LNG Market Growth is Fueling Business Changes

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The LNG market is experiencing the same old song and dance that other commodity industries have experienced in decades past as shifts in the supply and demand of natural gas and LNG are dynamically changing the way businesses operate.

Prior to the growing popularity of LNG, the industry's trading practices used to be fairly straightforward: buyers would engage in long-term contracts with sellers. Today, the market's continued rapid growth – fueled by new players entering the market and demand increasing in growing regions such as China and India – is driving not only changes in the traditional buyer/seller relationship, but also the way market participants conduct business as they navigate new challenges.

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Supply and Demand Imbalances are Changing Traditional LNG Relationships

According to a **recent LNG report** from Bloomberg New Energy Finance, "LNG demand will be 308 million tonne per annum (MMTPA) this year, up from 284 MMTPA in 2017. Half of the 24MMtpa of growth will come from China, and the remainder largely from Japan, South Korea, and India." **S&P Global Platts** and other leading industry experts have projected that continued growth in global LNG exports will mean increased competition in the market, resulting in more short-term options for buyers that decide to renegotiate or completely forego long-term contracts.

Many of the industry's buyers that have already shifted towards short-term contracts have done so in order to hedge risk and keep options open as supply and demand continue to fluctuate. From India's GAIL seeking to revise terms with Gazprom and Cheniere to Peru's government reviewing its arrangements with Shell, the marketplace is providing consumers with more options but also exposing them to more risks.

Industry Outlook for Sellers, Traders and Buyers

Between 2015 and 2020, **Bank of America Merrill Lynch predicts that global supply will grow by 135 MTA** – or nearly 50 percent – largely from plants in Australia and the U.S. That said, a projected increase in U.S. import demand has failed to materialize as buyers opt for gas from domestic shale deposits. As a result, spot prices have decreased by 70 percent from a peak in early 2014, giving traders a chance to gain a stronger foothold in the market.

The natural gas market is also experiencing oversupply in the U.S. Gulf of Mexico, Australia and Southeast Asia. An increase in flexible-destination and Atlantic supply could support faster growth of spot and short-term trading. However, with this addition of new options comes an increasingly difficult trading logistics puzzle, as market participants must now take into account different commodity destinations, transportation, foreign currencies, different regulatory requirements and more.

Lastly, traders used to be able to pocket millions of dollars from a single trade. Now, profits have decreased as competition threatens trade margins. To compensate, traders are taking larger positions to earn bigger rewards in the market. Wrong-way bets, however, can lead to heavy losses. Unlike the oil industry, traders cannot anchor laden tankers at sea in the hope that prices pick up as LNG slowly boils off. To be successful, traders must plan ahead while anticipating market changes.

The Need for Advanced Software to Navigate a Complex and Ever-Changing Industry

The combination of ever-evolving global energy market and advancements in technology means LNG market participants must be equipped to navigate market volatility and capitalize on growth opportunities. In order to do so, businesses need flexible and extensible enterprise commodity trading and risk management (CTRM) software with advanced analytics, such as Allegro Horizon, that can help them navigate current and future challenges.

Transacting in today's LNG market requires real-time trading solutions that enable industry participants to quickly react to opportunities without exposing their organizations to undue market, legal or financial risk. This can be a tall order without an integrated commodity trading and risk management system, like Allegro Horizon, which enables real-time measuring and reporting of all commodity and derivative activities from the point of production to the point of consumption. Allegro addresses the issues facing LNG businesses by integrating all of the physical and financial aspects of the market within a single software product that is specifically designed to manage gas liquefaction, storage, transportation and regasification, while also overseeing trading, actualization, billing and inventory valuation. With these capabilities, LNG participants can efficiently navigate today's growing and changing market.

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