



All Prices	OPEC Blends	Canadian Blends	U.S. Blends	1D	1M	3M	1Y	ALL CHARTS	Di: ▲
WTI CRUDE	75.60 ▼ -4.48	-5.59%	LOUISIANA LIGHT	91.62 ▲ +0.25	+0.27%				3 minutes
BRENT CRUDE	82.92 ▼ -4.70	-5.36%	BONNY LIGHT	87.07 ▼ -3.32	-3.67%				
MURBAN CRUDE	84.11 ▼ -2.67	-3.08%	OPEC BASKET	91.72 ▲ +0.56	+0.61%				
NATURAL GAS	6.656 ▲ +0.353	+5.60%	MARS US	80.08 ▼ -1.56	-1.91%				

[Home](#) / [Energy](#) / [Energy-General](#)

How China Could Send LNG Prices Into The Stratosphere

By [Irina Slav](#) - Aug 01, 2022, 5:00 PM CDT

- ▶ Six years ago, China suffered a severe natural gas shortage and has since been very careful to ensure it has as much gas as it needs before winter.
- ▶ One of the few things keeping a lid on natural gas prices this year has been a significant reduction in Chinese LNG imports.
- ▶ If China has a colder than expected winter or if there is a change in its Covid strategy, then global LNG markets are sure to get even tighter.



China, which last year became the world's top importer of liquefied natural gas, has been importing a lot less of it this year. Imports were down by as much as 20 percent amid skyrocketing prices in the first half of the year and buyers are still holding back on more shipments. But this could change on a dime.

Six years ago, China was hit by a severe natural gas shortage in the north, leading to blackouts and heating outages for millions of people. This was the result of a rushed shift from coal to gas, with gas transportation infrastructure and imports falling short of demand in peak season.

Since then, China has been very careful to have all the gas it needs ahead of winter to avoid a repeat of the 2017 crunch. This is how it became the world's biggest importer of liquefied gas last year, and this is why now its lukewarm appetite for that same liquefied gas is causing concern among traders.

According to a recent Bloomberg [report](#) that cited gas trade industry insiders, China's behavior is out of the ordinary. This in itself is not necessarily bad. If China is buying less LNG, there will be more for Europe, which has been doing everything it can to fill as much of its gas storage as it can before the heating season starts.

Yet, according to the traders Bloomberg talked to, if a cold spell suddenly boosts demand in the winter proper, China will immediately start snapping LNG cargos, potentially worsening an already tight supply situation.

Cold spells are not unusual during the winter but there is also another risky aspect to the current behavior of Chinese LNG buyers. In many ways, it is even riskier than counting on a mild winter: they seem to be counting on more restrictions due to Covid in the coming months, which would keep the demand for energy in check.

China has a zero-Covid policy that has led to several strict lockdowns, including this year, which affected the rate at which its economy expanded and, naturally, led to lower energy demand. Recently, the Chinese Politburo [defended](#) that policy, saying it would aim to strike a balance between zero-Covid and economic growth. Future flare-ups of infections, however, are not a certainty for the winter, unlike low temperatures.

[Related: Saudi Arabia's Real Production Capacity: Is 15 Million Bpd Possible?](#)

“Right now, the lockdowns have impacted industry, and China is working through the backlog of industrial activity and demand,” Toby Copson, global head of trading and advisory at Trident LNG told Bloomberg. “If one of the biggest buyers in Asia comes back for volume when the rest of North Asia is competing with Europe - that’s a massive liquidity grab.”

Earlier this month, the International Energy Agency [forecast](#) that natural gas demand will actually contract this year and grow more slowly than previously expected because of excessive prices. It was an odd forecast amid Europe’s rush for gas, regardless of the price, which led to many cargos being diverted or resold by Asian buyers, including ones from China. It starts sounding even odder when one factors in the reversal from gas to coal to continue generating electricity in many countries, notably Germany but also China.

Coal, in fact, is one of the ways China is seeking to insulate itself from another gas shortage crisis. The authorities have ordered the industry to produce as much coal as it can, and it has ordered the same for the gas industry as well. Meanwhile, it is increasing pipeline gas imports, including from Russia, with which Beijing is currently [discussing](#) an expansion of the Power of Siberia pipeline.

The country has increased gas purchases from Russia this year, tripling the gas orders via the Power of Siberia over the first half from a year ago and significantly boosting imports from Turkmenistan, too, by more than 50 percent.

In the wake of the 2017 gas crunch, China vowed it would never again find itself in such a situation. One of the world’s top energy consumers has stayed true to its promise and has prepared for winter every year by boosting gas imports ahead of peak season.

The fact that now Chinese buyers seem to be disinterested in stocking up on LNG ahead of that season suggests that, more than anything else, China either has the gas it would reasonably need during the winter, or it can get it via pipeline from other sources at lower prices, too, as pipeline gas is normally cheaper than LNG.

Again, this is good news for Europe as that would leave more gas for its storage facilities that are filling up but haven’t filled up yet. The not-so-good news is that even though China may be set for winter in gas terms, there might still be insufficient LNG supplies to go around should the winter prove more severe than usual for any part of the northern hemisphere that relies on LNG to keep the lights and the heating on.

By Irina Slav for Oilprice.com

More Top Reads From Oilprice.com:

- [Oil Dips Amid Renewed Demand Concerns](#)
- [Ukrainian Grain Shipment Hailed As A “Relief For The World”](#)
- [Is Silver A Better Investment Than Gold Right Now?](#)