

### Introduction

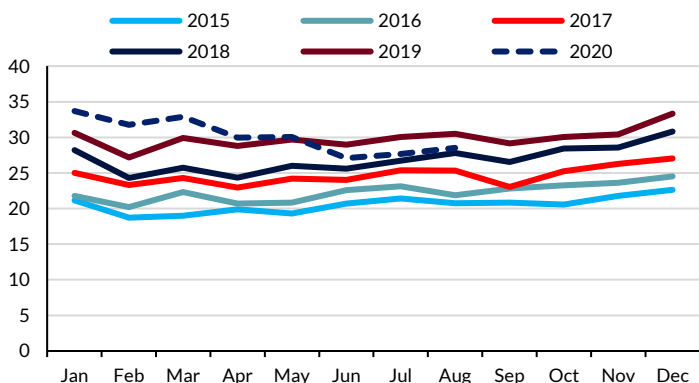
The LNG market has been impacted by the COVID-19 pandemic. This update highlights the development of the sector during the year so far. It will also highlight our thoughts on where the LNG market is heading.

### LNG Market Developments

The LNG sector started 2020 in a positive manor, with exports rising, as the various LNG liquefaction plants in the US increased production capacity. The first three months saw global LNG exports at their highest levels with volumes reaching in excess of 30 Mt per month.

The spread of COVID-19 meant that by mid-March many countries started to establish lock-downs. The impact on the LNG market (as well as other shipping sectors) was immediate. Demand for power slumped as factories shut and employees stayed at home. As countries started to lift lock-down measures during the summer months, the high stock levels in storage tanks did not result in a sudden rush for additional LNG cargoes, meaning demand continued to decline through to July.

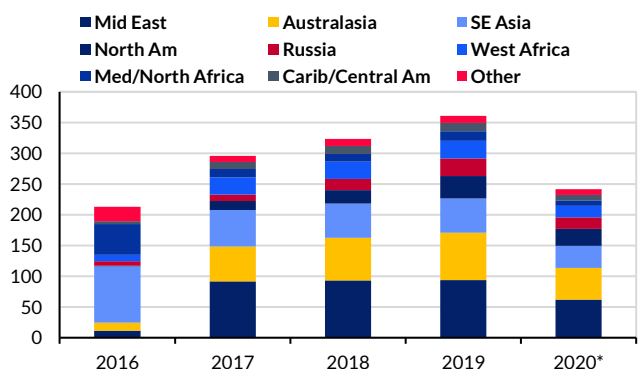
### LNG Export Volumes (Mt)



There was some recovery during August, but with reinfection rates again on the rise in many countries, the course for the rest of the year remains challenging.

In terms of overall exports, the figures highlight that Jan-Aug 2020 is 3% higher than the same period in 2019. This highlights the significant development that has occurred within the LNG market in recent years.

### Global LNG Exports Volumes by Region (Mt)



(\*Jan-Aug)

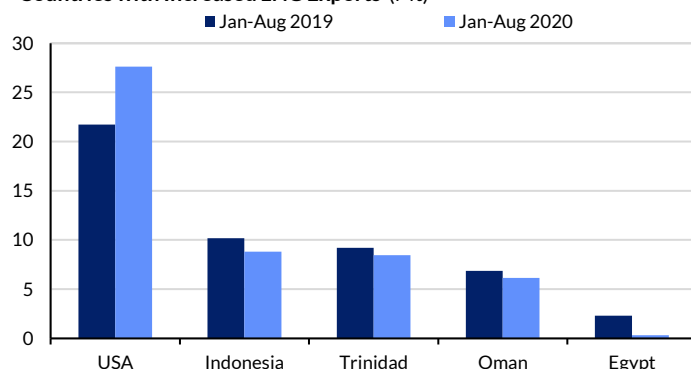
The Middle East (Qatar, UAE, Oman) continues to dominate global exports, with over 61.5 Mt exported in the Jan-Aug period, down by 1% compared to the same period during 2019. Australasia has exported over 51 Mt, (+1%), while South East Asia (Indonesia, Malaysia, PNG and Brunei) exported 36 Mt (-2%). US exports reached over 27Mt (+27%), Russian LNG exports stayed consistent at 18.4 Mt, as did West Africa (Nigeria, Eq. Guinea, Cameroon, Angola) at 18.7Mt.

### LNG Export Markets

The overall market dynamics have proven to be anything other than straight forward so far this year, but there has been one ray of light within the sector. That of LNG exports from the US. On a Jan-Aug basis, exports increased from 21.7 Mt during 2019, rising to 27.6 Mt in 2020. This is one of the fastest increases of capacity of recent years. During May, the third LNG train came on stream at Freeport LNG in Texas. Also during the summer the third train at the Cameron LNG facility in Louisiana started production, as did three of the small-scale liquefaction units at the Elba Island facility. However, this facility has not exported a cargo since January.

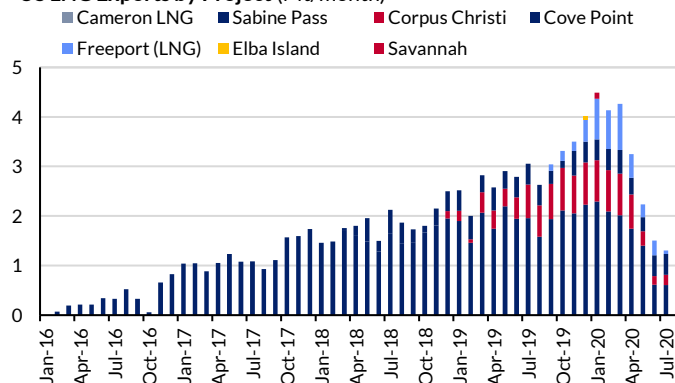
As the COVID-19 pandemic developed, many LNG buyers started to cancel cargoes, as demand in most countries significantly declined. During May around 10 US cargoes were cancelled in the US. This increased to between 20-30 cargoes for June. During July it is estimated that 40-45 cargoes were cancelled and between 20-25 cargoes for September. This roughly equates to 7Mt tonnes of LNG being cancelled from the US.

### Countries with Increased LNG Exports (Mt)



The decline in US exports is highlighted in the chart below, with exports during August this year at levels not seen since February 2019. This also highlights that liquefaction utilisation in the country was down to around 25% during the summer months.

### US LNG Exports by Project (Mt/month)



Away from the success and growth of the US LNG market, LNG Exports from Indonesia were down by 13% y-o-y, in part due to the COVID-19 outbreak, but also due in part to historically low gas prices. This meant that Indonesia's Bontang LNG plant reduced its tally for LNG cargoes, from 111 cargoes to 89 for 2020. We estimate that by the end of August around 60 cargoes were exported from the facility. In a similar vein, Trinidadian state-owned National Gas Company, adjusted its LNG production strategy to ensure positive margins during the pandemic, leading to reduced numbers of cargoes for export. In a more extreme case, Egypt halted LNG exports from the country's only operating LNG plant in March. With global LNG prices falling below upstream production costs, the plant was closed until at least July, when one cargo was exported. Although, no further cargoes have been produced and exported.

#### Notes:

1. Spot refers to less than 6 months Time Charter.  
 2. Short Term 3 Years and 5 Years are derived rates.  
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## Import Markets

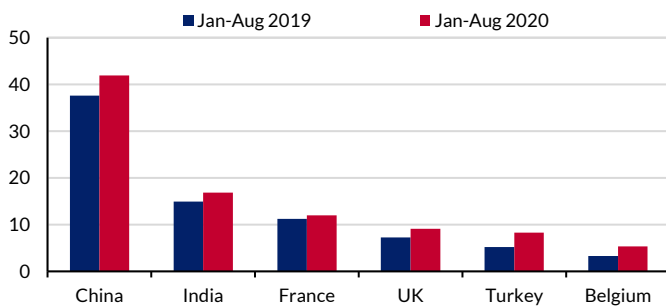
Despite the on-going COVID-19 pandemic and the associated economic, social and health issues surrounding it, some countries have taken advantage and significantly increased their import of LNG over the last few months.

China has been the main beneficiary of the low LNG prices and has come to the market to purchase an increased number of cargoes. This also comes at a time when China is building its liquefaction infrastructure, meaning that increased storage volumes are being added to the LNG sector within the country. In addition, the country is building gas pipeline capacity from the numerous LNG regasification terminals, providing a largest interlinked pipeline system through the eastern part of the country. The reason for the investment in LNG is that CNPC is trying to reduce the volumes of natural gas that it imports from Central Asia. So far this year, LNG imports have increased by 11% y-o-y to 42 Mt.

Indian LNG buyers have also been busy purchasing LNG cargoes. The Indian LNG sector is very price sensitive, and a large portion of the volume imported is via spot cargoes. As the price of gas continued its decline during Q1, allied with the rise of the COVID-19 virus, Indian buyers were able to buy distressed cargoes resulting in increasing imports. Overall LNG imports increased by over 12% compared to the same period in 2019 to approx. 17 Mt.

The UK has also seen a large increase, with LNG imports accounting for 49% of total UK gas imports during Q1. Overall LNG imports increased by 26% to 9.1 Mt for the Jan-Aug period.

### Countries with Increased LNG Imports (Mt)

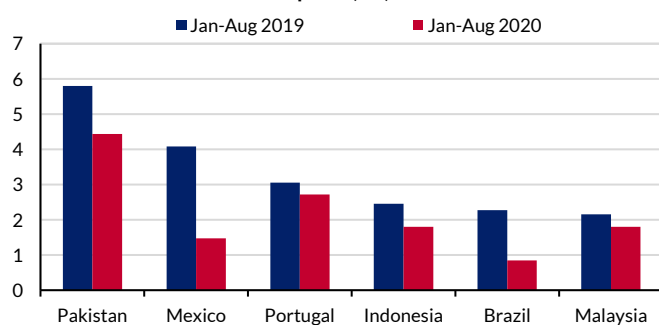


Turkey has seen the largest increase in LNG imports, with LNG overtaking pipeline gas imports for the first time in March, accounting for 52.5% of total gas imports. Imported LNG is helping displace Russian pipeline gas. Overall LNG imports increased by 58% between Jan-Aug to 9.1 Mt.

Pakistan was one of a number of countries that recorded a decline in LNG imports. The country imports relatively limited volumes of LNG, and the impact of COVID-19 on the economy meant the closure of a large portion of the country's industrial activity. Overall demand fell by 23% to 4.4 Mt.

Mexican LNG imports declined at a fast rate, as a new pipeline that links the Waha gas field in the US to Manzanillo has been commissioned. Similarly, on the east coast the Sur de Texas-Tuxpan pipeline opened late-last year to transport US gas to Altamira. The new pipeline volumes have displaced imported LNG. Overall imports were down 63% to 1.5 Mt.

### Countries with Reduced LNG Imports (Mt)

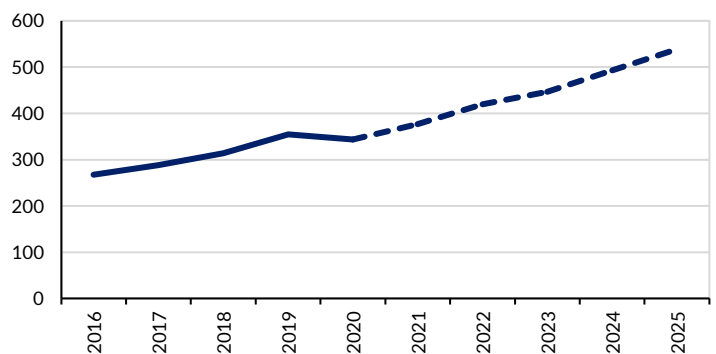


## Gibson Forecasts

Despite the significant economic hardships that many countries are contending with in the wake of COVID-19, the underlying fundamentals are there for sustained future growth, once the world comes out from under the pandemic's shadow. This also comes at a time when many governments, organisations and citizens are questioning their consumption patterns and their CO<sub>2</sub> footprint. Increasingly, LNG is seen as a way to reduce CO<sub>2</sub> emissions. It is well understood that LNG can play a significant part as a bridging fuel from the high CO<sub>2</sub> content of current fossil fuels to zero emission alternatives. As such this may take a generation to enact, but LNG is a technology that has a long operational history. As such, increased interest in utilising LNG as a lower-emission fuel for power generation and as a transport fuel will provide the impetus for additional liquefaction projects in the near-term. Large-scale projects such as those in Mozambique, the Arctic 2 project and the many proposed US projects will benefit the LNG market.

Our forecast highlights total seaborne LNG trade will decline by over 3% during 2020. Thereafter, we forecast a bounce back in demand as economies recover and increased numbers of liquefaction and regasification projects gain FID. Through to 2025, we forecast that LNG will increase in trade to 539 Mt.

### Forecast LNG Seaborne Trade (Mt)

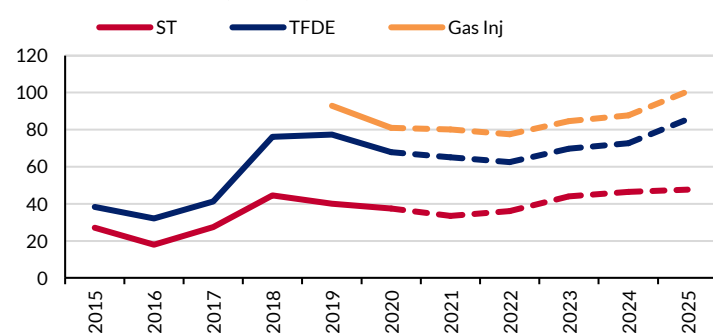


1-year Time Charter rates are forecast remain at historically low levels as the sector moves through this difficult period. Despite this, the lengthy orderbook is expected to remain a drag factor on the earnings potential of vessels, despite the forecast rise in overall seaborne trade.

The fleet has been a through a growth phase for several years, as new projects have been commissioned, and new larger more efficient vessels have been constructed to transport the growing export volumes. In addition, new largescale projects such as the Qatari expansion, Mozambique and Russian projects will have their own dedicated vessels to transport their cargoes, thus reducing the potential for non-related vessels to be used on such projects.

As such we forecast a slow rise in rates through to 2025. Within this sector we also highlight the declining earning capacity of ST vessels, as their small size, and more uneconomical fuel consumption causing a widening of the rates delta between the newer larger fleet.

### Forecast 1 Yr TC Rates (\$'000/d)



This update represents a small portion of our LNG Research – please feel free to contact us for bespoke consultancy projects.

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