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It's not just about oil: Expect more change in a struggling global natural gas market

Liquefied natural gas (LNG) is playing a huge role in the transition to a low-carbon world but it is also rapidly becoming a global commodity as its price crumbles on the open market. The problem for the industry is a structural change that may lead to even lower natural gas prices in the future. In a new paper "Navigating the transformation of the gas market," Strategy&, PwC's strategy consulting business, predicts four forces that will weigh heavily on gas prices going forward making the market much more volatile, and risky:

1. **The thirst for natural gas will continue rising.** Although some slowdown in demand growth is expected as global economic conditions soften, particularly in China, LNG orders are not going to decline anytime soon.

2. **Oil prices will continue to have an impact.** Gas prices will be influenced by oil prices for several years. If oil prices stay low, so will gas prices. Existing contracts linked to oil will have to be worked through first, but even if oil and gas are delinked after these contracts are concluded, inexpensive oil could psychologically have a dampening effect on all energy prices.

3. **LNG oversupply will exacerbate commoditization.** The global LNG market is about to become inundated with new suppliers. A supply glut is forecast to continue and oversupply will force sellers to seek alternative markets and share more risk with traders hoping to exploit arbitrage opportunities. Some producers will likely cut prices to defend market share against LNG imports.

4. **Increased trading volumes on natural gas hubs.** The presence of LNG hubs and the increase in available natural gas supplies have attracted new buyers from afar. This evolution in global trading is producing more natural gas liquidity, price transparency, longer-term forward contracts, and gas-on-gas competition, which ultimately reduce contractual risk and facilitate hedging. By globalizing the LNG market, these hubs could increase commoditization.

QUOTES:

"With a growing glut in globally tradable LNG, all industry players — buyers, sellers, traders, and governments, to name just a few — will need to adjust their operating models," says Andrew Clark, an oil and gas and chemicals advisor for Strategy& and a partner with PwC UK. "They should expect lower prices, more short-term trades, and demands for contractual flexibility. The right strategic response will vary from one player to another, and there is a great deal of risk and uncertainty. But any company in this industry can succeed by carving out a focused value proposition and developing the capabilities to deliver it."

Adrian del Maestro, specialist in the oil and gas industry for Strategy& and a director with PwC UK says, "Given the pivotal role gas will play in the transition to a low-carbon world, combined with the tide of commoditization that is sweeping the sector, companies must prepare for change. In a future where risk levels, liquidity, and price volatility will increase, the certainties underpinning long-term supply contracts will ebb away. Lower margins and uncertain trading outcomes will replace them."

The paper also offers some strategic options and practical considerations for natural gas players — on the buy and sell sides — to take into account. To learn more, visit www.strategyand.pwc.com. A copy of the paper *Navigating the transformation of the gas market: Adapting to survive in a period of change* is available from the media contact.

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