Evolution of Flexibility / Liquidity in the LNG Shipping Market

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Poten & Partners – A leader in LNG services

- Business Intelligence
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Introduction

• LNG trade began in the 1960s, as a regional business
  – Projects developed on a conservative and rigid point-to-point basis

• LNG trade has become more dynamic and complex
  – Now a global business, though still mostly regional
  – More flexibility in contract terms
  – Increased short-term trade and diverted volumes

• How does this affect the LNG shipping market?
  – We will discuss the evolution of flexibility / liquidity in the market
LNG trade has become more dynamic and complex

2000 (103 MMt) 2017 (291 MMt)
The LNG shipping market has had to evolve

• The traditional LNG shipping model has been challenged by:
  – Increasing flexibility in LNG supply
  – Increasing short-term trade and diversion opportunities
  – Shorter LNG contract terms
  – Many new contracts on FOB basis
  – Smaller contract volumes

• More emphasis on *fleet flexibility* and *trading efficiency* as a result
Term charter length has fallen dramatically
Ship technology is becoming more efficient for trading
What is required for a market to be liquid?

- Large number of market players
- High level of trading activity
- Active spot market
Ship ownership has become more diverse and competitive.
Spot chartering activity has increased in recent years.\textsuperscript{*} 

*N.B. preliminary figures show a decrease in 2018.
Liquidity could be defined as level of shipping oversupply

- A liquid shipping market – charterer is able to find a vessel \textit{whenever} it is required, available to deliver \textit{wherever} they want

- Shipping supply vs demand determines level of oversupply

- Ship Demand Outlook
  - Based on Poten’s base case LNG supply / demand and trade estimates

- Ship Supply Outlook
  - Existing ships and firm orders only, options not included
LNG demand growth will be outpaced by fleet growth

**LNG Supply / Demand**

- LNG Supply / Demand graph showing MMT/y from 2018 to 2022.
- 7% growth in 2018.
- 3% CAGR from 2019 to 2022.

**LNG Fleet Growth**

- LNG Fleet Growth graph showing Number of 160,000m³ Ships from 2018 to 2022.
- 11% growth in 2018.
- 6% CAGR from 2019 to 2022.
LNG shipping demand vs firm supply

- Market expected to be tight, with periods of volatility, for the next two years
- Expected to be long post 2020 as new owners enter the market speculatively
Spot rates are directly linked to no. of ships in spot market
Conclusion

• Global LNG trade becoming more complex and dynamic

• Shipping market evolving as a result - fleet flexibility and trading efficiency

• General increase in market liquidity – many owners, active spot market
  – N.B. spot chartering activity decreased in 2018

• However, if defined as “oversupply”, liquidity is low in current tight market
  – Market expected to be tight until 2021

*LNG ships are not commodities. However, the service they provide charterers is becoming increasingly flexible and competitive*