

The 3rd Middle East LNG Workshop 2019

June 19th, 2019 | Capital Club, Dubai International Financial Centre | Dubai, UAE

Navigate Rise in LNG Spot Trading During Era of Glut:
How to Make Sure One-Eyed Man is Not King in the Land of the Blind?



The Middle East
LNG Institute



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10 YEARS ANNIVERSARY

The 3rd Middle East LNG Workshop 2019

The Middle East LNG Institute

The Middle East LNG Institute was established to help facilitate the transition of the MENA region from what was an historically LNG exporting territory, to one of the world's fastest growing importing areas that now hosts some dozen floating storage regasification units (FSRUs). For a region that is home to almost half of the world's known natural gas reserves, the volume of the region's LNG imports is climbing faster than most geographies as domestic demand outpaces available pipeline supply. The Institute's mission is to help all the relevant stakeholders to navigate this counterintuitive development, and enable the creation of a transparent, liquid and flexible LNG market in the Middle East. The regional LNG Institute provides a single, independent and trusted platform for knowledge exchange, data mining and intelligence sharing, alongside the critical role of networking. The status quo is being rewritten – new demand, new supply, new hubs – and an ability to adapt to these dynamic conditions will create the winners of a new market that is leading the world's great energy transition.

Mission Statement:

The Middle East LNG Institute will help to facilitate the transition of the region from an LNG exporting area to also now being a growing importer of natural gas, and to enable the establishment of a liquid, flexible and transparent Middle East LNG market.



OFFERINGS:

- A powerful industry membership structure that provides unique opportunities for members in both mature and developing LNG markets to communicate and create credible partnerships for business development.
- A unique platform for information exchange, regularly organizing interactive meetings and in-country workshops between technical experts, senior members and key stakeholders.
- Invite-only events which are designed to advance the interests of Middle East LNG stakeholders, discuss best practices, and promote the safe and sustainable use of LNG around the region.
- Regular updates, announcements, newsletters and reports via email WhatsApp with information on the Middle East LNG industry, all the latest actions, achievements, projects, international developments and external representation.
- The Institute provides public advocacy services to support desired policy changes to advance the regional industry.
- Facilitate the connectivity of industry participants with the expertise needed to answer both technical and regulatory questions on all aspects of the business from fuel specifications, codes of practice and benchmarks
- Access to consulting and engineering companies, regulations, safety, new technologies and the new digital tool box.
- Produce reports that are available exclusively to its members, with topic suggestions on request by members.
- Facilitate the surfacing of previously non-existing datapoints, and their conversion into Intelligence.
- Subscription membership is open to all stakeholders of the Middle East LNG sector, whether based in the region or externally.

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Workshop Theme

Navigate Rise in LNG Spot Trading During Era of Glut: *How to Make Sure One-Eyed Man is Not King in the Land of the Blind?*

Leveraging a fuel surplus, the world's largest liquified natural gas producers are selling more and more from global supply pools instead of from dedicated projects – changing the traditional long-term contracts that locked customers into taking regular volumes from specific projects under oil-linked pricing formulas. Within this glut, the global LNG market needs to be innovative and flexible – but how to ensure a level playing field for all?

1. Competition for Talent - I win, You Lose?

This new normal of a more dynamic and liquid LNG market combined with the need for greater flexibility by traditional LNG buyers is providing opportunities for shipping optimization and trading which has also enabled new players into the market such as LNG traders. With the market becoming a hot ticket over the last few years given growth of volume, spot market and short-term contracts, Mercuria Energy Group is one of the latest players to enter the market with a newly established liquefied natural gas desk. With the creation of Mercuria's LNG desk meaning another player has emerged on the LNG trading market, competition for talent in the industry is ripe and with the game no longer restricted to western energy giants and state firms; how can market participants keep a step ahead to attract, secure and maintain the best LNG talent?

2. Term vs Spot: Navigating the Rise of the Paper Market?

Cargoes delivered through contracts of four years or less – commonly termed as spot and short-term LNG trades, made up 32% of overall import volumes in 2018, increasing from 27% of imports in 2017, according to a statement released by the International Group of LNG Importers (GIIGNL) in March 2019. The GIIGNL outlined that flexibility, long-term partnerships, destination and the ability to optimize for arbitrage between Asian and European markets remains key for LNG importers. Furthermore, *Bloomberg* New Energy Finance expects total LNG supply in 2019 year to add 33 million tons to a record-breaking 358 million tons annually. Demand however will only rise by 17 million tons; a number that the market will find hard to absorb and ensure a glut remains for the remainder of 2019. With many long-term contracts set to expire in 2019 as new supply comes on stream (estimated to be roughly 40m tonnes), it is key for the industry to become innovative and efficient in trading. However, this is easier said than done. Will we see a rise of the paper market? What about the role of swaps moving forward? Given that swaps are paper hedge agreements and allow one to fix fuel prices at a predefined level, independent of future market movements, will we see increased agreements along these terms? How best to navigate the new normal and mitigate pricing risks through increased trading in spot markets?

3. How to Trade Around Plenty of LNG but Shortage of Tankers?

Amidst the growth of demand for LNG, particularly from Asia, the supply of ships is not keeping up the pace with the growing demand for spot charters. As China looks to rapidly switch to natural gas from coal for power generation, energy companies and LNG trading houses are securing LNG carriers earlier to ensure stable imports over the long term. According to *Nippon Yusen*, 600 LNG ships are in use worldwide with 40 more expected to go into service in 2019. However, only a limited number of them are available to flow into the spot charter market, with the majority being chartered exclusively for new projects under long-term contracts. Even the International Energy Agency voiced concern regarding the lack of timely investment in the LNG carrier fleet – outlining that it could post a threat to market development and security of supply which could 'materialize even earlier than the risk of insufficient liquefaction capacity'. With a shortage of LNG carriers post 2020 on the horizon, and the potential bottleneck that would follow, how can vessel supply keep pace with surging demand for spot charters?

4. How to Hedge LNG with Brent Slope Options?

The decoupling of the correlation between Dated Brent term contract prices and JKM prices highlights the issue of managing risk for LNG cargoes using oil prices. The persistent downtrend of spot JKM LNG prices has been creating uncertainty over the pricing and risk management of cargo strip deals. The ratio of spot LNG prices relative to crude oil slope for May delivery cargoes at the end of March was at 6.71%, the lowest in nearly nine years. Challenges or traders are rife when looking to protect against price swings in illiquid commodities. Only last year, Trafigura signed a deal with U.S. company Cheniere to buy LNG for 15 years and export it to Europe and Asia. Trafigura hedged its exposure to U.S. LNG prices against sharp price moves in the rest of the world. Relying on a combination of liquid prices such as those of U.S. natural gas or Brent crude and assumptions on the correlation of those liquid benchmarks to illiquid global LNG prices for up to five years forward, the losses from the shorts exceeded gains from the longs and Trafigura had to book a \$254 million loss. Besides mid-term price risk, such hedges also bear the longer-term risk of deals falling apart. The stark divergence of oil and LNG spot prices, if prolonged for a longer period, could present a challenge for market participants that are keen on signing or renewing term contracts based on oil prices. The market has also recently seen Toyko Gas & Shell sign a deal based on a coal-linked pricing formula – the first time that a Japanese buyer is using a coal-based pricing index within an LNG contract. It is clear there is a need to spread the price risk associated with LNG by diversifying price linkages to a variety of fuels. It is clear that oil-linked pricing formulas need to change. How best can the market counter the uncertainty amidst LNG, oil spot price divergence?

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Invited Companies

Abu Dhabi Water & Electricity Company (ADWEC)
 ACWA Power
 ADNOC LNG
 ADNOC Logistics & Services
 ADNOC
 Al Masood Oil & Gas
 Amundi
 Aqaba Development Corporation
 B.B. Energy
 Baringa Partners
 Bomin Oil DMCC
 BP Middle East
 Chubu Electric
 Crescent Petroleum
 Dolphin Energy
 Dolphin Energy Limited
 Dubai Electricity and Water Authority (DEWA)
 Dubai Mercantile Exchange (DME)
 Dubai Supply Authority (DUSUP)
 Egyptian Natural Gas Holding
 Emirates Global Aluminium
 Emirates Steel
 Excelerate Energy
 Federal Electricity & Water Company (FEWA)
 First Abu Dhabi Bank
 GASCO
 GE Power
 GECF
 Glencore
 Government of Fujairah
 Gunvor
 ING Bank
 Inpex Group/JODCO
 International Finance Corporation (IFC)
 J.P. Morgan
 KIZAD

Kuwait Petroleum Corporation
 Ministry of Energy, UAE
 MPA Singapore
 Mubadala Investment Company
 Mubadala Petroleum
 National Bank of Fujairah
 National Electric Power Company (Jordan)
 Natixis
 Noga Holding
 Ocean LNG
 Oman LNG
 Oman Shipping Company
 Oman Trading International (OTI)
 OMV Gas
 ONEE
 Pakistan LNG Limited
 Pavilion Gas
 Port of Fujairah
 Qamar Energy
 Regulation and Supervision Bureau (RSB) Dubai
 S&P Global Platts
 Samsung
 Saudi Aramco
 Sharjah Electricity and Water Authority (SEWA)
 Sharjah National Oil Corporation (SNOC)
 Shell Middle East LNG Trading
 Socar Aurora
 Total Gas, Renewables & Power
 Trafigura
 Uniper Global Commodities SE
 Vitol
 Vopak
 Whitecase
 Wilhelmsen Ships Service Dubai, UAE
 Winston & Strawn



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Rules & Format

The Chatham House Rule will be invoked at the meeting to encourage openness and the sharing of information: When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

OPEN MIC: Following the Welcome Note and Problem Statement by the Moderator and Featured Speakers, the Breakout Session Discussion structure will follow an Open Floor format whereby all participants will be encouraged to Pro-Actively engage in the free flowing conversation and not wait to be called upon to speak.

COME PREPARED WITH RECOMMENDATIONS: All Participants will be encouraged to come to the table with "Recommended Strategies" in answer to the Session's Critical Question.

In SESSION A:

Shortlist 5 Recommendations

SHORTLISTING 5 RECOMMENDATIONS

The 1 Hour Session will be broken into 3 parts:

- Commentary from Facilitators
- Open Mic with Recommendations Put Forward
- Voting on Recorded Recommendations with final shortlist of 5

In SESSION B:

Reduce Shortlist from 5 to 3 Recommendations

SHORTLISTING 5 RECOMMENDATIONS

The 1 Hour Sessions will be broken into 3 parts:

- Commentary from Facilitators on shortlist of 5
- Author of each of the 5 shortlisted recommendations will get 5 minutes to promote & defend their recommendation – Voting on Recommendations to reduce Shortlist to 3

WORKING LUNCH:

The Shortlist of 3 in each stream will be voted on to secure a ranking in order of importance 1-2-3.

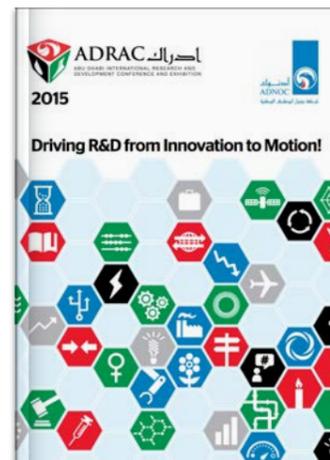
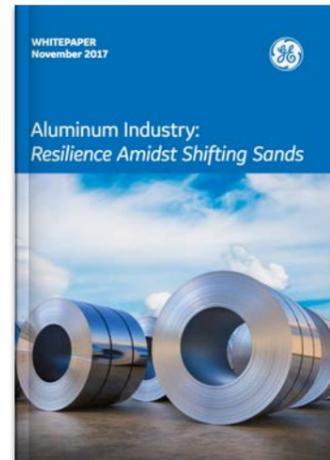
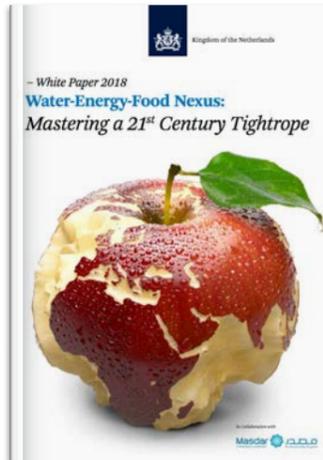
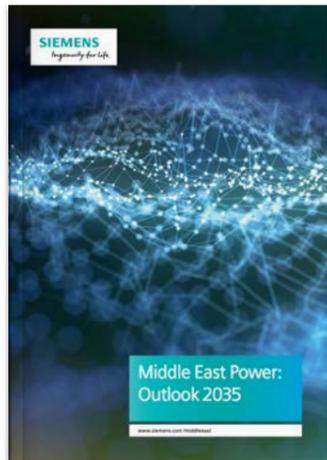
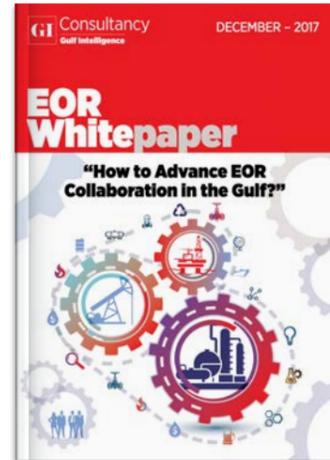
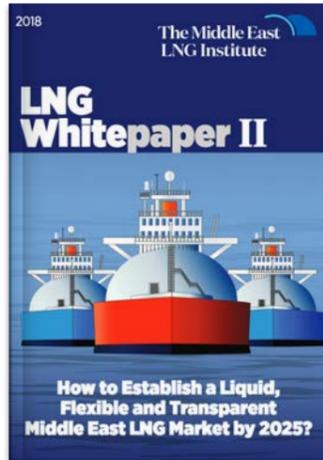
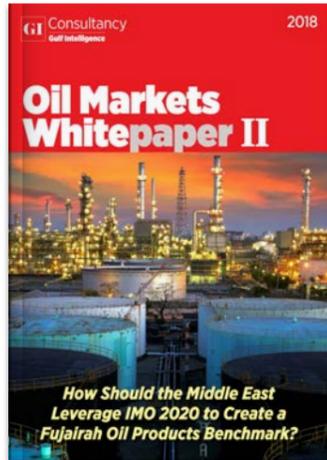
Structure:

June 19th, 2019, 8:00am – 2:00pm	
NETWORKING BREAKFAST	
PLENARY SESSION	
STREAM 1	STREAM 2
SESSION A Shortlist Top 5 Recommendations	SESSION A Shortlist Top 5 Recommendations
COFFEE BREAK	
SESSION B Top 5 Recommendations Shortlisted to 3	SESSION B Top 5 Recommendations Shortlisted to 3
WORKING LUNCH POLL SURVEY on TOP 3 RECOMMENDATIONS in EACH STREAM	
Final Declaration of Recommendations & Closing Comments	



The 3rd Middle East LNG Workshop 2019

A selection of GI Bespoke Publications



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