Gibson LNG Market Insight – July 2021
The year so far – how is it going?

GIBSON SHIPBROKERS

Introduction

As we pass the halfway mark of 2021 we should take stock of what has happened during the year so far. It seems that we can finally see glimpses of life returning to normal after what can only be described as one of the most turbulent eighteen months of recent history. For the LNG sector, there has been a return to growth in demand, while the near-term outlook looks positive, although there are a number of uncertainties still lingering. Covid is still impacting the global economy with the threat of lock downs once more. But it is anticipated that as vaccination levels increase, the length of time this pandemic impacts our future will be reduced.

Foot on the gas

By the end of June, preliminary data suggested that LNG trade had risen by over 5% compared to the first six months of 2020. The US reported the largest increase, of over 50% y-o-y to over 35 Mt. Sabine Pass, Corpus Christi and Freeport significantly increased production since the summer of last year. This also comes at a time when gas prices have risen dramatically since March, which has encouraged various US produces to increase production.

The rise in US LNG production has had a marked impact on he number of vessels utilising the Panama canal. There were 109 LNGCs that utilised the canal during the first half of 2020. This rose to 217 for the same period in 2021. There were some delays, as the global economy stuttered back to life. South Korea was the main destination for US LNG with 4.4 Mt, followed by Japan (3.9 Mt) and China (3.7Mt).

Egyptian exports have ramped up with the restarting of the Damietta liquefaction plant in February. By June there had been 19 cargoes loaded, accounting for approximately 1.2 Mt of exported LNG. These cargoes were transported to eight different countries. Overall, half year LNG exports reached 3.7 Mt.

This compares to no LNG cargoes exported from Norway. A fire at the Hammerfest plant in September last year caused a complete closure. Equinor has extended the plant's shutdown by six months to the end-of March 2022. They estimate that the extended shut-down will result in an additional loss of 2.1 Mt of LNG, or around 35 cargoes.

Australian LNG exports are slightly down, due to technical issues at Chevron's Gorgon facility. However, Prelude FLNG began operations again in January and seems to be back to full production.

How do I rate?

Spot rates have declined from historic highs at the beginning of the year, with Gas Injection vessels reaching over $300 k/day in January for Atlantic cargoes. Rates rapidly declined from their winter peak, however, a cold spring in Northern Europe encouraged increased gas burn, along with rising demand in Asia, especially China. This caused gas prices to increase and demand for vessels to follow suit. Rates for the usually quiet summer season have started to increase with gas injection vessels currently at nearly $90 k/day in the Far East.

Ordering spree

By end-June, there were 607 trading LNGCs (over 60 k cbm). There have been 30 LNGCs delivered during the first six months of 2021. They average 171 k cbm, with 21 vessels having XDF propulsion, eight with MEGI and two diesel electric. There are 26 vessels scheduled for delivery through the rest of the year.

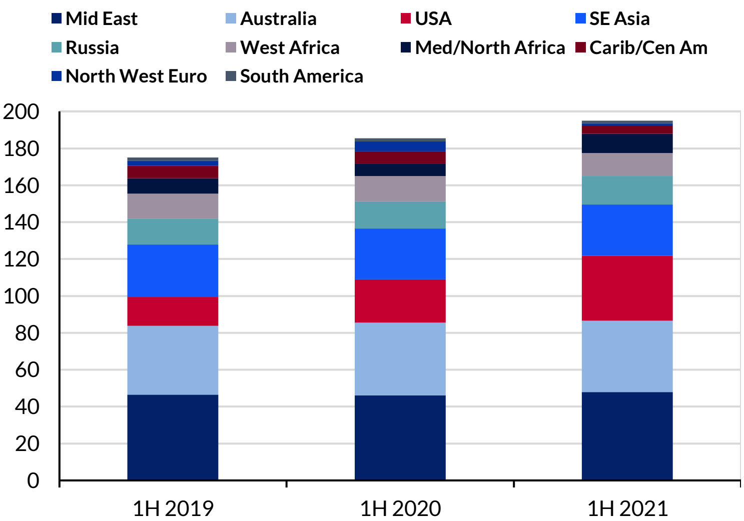
The orderbook continues to receive new orders. For the first six months of the year, there were 143 confirmed LNGCs on order that were over 60 k cbm. Of these vessels, 24 were ordered between January-June. This is slightly below the 26 vessels ordered last year during the same time frame. The majority of these vessels will have XDF propulsion and there seems to be a consensus that vessels of 174 k cbm are now the main design size.

There has been upward pressure on steel prices, meaning yards have had to increase their newbuilding prices. As such, depending on yards and specification, LNGC prices are now well above the magic $200 million. We estimate for a 174 k cbm vessel to be prices in the region of $205-210 million. This compares to the $180-190 million that vessels were ordered at over the last few years. The large number of vessels that will be required for the Qatar expansion project could well put further upward pressure on prices in the near-term.

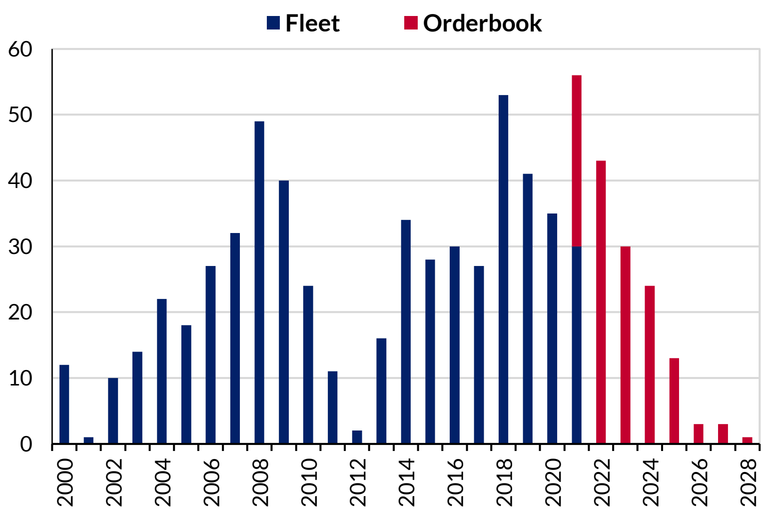
Future outlook

As the global economy slowly hauls itself out of the Covid devastation, there is hope that economies will quickly recover. We forecast that overall LNG trade for 2021 will be in the region of 395 Mt, a rise of 7% compared to 2020. However, this all depends on the relaxation of restrictions, and the slow return to a new normal.

Global LNG Export Volumes by Region (Mt)



LNGC Fleet and NB – June 2021 (No. of vessels)



For additional information please contact: research@eagibson.co.uk