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Global spot market analysis 2012-2014

Simon Ellis

ICIS LNG Analyst

Who we are



ICIS provides market intelligence services to the global petrochemicals, energy and fertilizer markets. We are part of the Data Services division of Reed Business Information (RBI).



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What we do

We provide **market intelligence** to the global petrochemical, energy and fertilizer industries

Companies in these markets trust us to provide accurate, relevant and timely **NEWS, PRICING DATA, ANALYTICS and CONSULTING** to guide their decision making.

Our information and analysis covers:



Chemicals: aromatics, olefins, intermediates, solvents and plastics



Energy: crude oil, natural gas, refined products, coal, carbon and biofuels



Fertilizers: ammonia, sulphur, nitrogen, urea and phosphates



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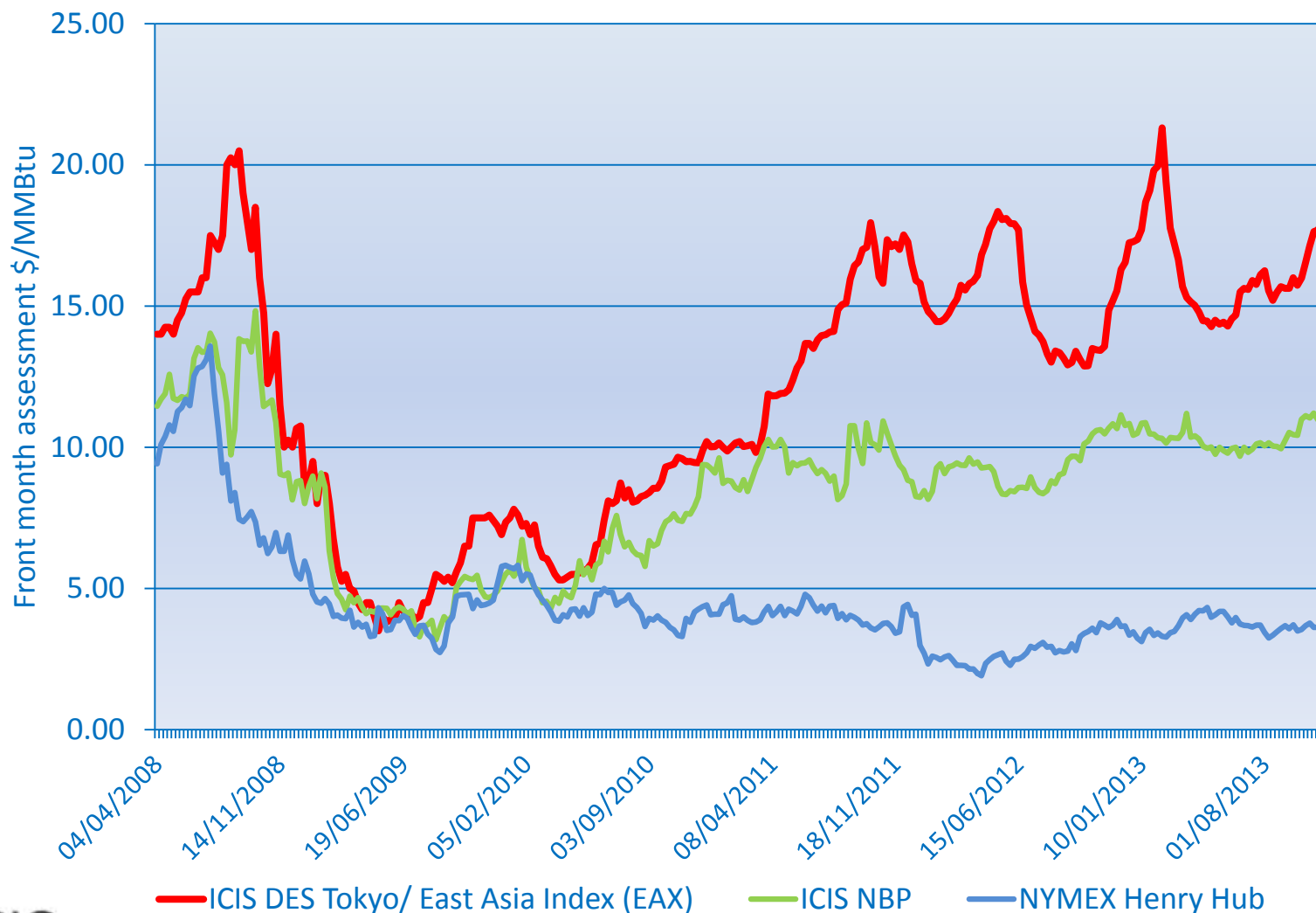
Global spot market analysis 2012-2014

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ICIS LNG Analyst

Asian spot prices reflect dynamic change since 2008

East Asian spot LNG prices 2008-2013

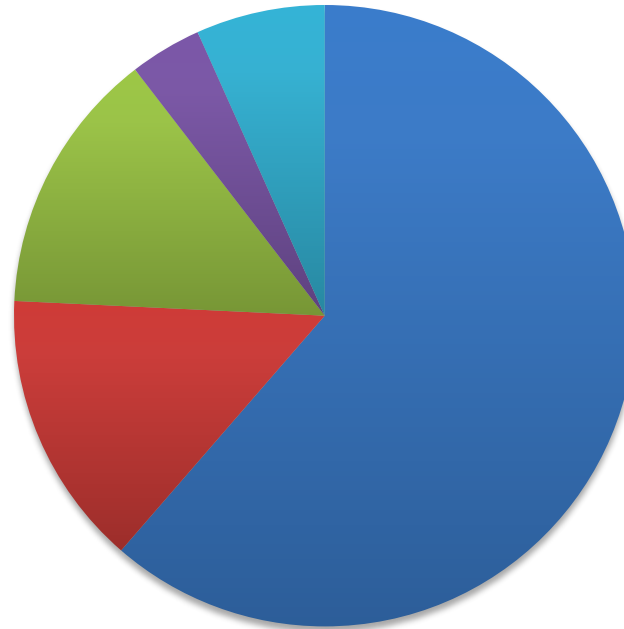
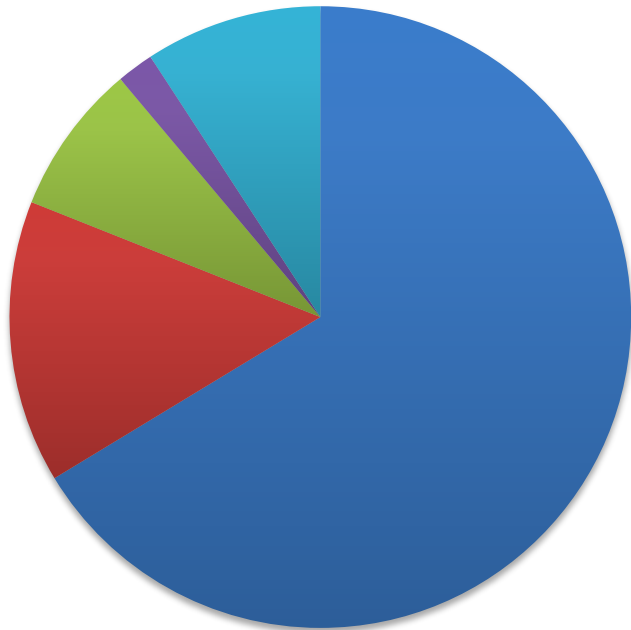


East Asia still dominates short-term market

Share of global short term (>5 year) LNG trade

H1 2012

H1 2013



- East Asia
- Other Asia
- South America
- North America
- Europe

Short-term sales accounted for around 31m tonnes (26-27% of market) in both periods

Agenda: Asian spot pricing development

Procurement patterns

- Spot vs alternative short-term structures

Price dynamics

- Explaining recent price movements

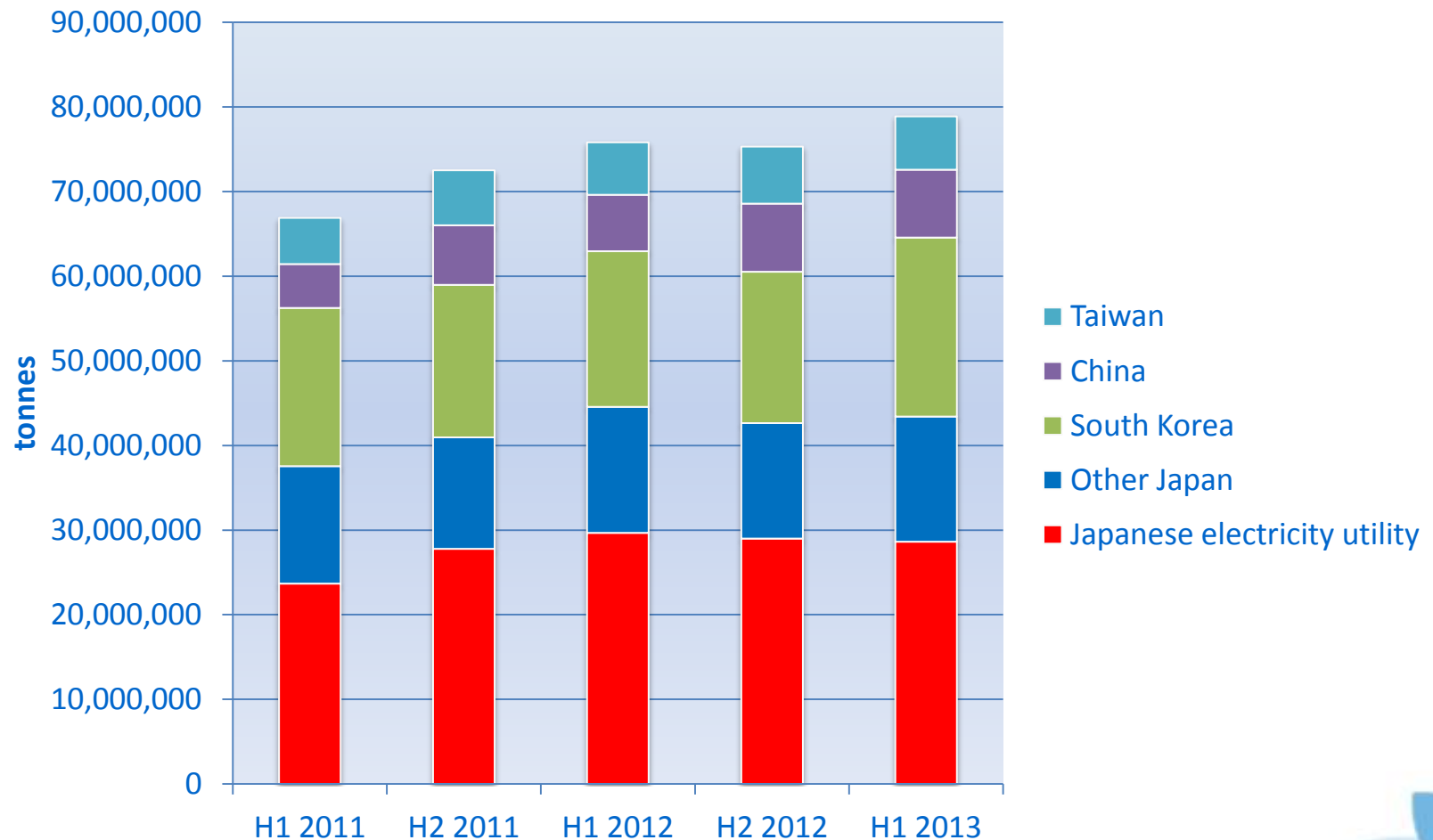
Outlook

- Market balance in 2014

Overview: Market dynamics after Fukushima

Japan faced unprecedented demand challenge

Japan's electricity utilities as share of total East Asian LNG procurement H1 2011- H1 2013



Source: FEPC Japan, customs agencies

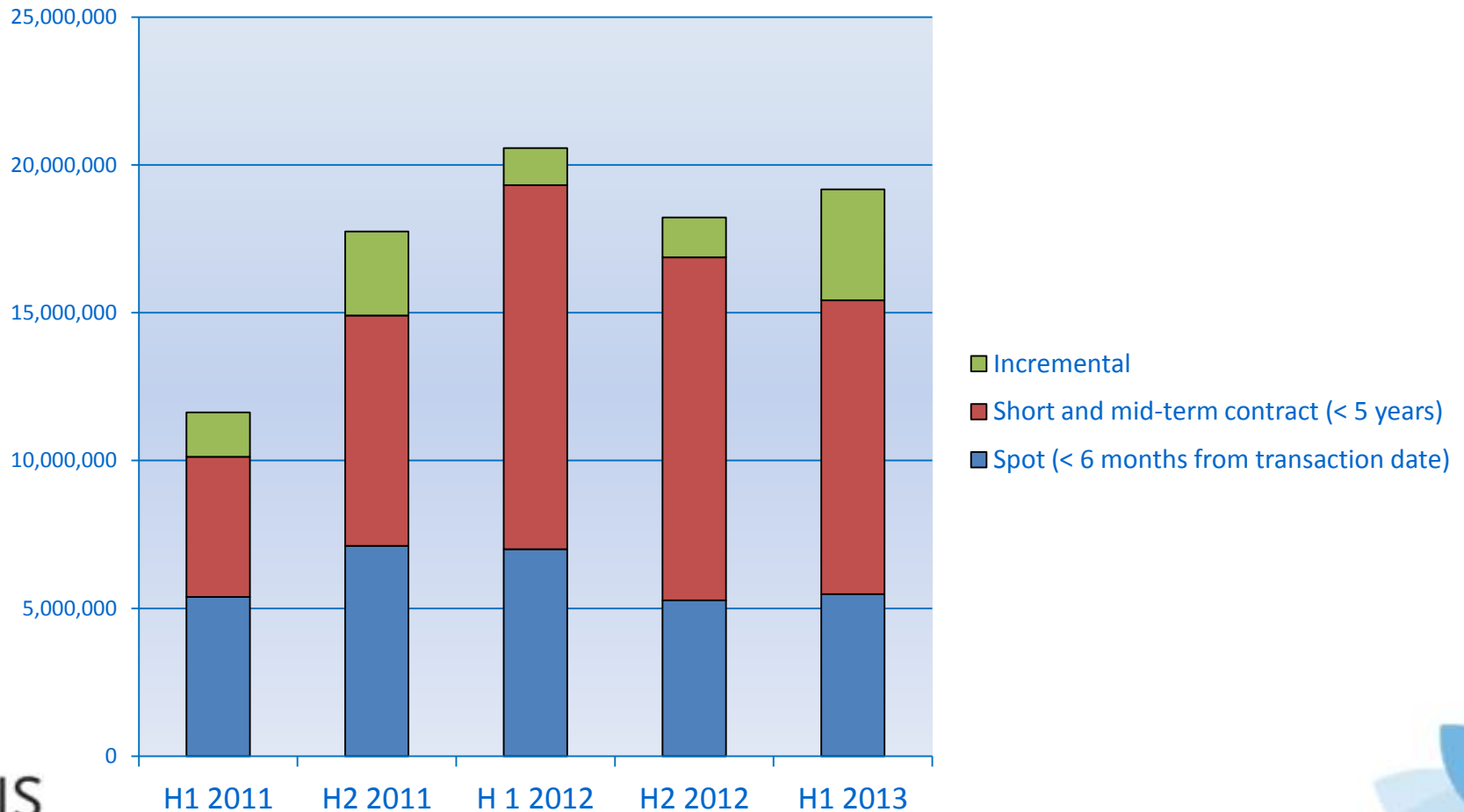
www.icis.com

Definition of short-term LNG sales

	Duration	Pricing basis	Associated Model
Spot LNG	All cargoes delivered <6 months from transaction date	-Mainly fixed price -Some spot benchmark indexed	Marginal trading/ commoditisation?
Short and mid-term contracts	Contracts of 6 months to 5 years	-Mainly Brent or JCC crude indexed -Some spot benchmark/Henry-Hub/ NBP-indexed	Portfolio supplier
Incremental sales	Undefined	Same price as the long-term contract	Traditional long-term relationship

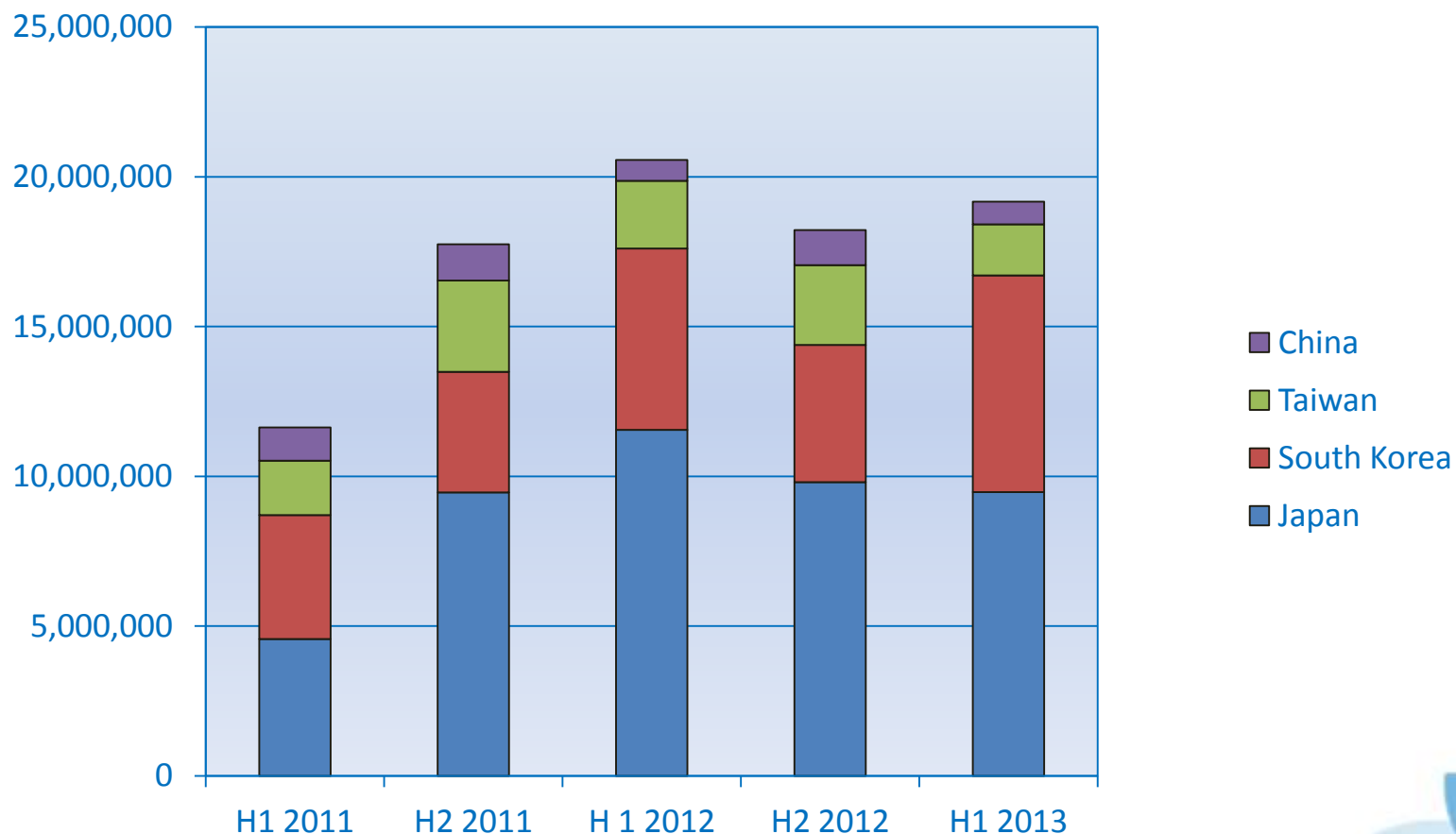
Different short-term structures met Asian demand

East Asia short-term sales by basis
H1 2011-H1 2013 (ICIS estimates)



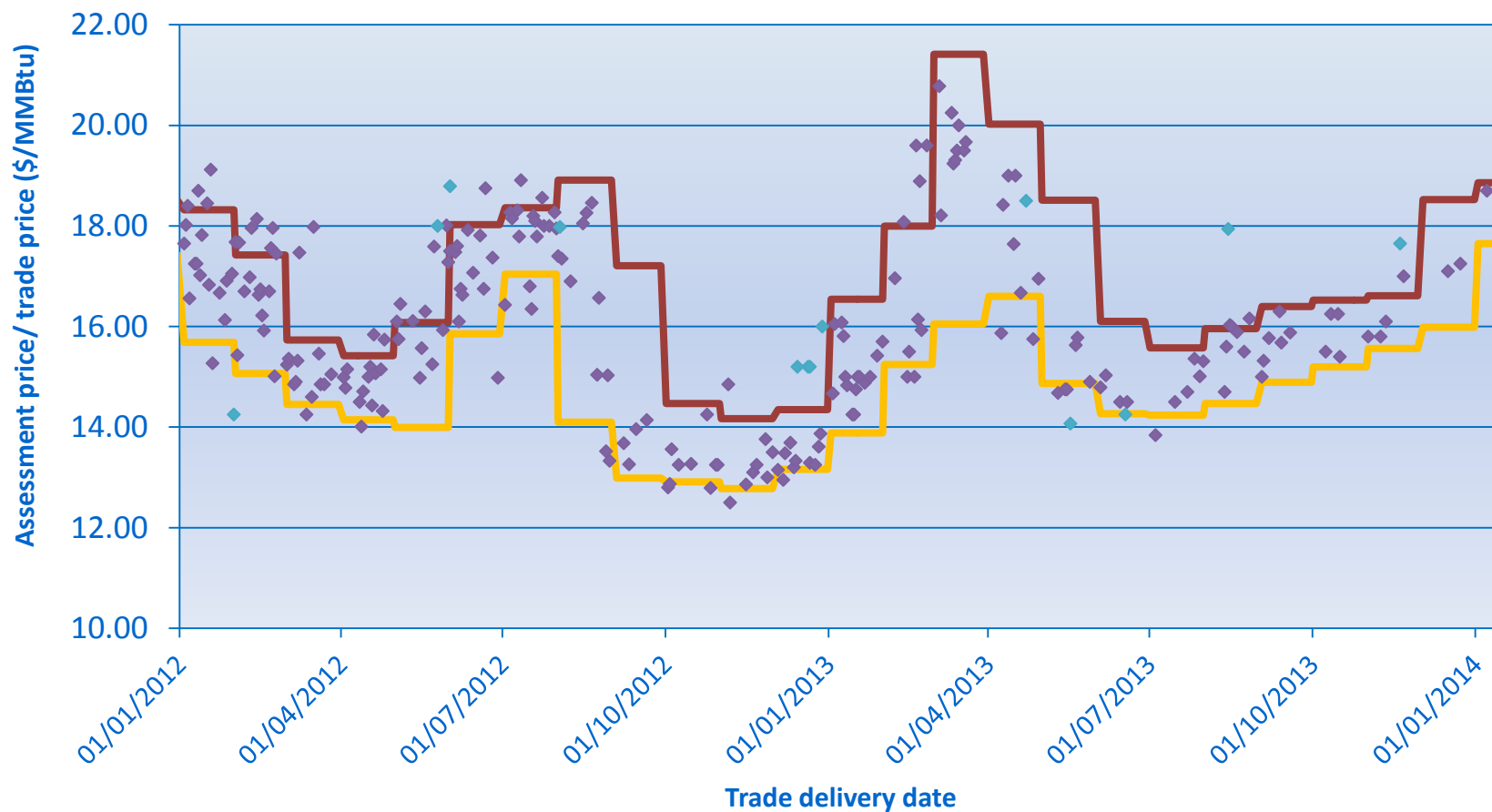
Japan's share reached peak in H1 2012

East Asia short-term trade by country
H1 2011 -H1 2013 (ICIS estimates)



Unprecedented volume secured on spot basis

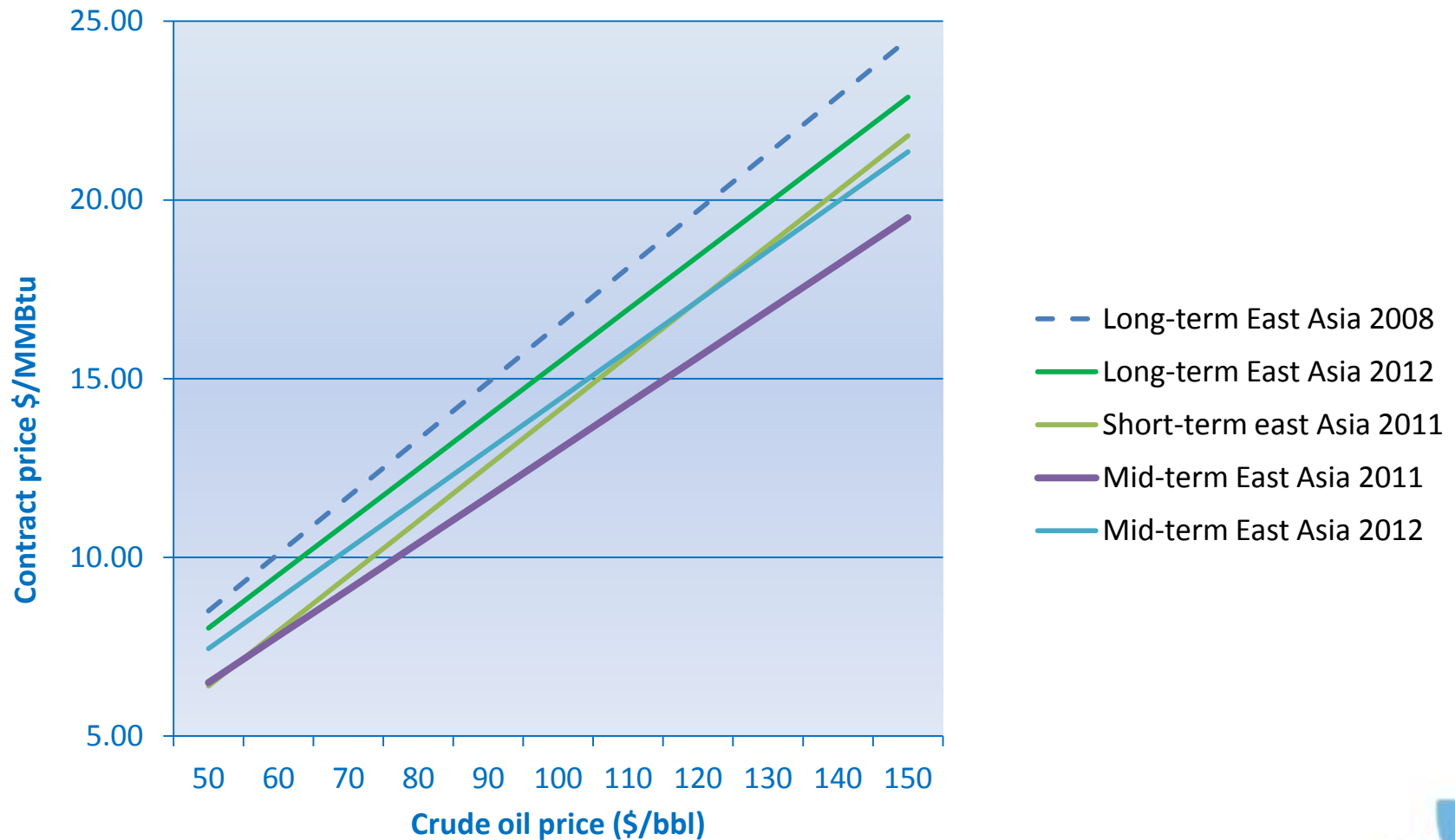
East Asian spot trades vs EAX: Jan 2012-Jan 2014



— Highest East Asia Index (EAX) assessment — Lowest East Asia Index (EAX) assessment
◆ Spot trade ◆ Prompt trade (where known)

Sellers offer discount for mid-term deals

Recent oil-indexed contracts into Asia (ICIS estimates)

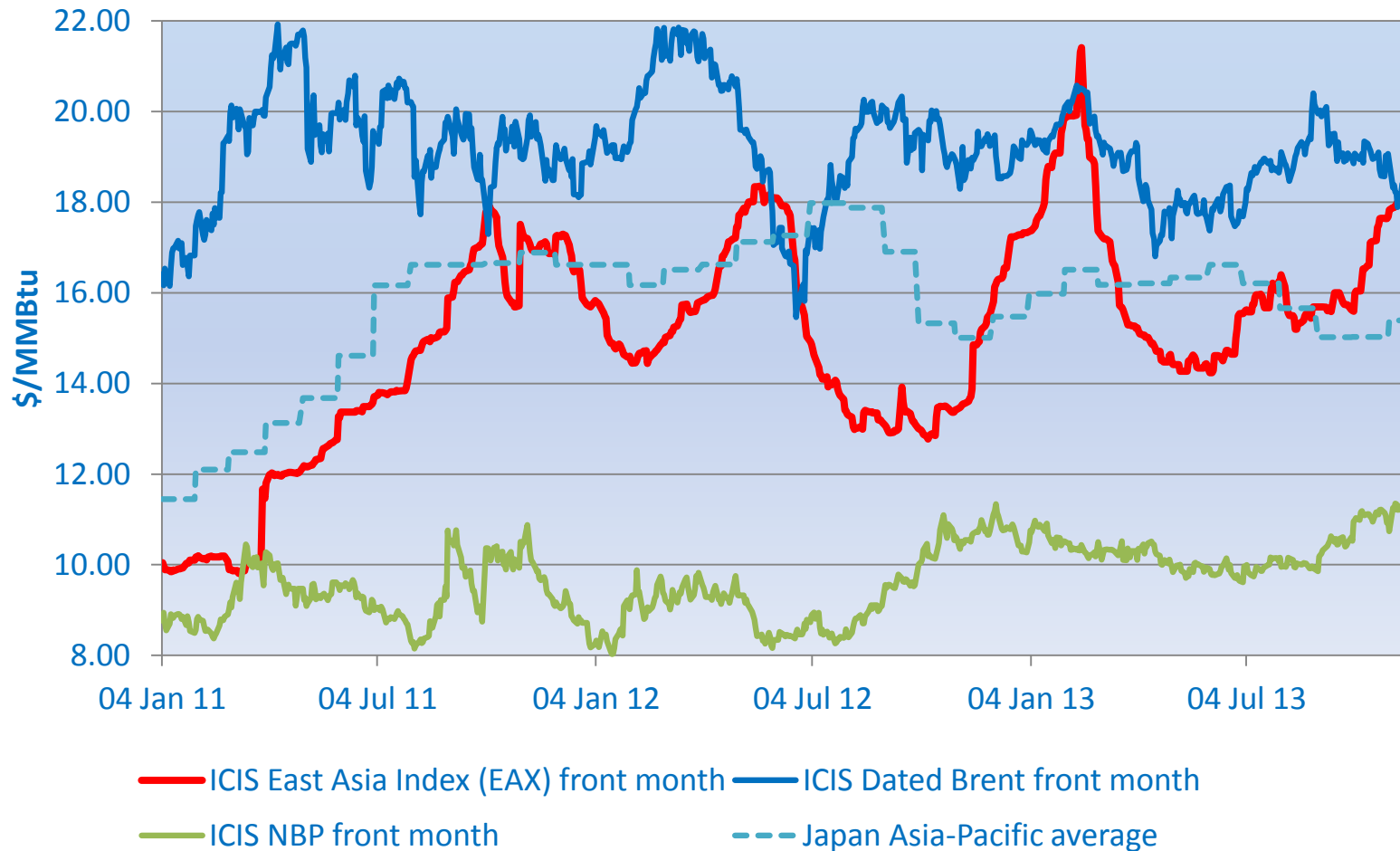


Source: ICIS

Price analysis: Volatility to stability?

Seasonality a key driver in current Asian market

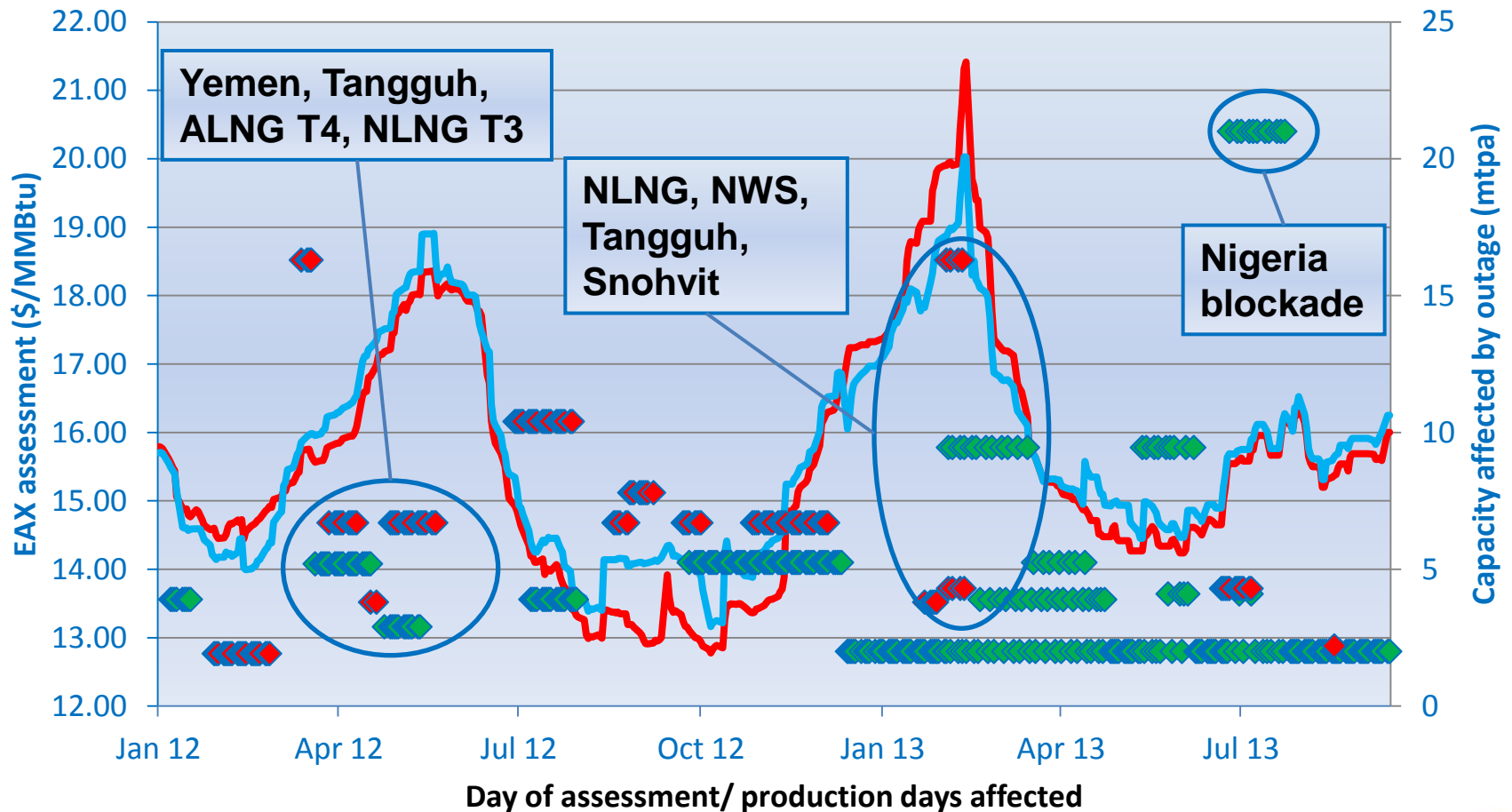
East Asian spot prices Jan 2011- November 2013



— ICIS East Asia Index (EAX) front month — ICIS Dated Brent front month
— ICIS NBP front month — Japan Asia-Pacific average

Production problems contribute to volatility

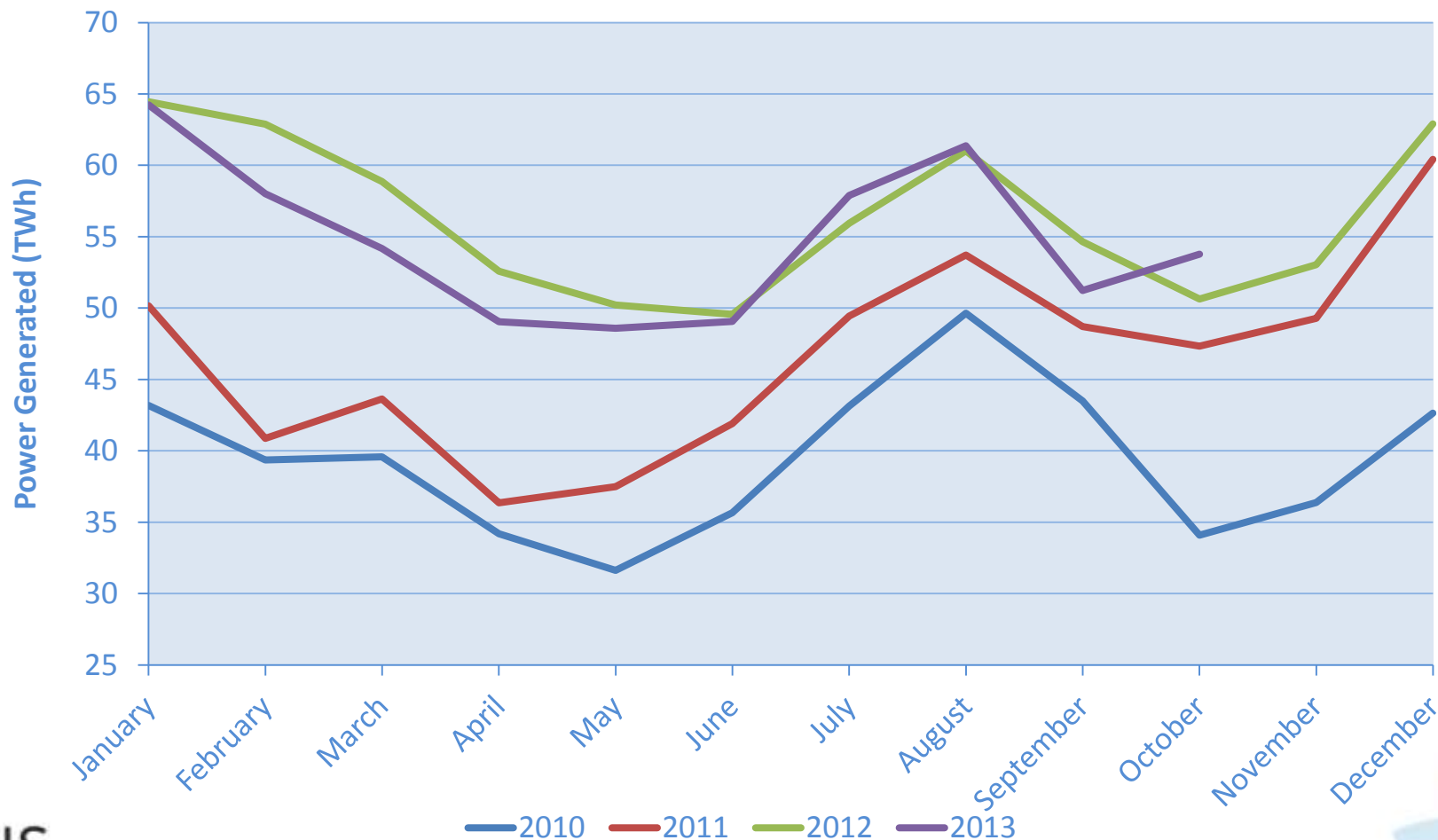
Unplanned outages/ reductions vs EAX prices: Jan 2012-Sep 2013



— East Asia Index (EAX) front month — East Asia Index (EAX) M+2
◆ Atlantic Basin outage/ reduction ◆ Pacific Basin outage/ reduction

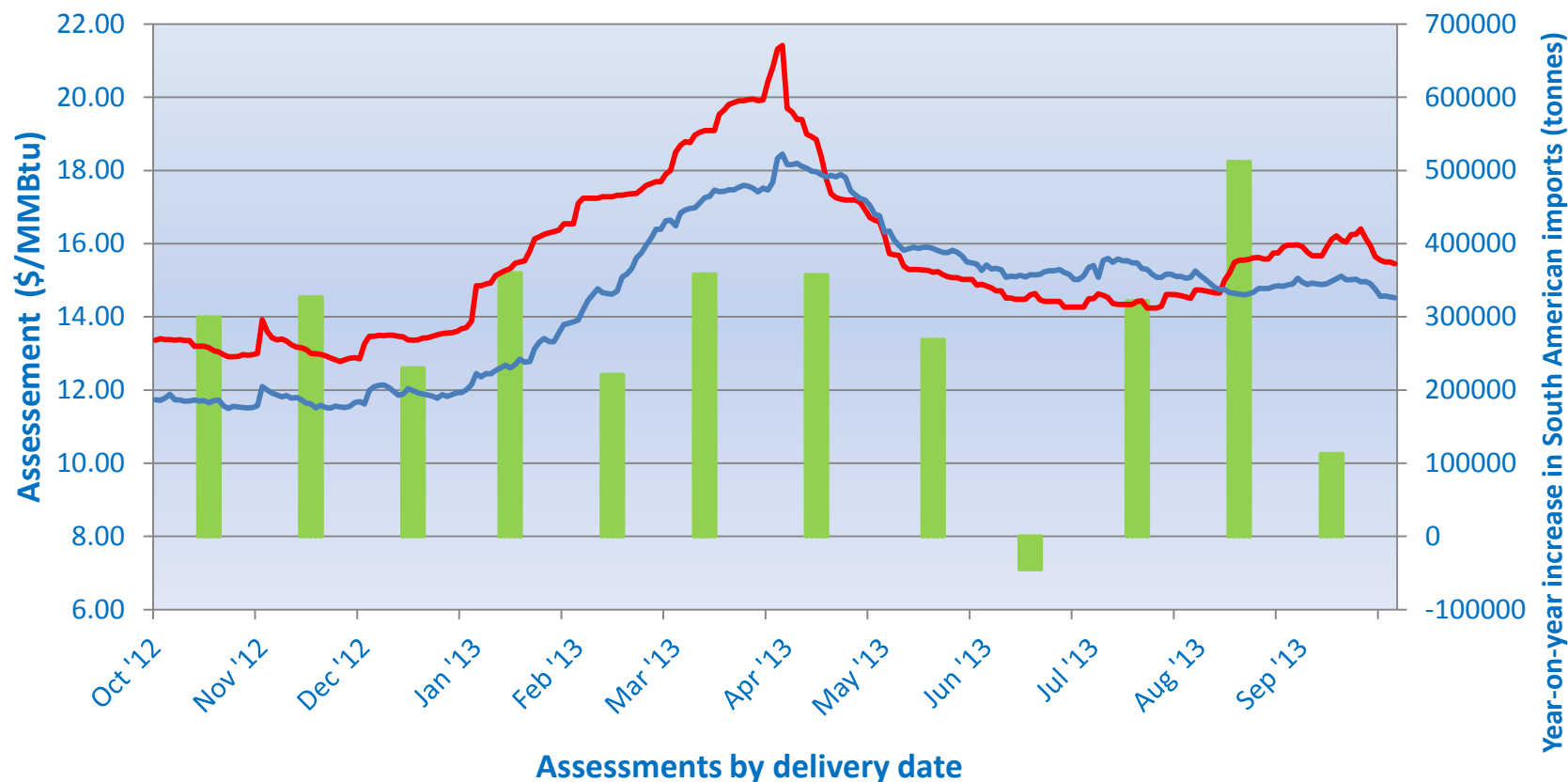
Japan's thermal generation load eased H1 2013

Thermal generation by LNG-buying electricity utilities (FEPC Japan)



South American import surge adds to competition

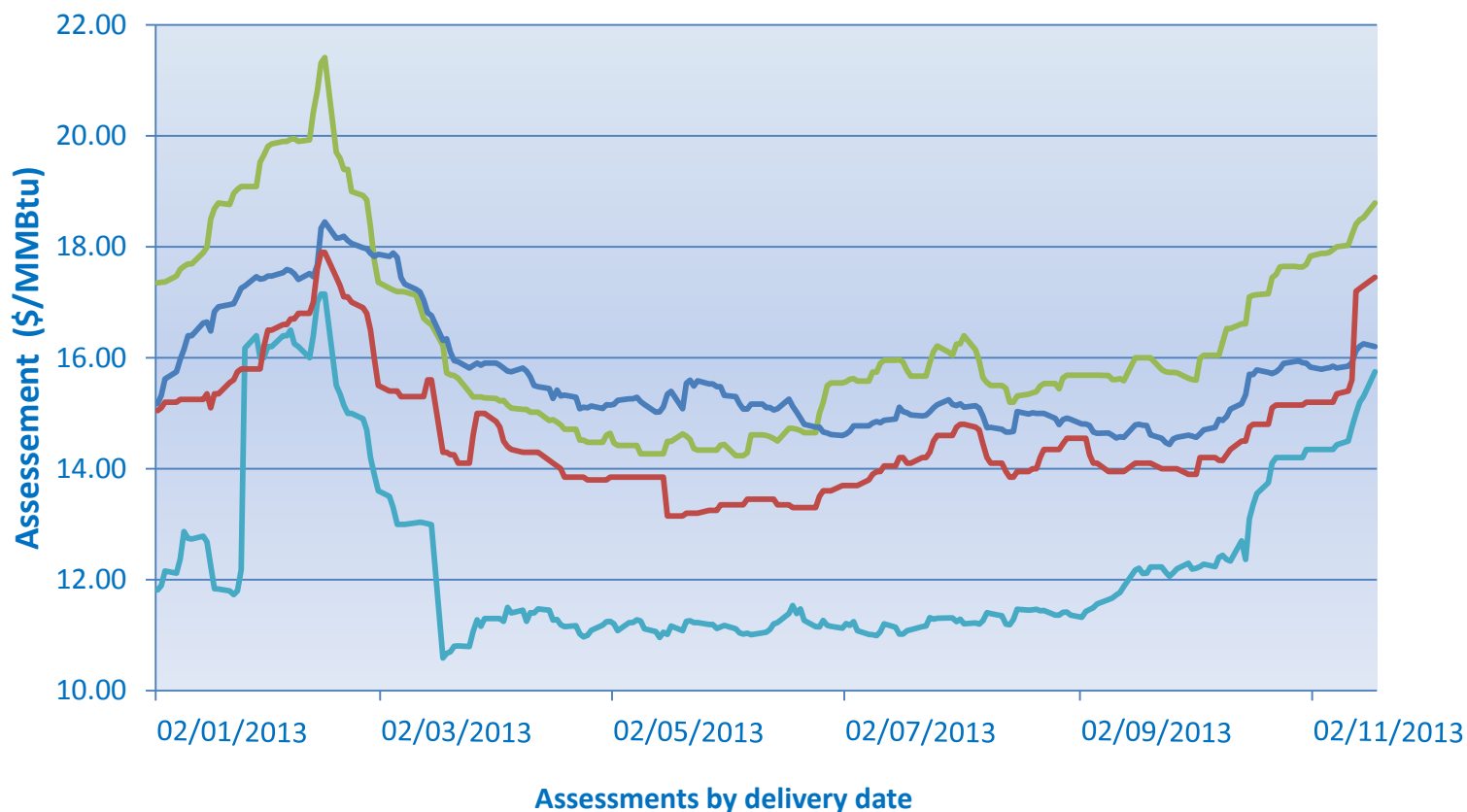
South American spot demand Oct '12 -Apr '13



- Increase in South American imports on previous year (right hand scale)
- ICIS East Asia Index (EAX) front month - 45 days (left hand scale)
- ICIS South America Index (SAX) front month - 45 days (left hand scale)

Asia has returned to premium price region in Q4

Selected ICIS DES assessments 2013



— ICIS East Asia Index (EAX) front month

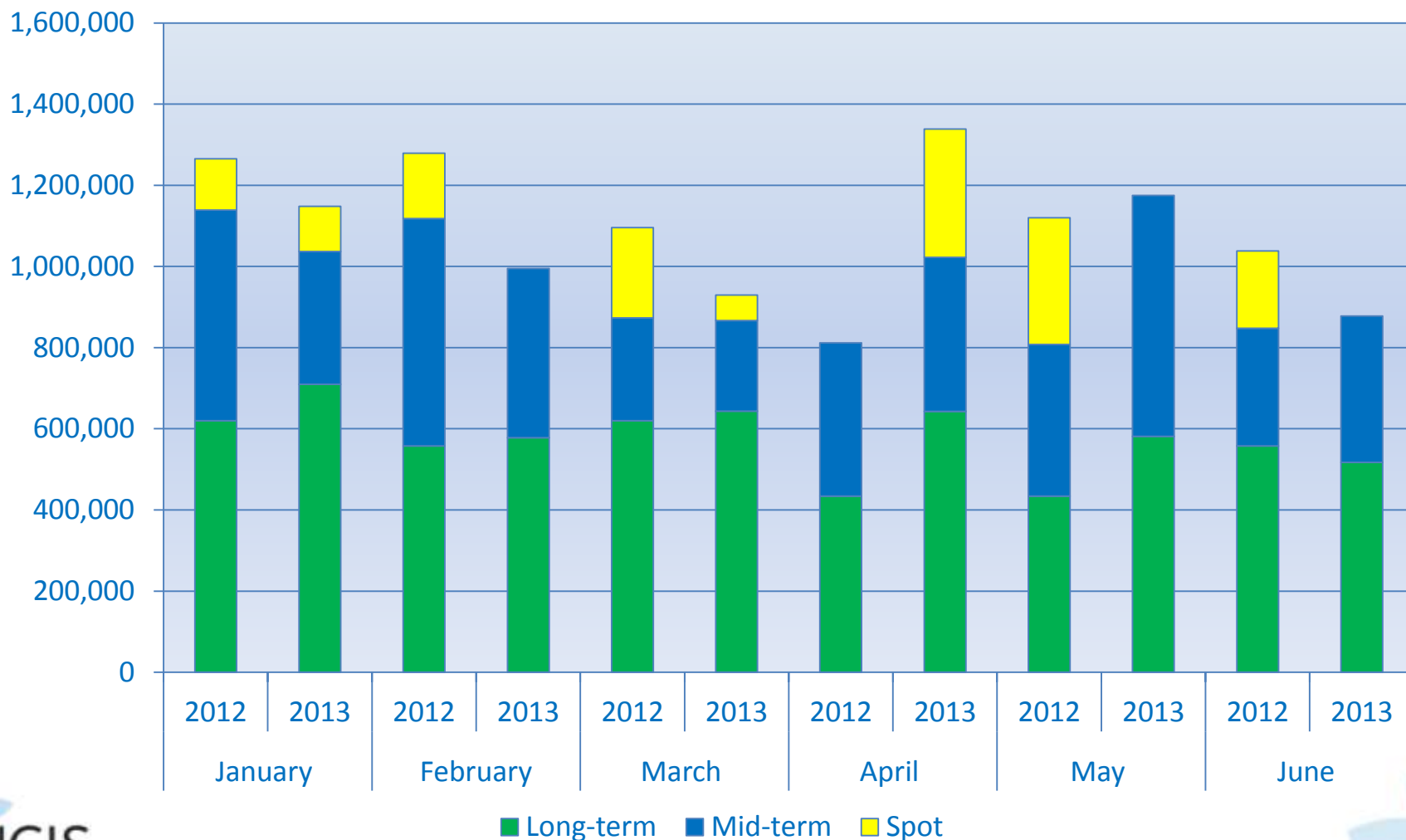
— ICIS South America Index (SAX) front month

— ICIS Turkey front month

— ICIS DES India front month

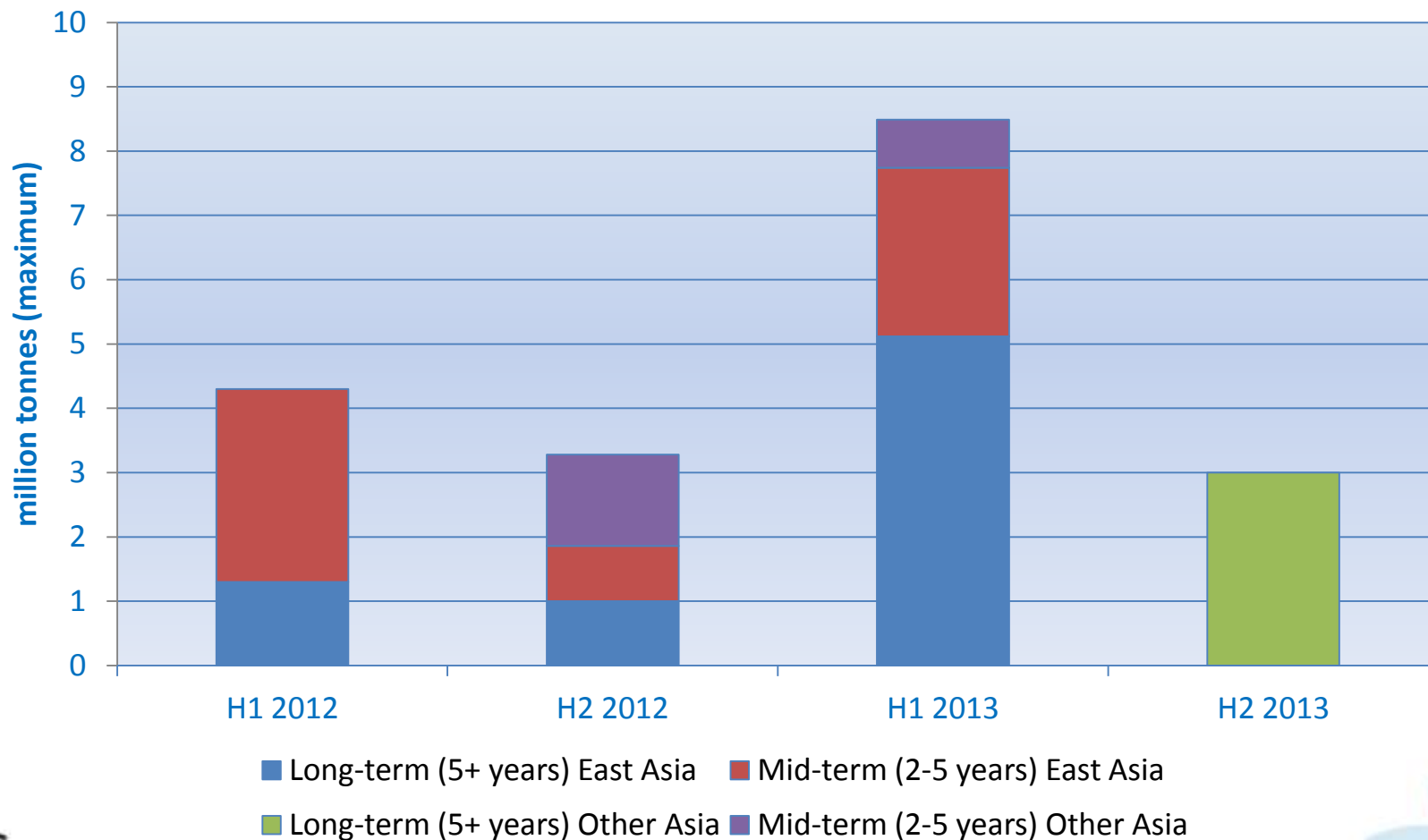
India's spot procurement subdued in 2013

Indian LNG imports H1 2012 vs H1 2013 (ICIS estimate)



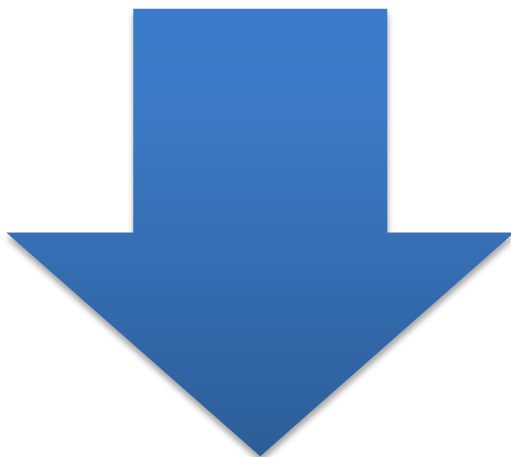
Terminating out of flexible LNG erodes spot liquidity

Finalised diversions of flexible volumes by contract start date



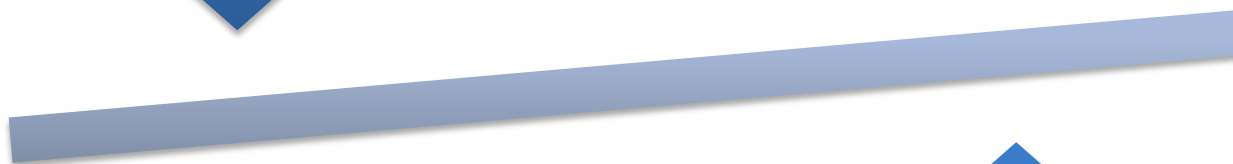
Outlook: How tight will the market be in 2014?

Short-term outlook: 2014



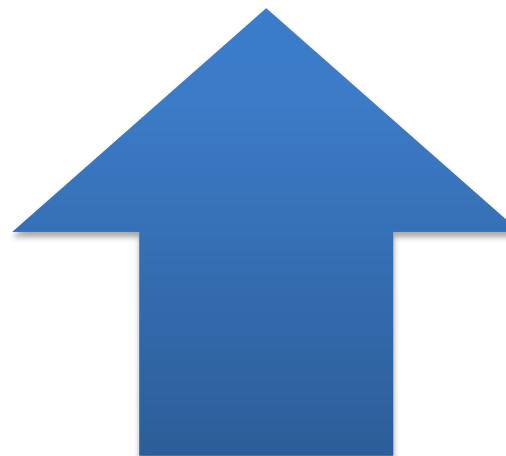
Market tightening scenario

- Further reallocation of LNG to domestic use in Egypt and Indonesia restricts supply
- New plant start-ups hit by delays
- New market entrants compete for supply



Market balancing scenario

- Significant Japanese nuclear restarts possible in 2014
- New plants meet 2014 targets
- Angola LNG achieves reliable production



Production performance

Background

- H1 2013 production appeared to fall year-on-year to around 118m tonnes

Ongoing problems

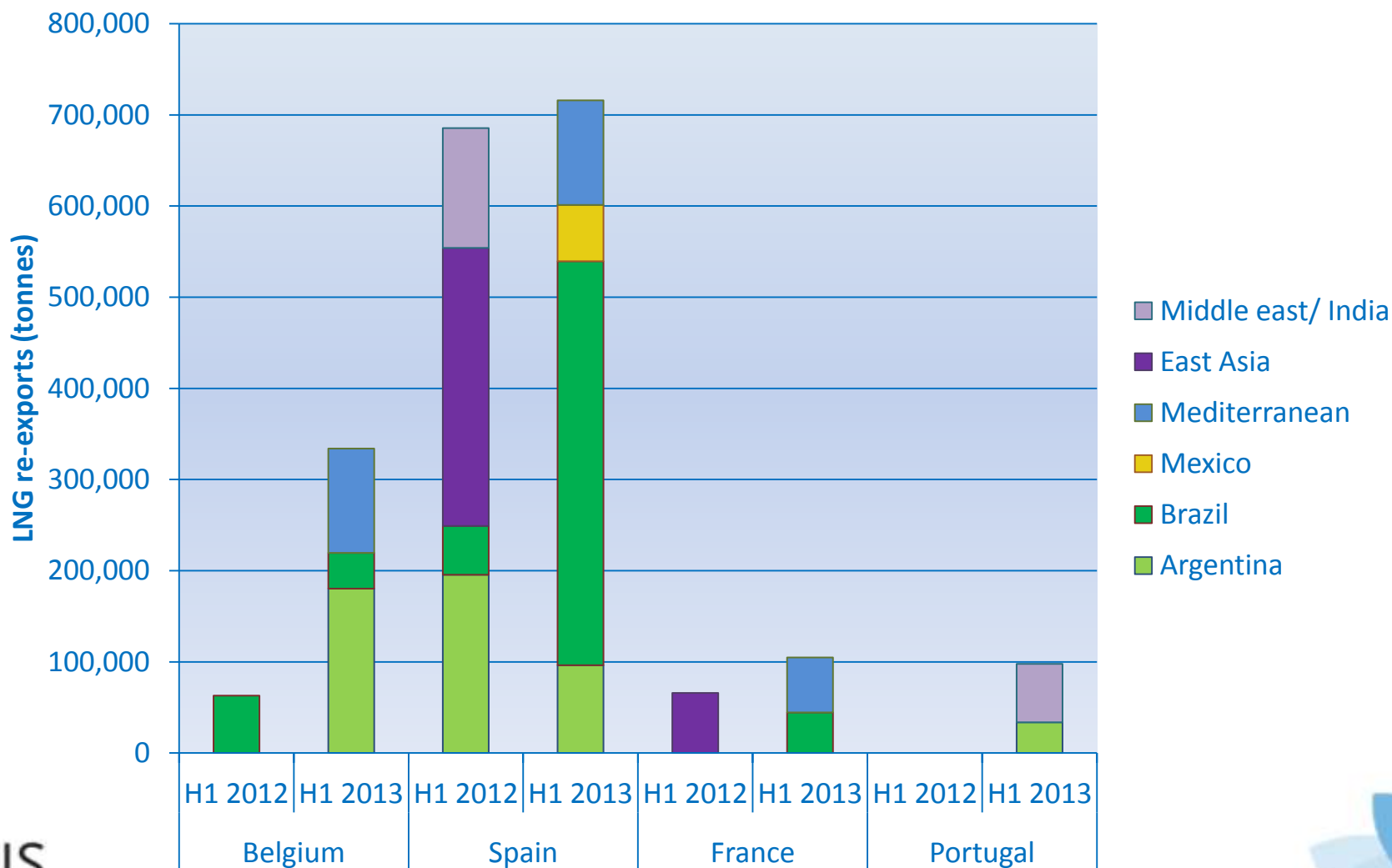
- Egypt now reduced to one train of Idku
- Indonesia fell nearly 25% y-o-y in H1 2013

Recurring risks

- Nigeria LNG/ Yemen (sabotage/ political), Snohvit (technical), Australia (weather)

European reloads important for Americas

European re-exports by destination: H1 2013 vs H1 2012



New projects provide limited relief in 2014

PNG LNG

- Target date: H1 2014
- 50% sold to active ST buyers

Queensland Curtis LNG t1

- Target date: H2 2014
- <50% to active ST buyers

Gorgon t1, GLNG, DSLNG, APLNG, MLNG t9, etc

- Target date 2015
- Will ease pressure on ST volumes if targets met

Japanese nuclear restarts could limit demand

8 July 2013: Japanese utilities permitted to apply for restarts



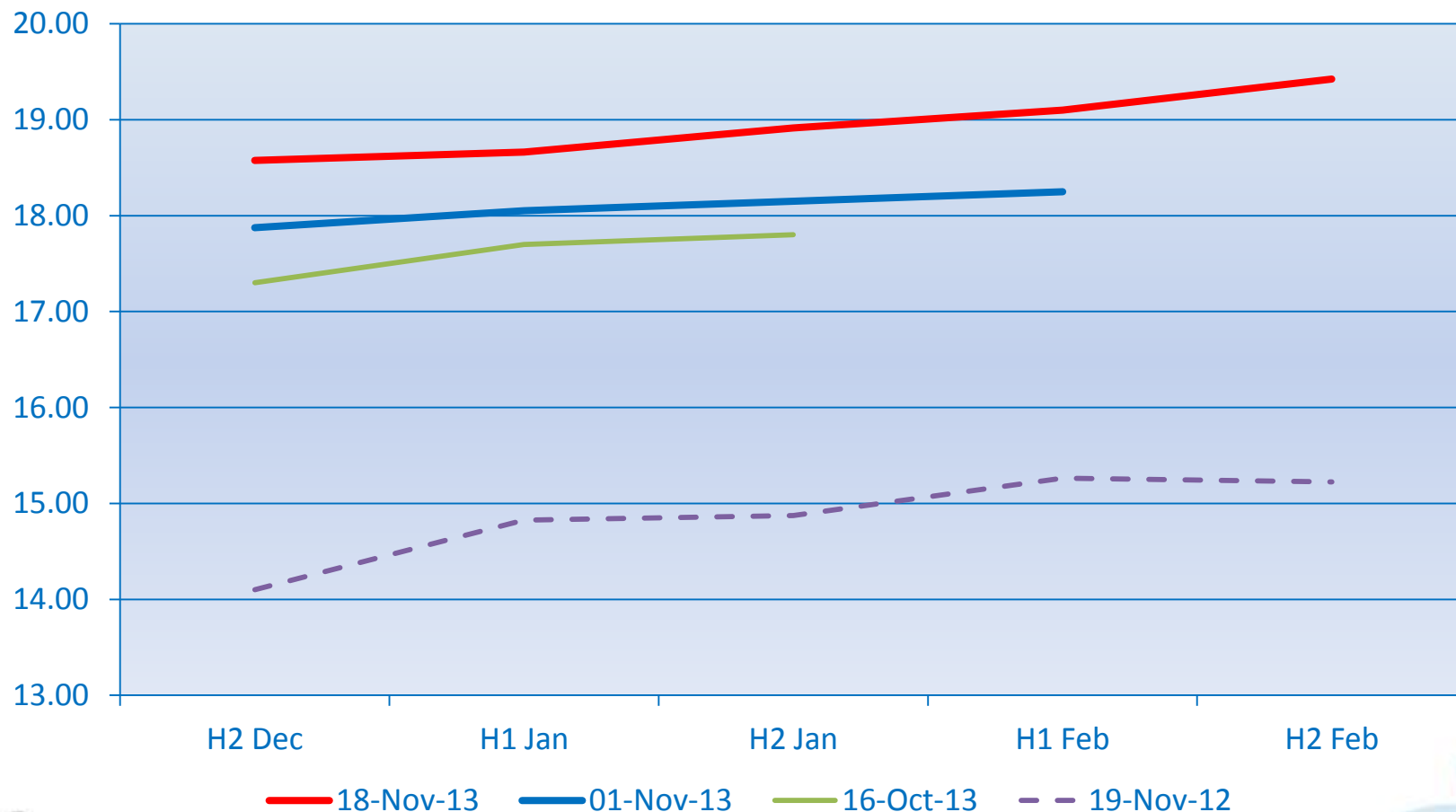
Kansai applies for 4.1GW,
Kyushu 4.1GW, others <3GW



Only 3 NRA teams taking 6
months per application

Forward curve shows high winter price expectations

**EAX half month assessments H2 Dec-H2 Feb
2013 vs 2012**



Questions?