart compared to 50 before Fukushima. Japan`s new energy plan points to more reactors being reopened if the +20pc nuclear target is to be reached, but uncertainty around this in Tokyo is high). And then there is as always the question of newbuild ordering activity. With 150 of the 480-odd vessel fleet coming off contracts in the 2025-27 time span being obsolete, a fair level of newbuilds are needed anyway. In short, the cycle needs to really get going before newbuild worries are warranted, in my view.

Favourite way to play: FLNG NO (see separate report).

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