



Geopolitics of Global Gas Markets

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The four major geopolitical trends impacting supply and demand across the near and medium-terms:

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US “energy dominance”

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1) US "energy dominance"



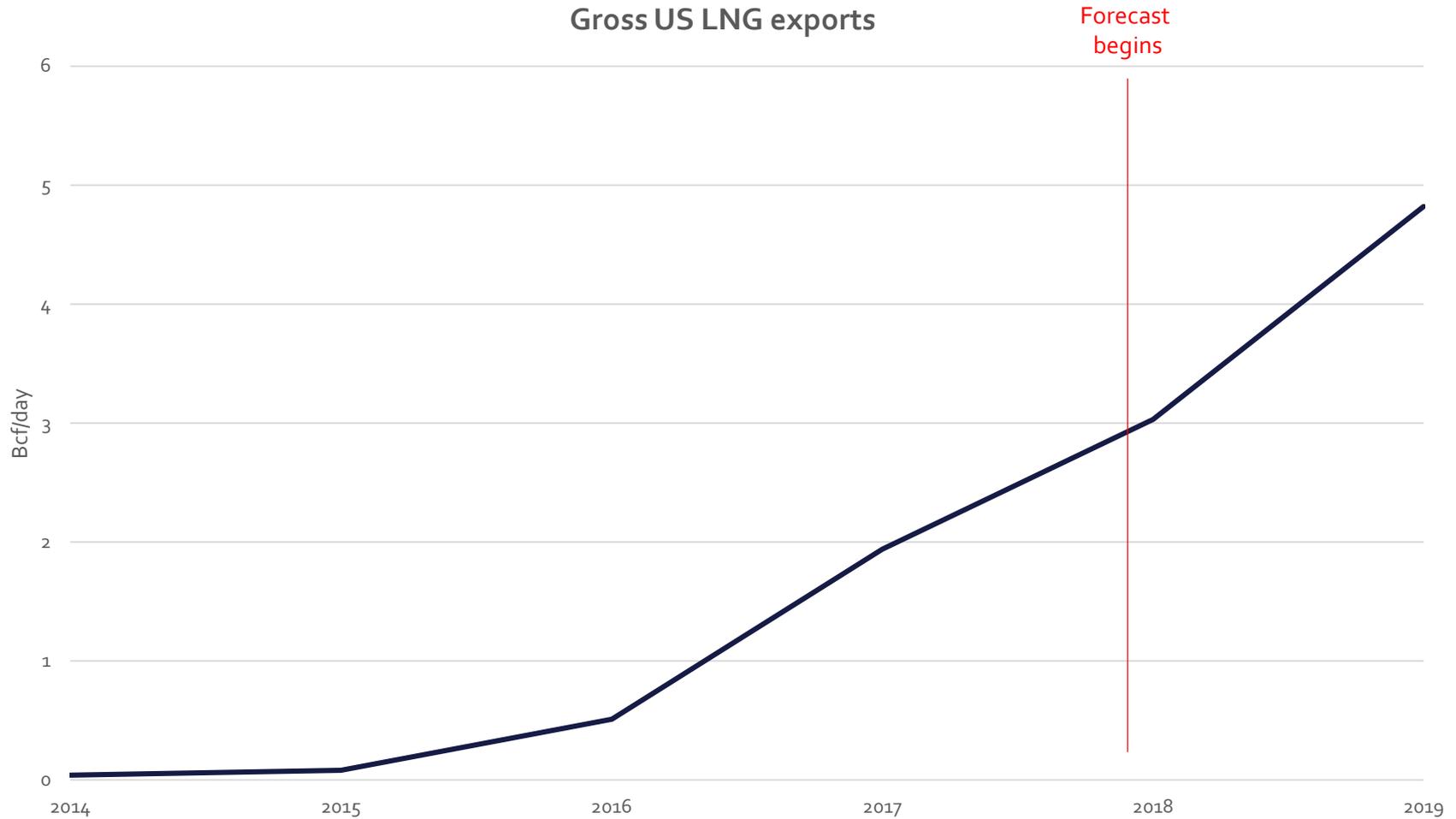
What exactly does US “energy dominance” mean?

Trump’s strategy of “energy dominance” will help support expanding exports through upstream deregulation and more assured regulatory approvals

Geopolitically, the message could backfire—no country wants a dominant energy supplier



US LNG's moment has arrived—and will grow, but global demand for US LNG is not unlimited

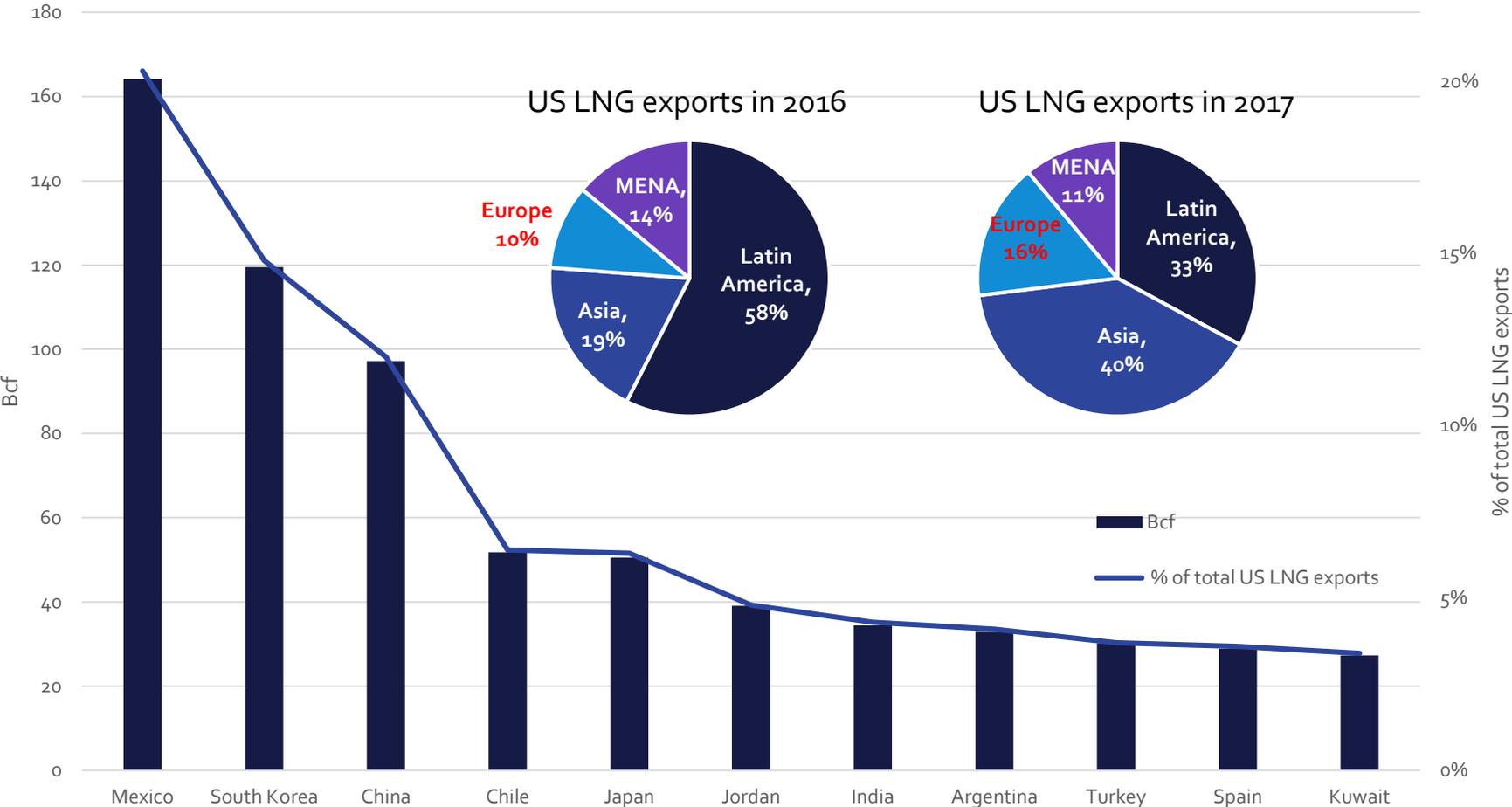


Source: US Energy Information Administration



US exports thus far have only limited inroads to displace Russian gas in Europe—more opportunities in other regions

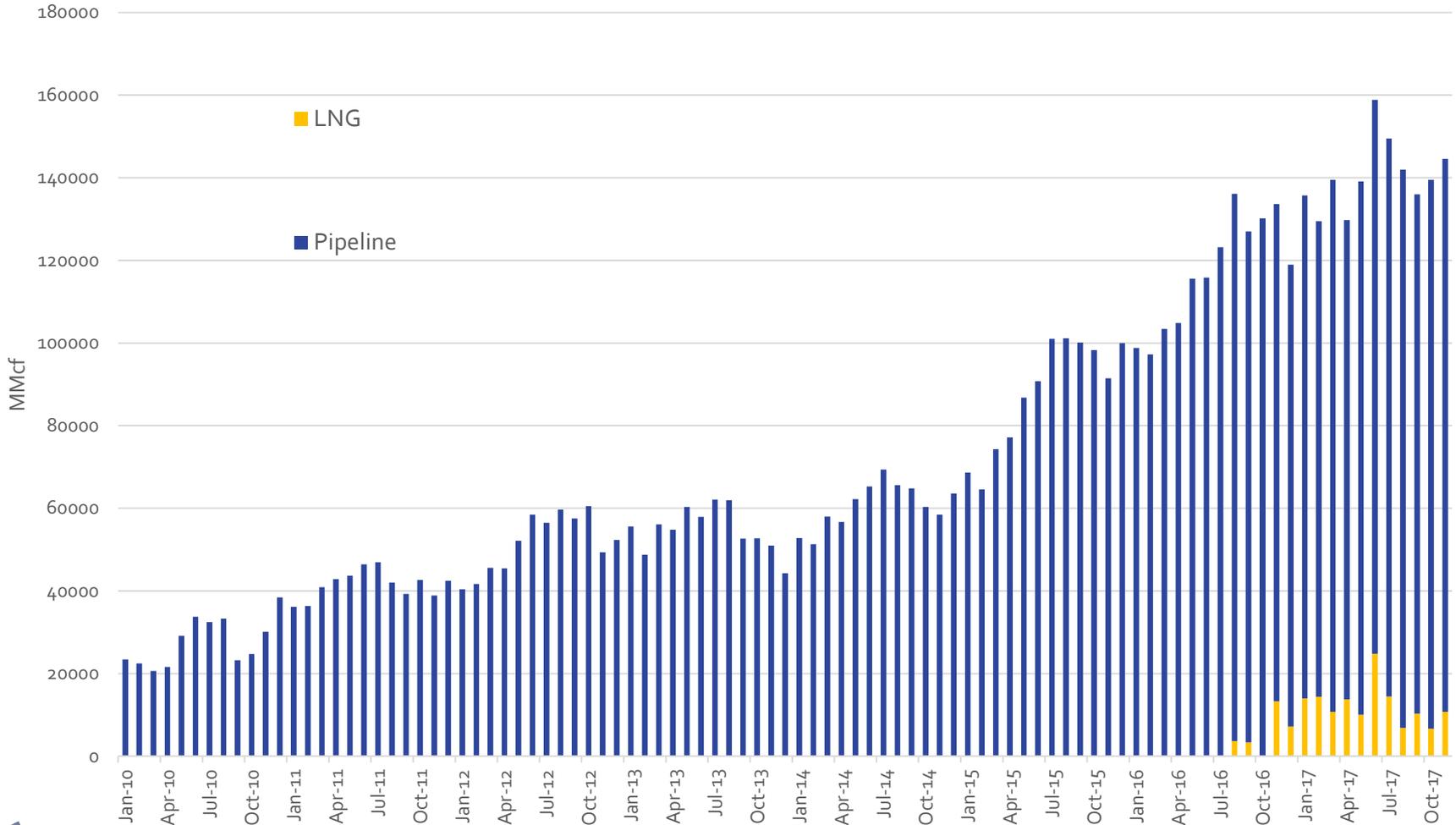
US LNG exports by top 10 destinations (Feb 2016-Nov 2017)



Source: US Department of Energy, Gazprom, Bloomberg

Trump's trade agenda could present a disruption risk

US natural gas monthly exports to Mexico



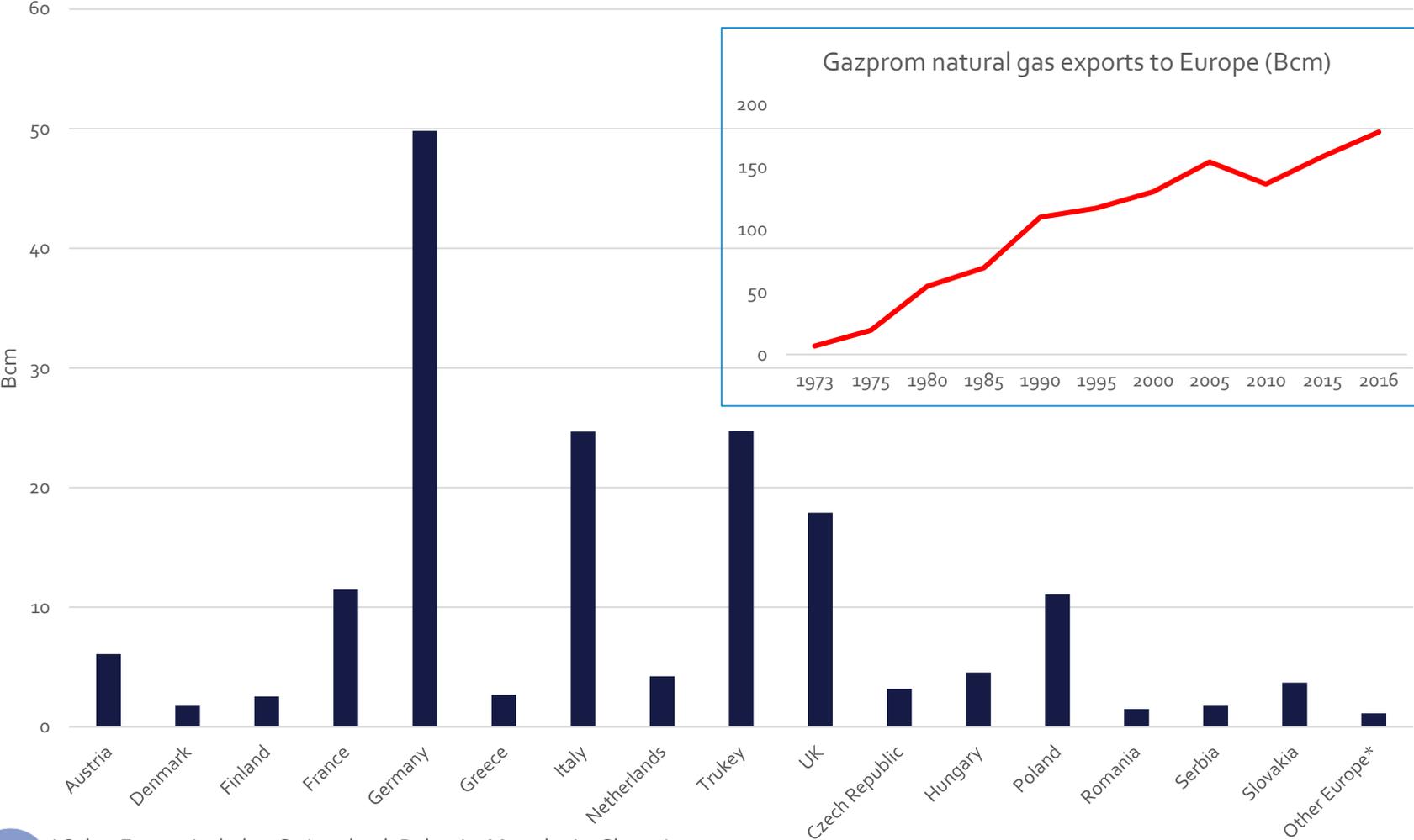


2) Russian gas geopolitics



European gas geopolitics: Russia will fight—and succeed—in holding onto to European market share

Gazprom exports to Europe in 2016



*Other Europe includes: Switzerland, Bulgaria, Macedonia, Slovenia
 Source: Gazprom

European gas geopolitics will come to a head over Nord Stream 2

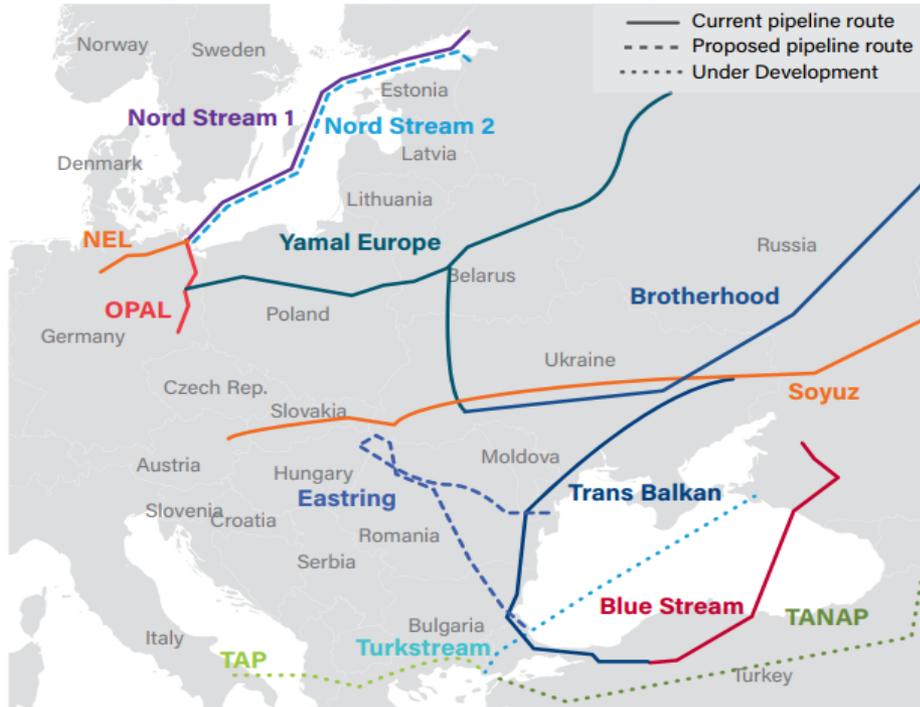
European regulatory issues will be challenging but not prohibitive

Likely delays mean that Gazprom cannot entirely bypass Ukraine by 2019

Opposition to the pipeline is especially strong in Denmark and Sweden

Central and Eastern European countries have been particularly vocal against granting Gazprom greater direct access to northwestern European markets

Russian gas export pipelines to Europe



Source: Atlantic Council, Eurasia Group

European Commission proposals to extend third energy package rules to Nord Stream 2 will struggle to gain traction

German permits were recently issued, and Germany will resist efforts to hand over regulatory oversight to the Commission

The Russian government will continue to push for construction, looking for ways to get around regulatory setbacks—will reroute to avoid Danish regulatory roadblock



Sanctions regime is heavily dependent on the state of US-Russia ties

A further breakdown in bilateral relations in the long term would put the pipeline sanctions on the table

However, for now, additional sanctions are unlikely

But sanctions risk could weigh on ability for Nord Stream 2 backers to secure financing





3) Persian Gulf risks



GCC: outlook darkens for diplomatic solution to crisis

55% probability of a continued stalemate, 30% to a diplomatic solution, and 15% to a leadership change or military effort against Qatar

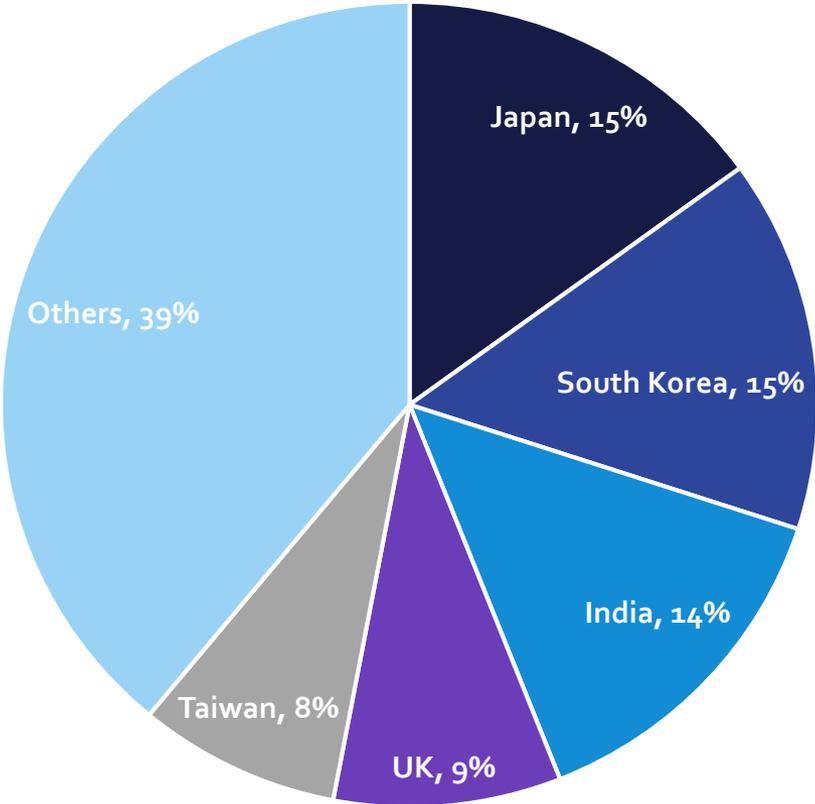
Qatar will fight to retain a dominant gas market position, helped by low costs, and will not likely face major disruptions because of the spat with its neighbors

Main risk to LNG shipments would be a blockade of sea lanes, which is unlikely as it would require an outright declaration of war



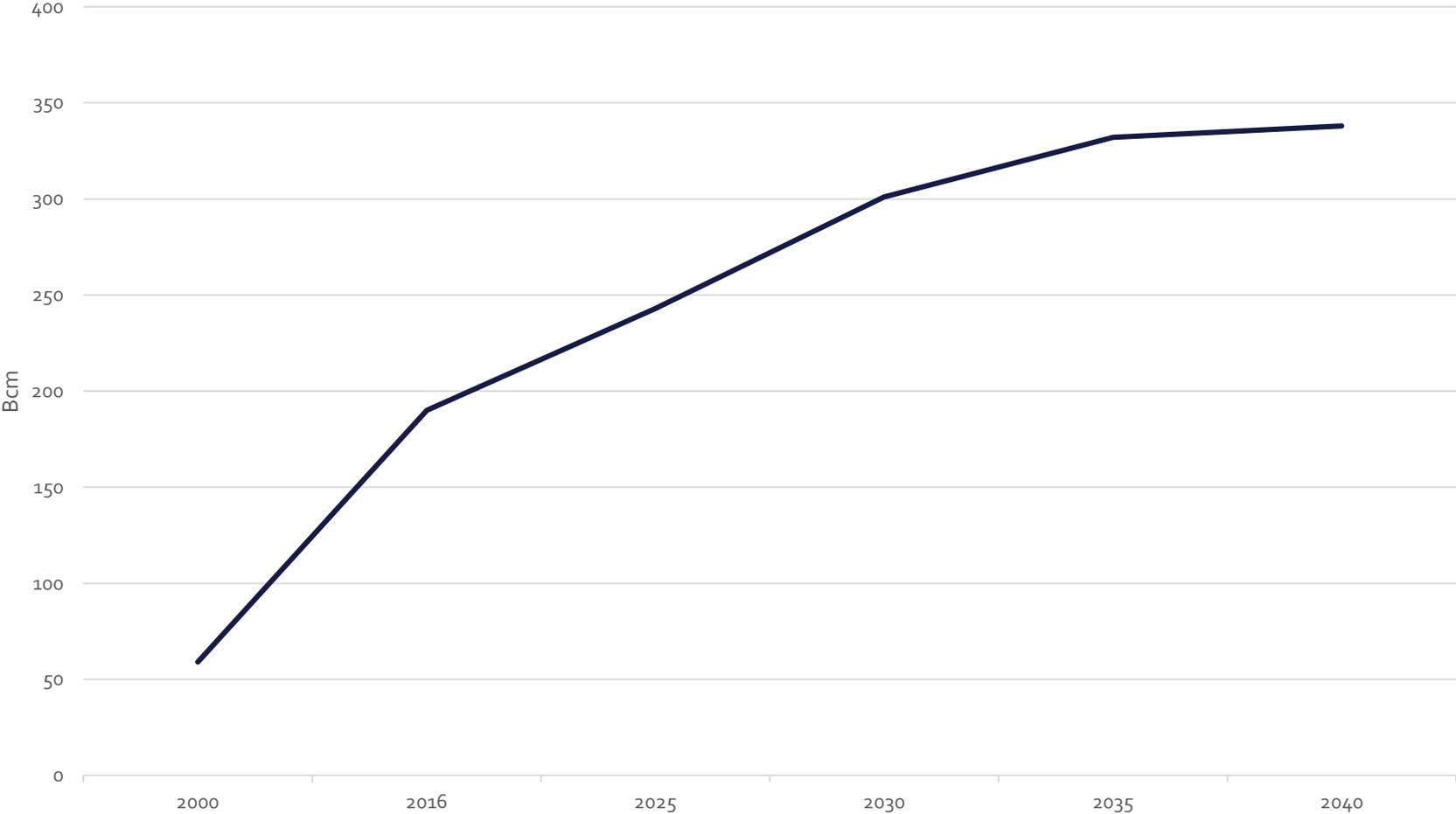
Regional geopolitics will push Qatar toward LNG expansion

Qatar's LNG exports in 2016



Iran's gas expansion plans hinge on fate of sanctions/nuclear agreement

Iranian natural gas production forecast



Source: International Energy Agency (New Policies Scenario)

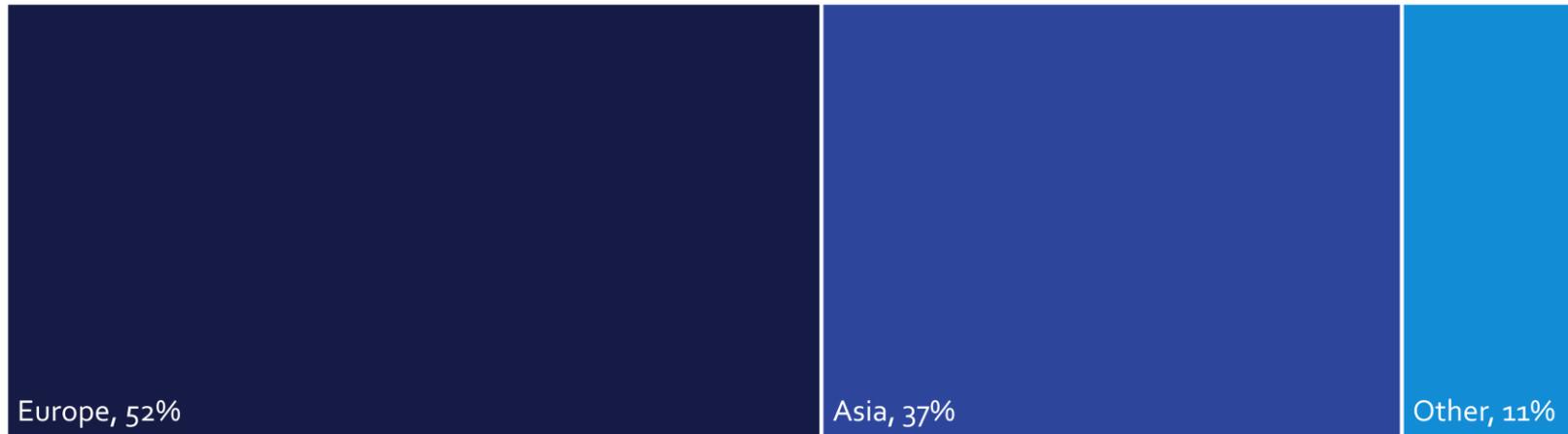


4) The Asian demand story



Global LNG supply picture is clear over the next five years, so policy-driven demand is the key story

Gas importers in 2016

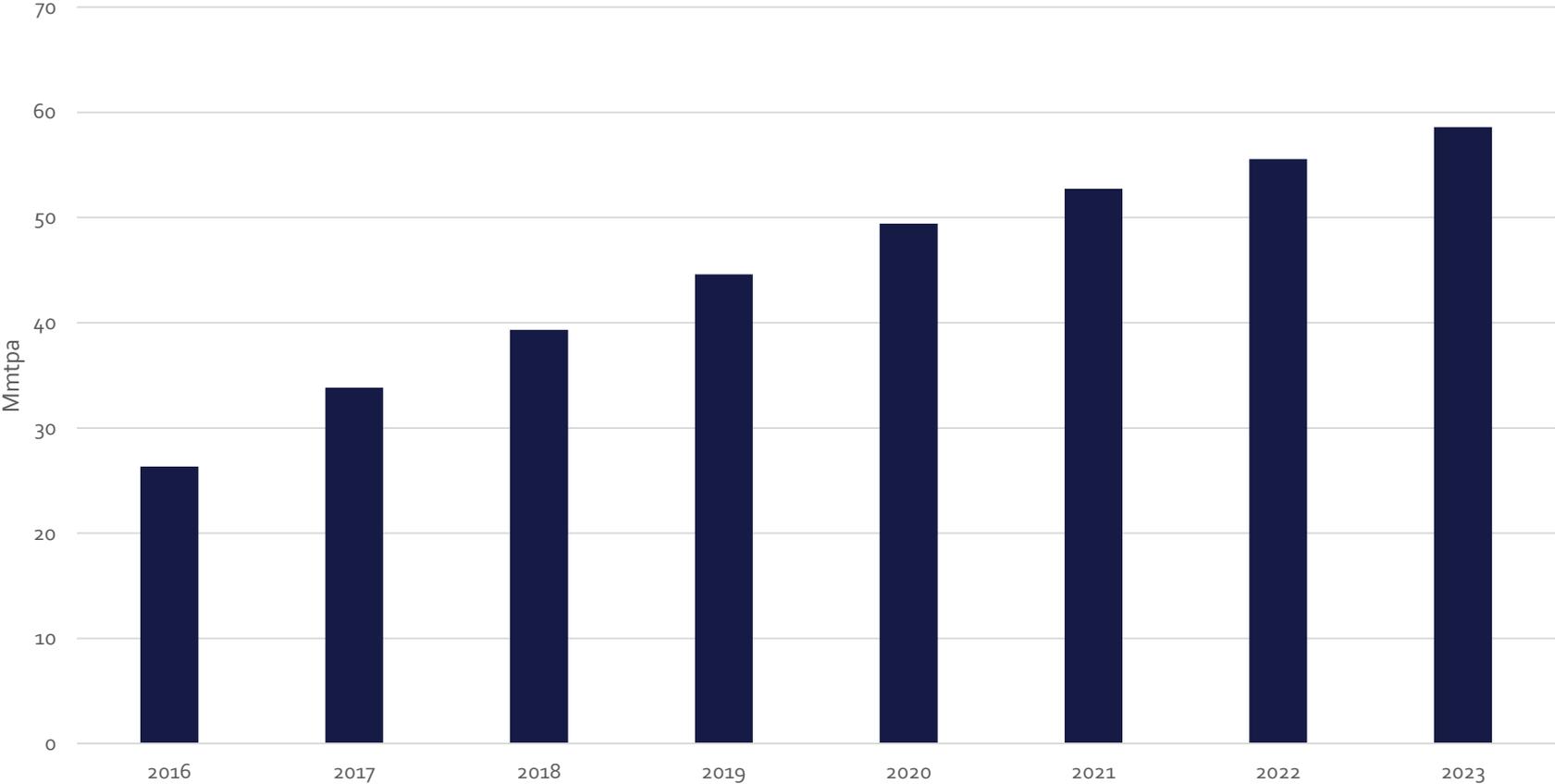


Gas importers in 2040



Environmental policies due to air quality concerns playing a large role in shift away from coal in China

Chinese LNG demand forecast

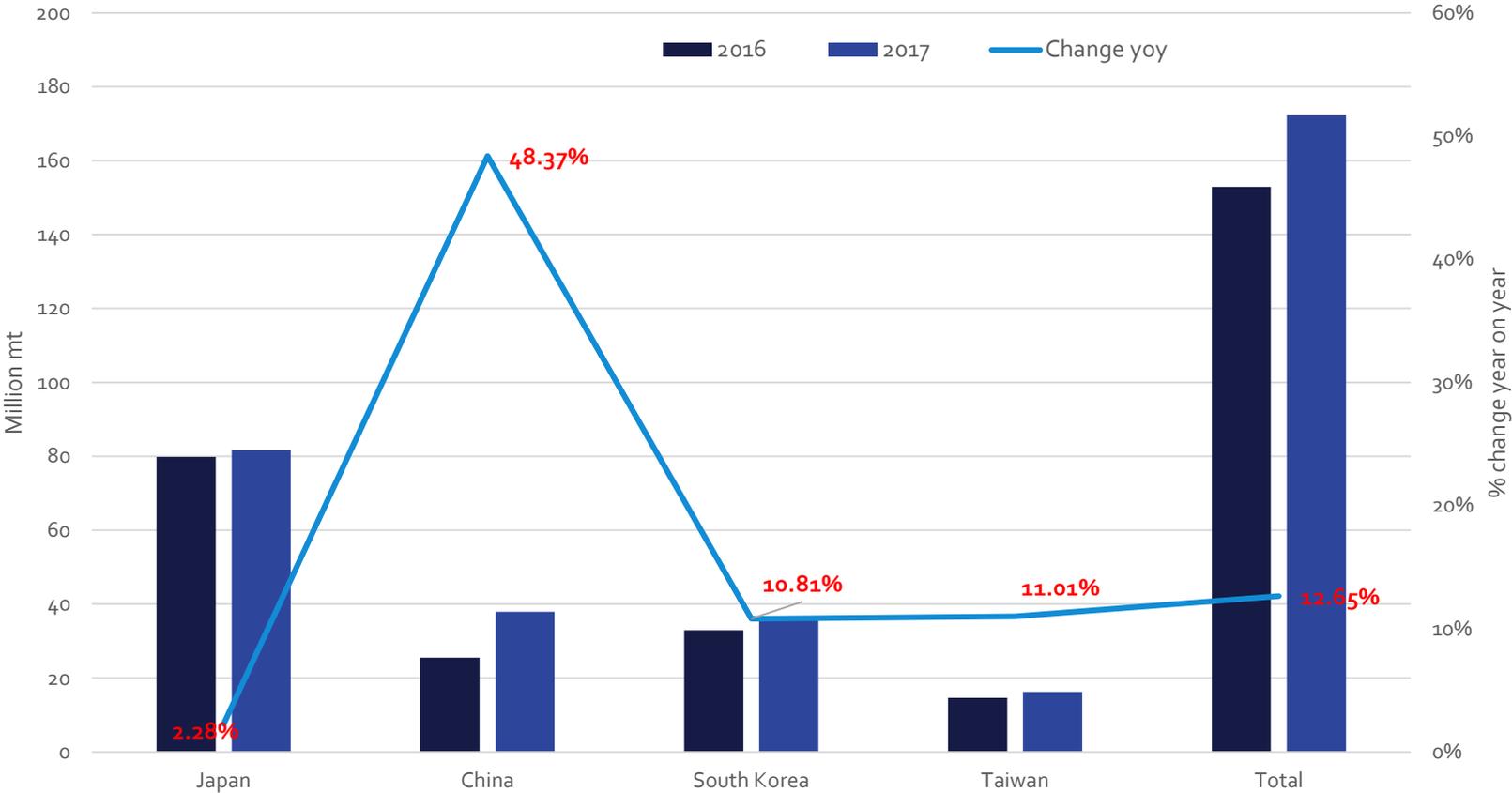


Source: Bloomberg



China overtook South Korea in 2017 as world's second largest LNG importer

Select Northeast Asian LNG exports, 2016 vs. 2017



Source: Platts



Can Indian/South East Asian gas demand grow as quickly as China's?

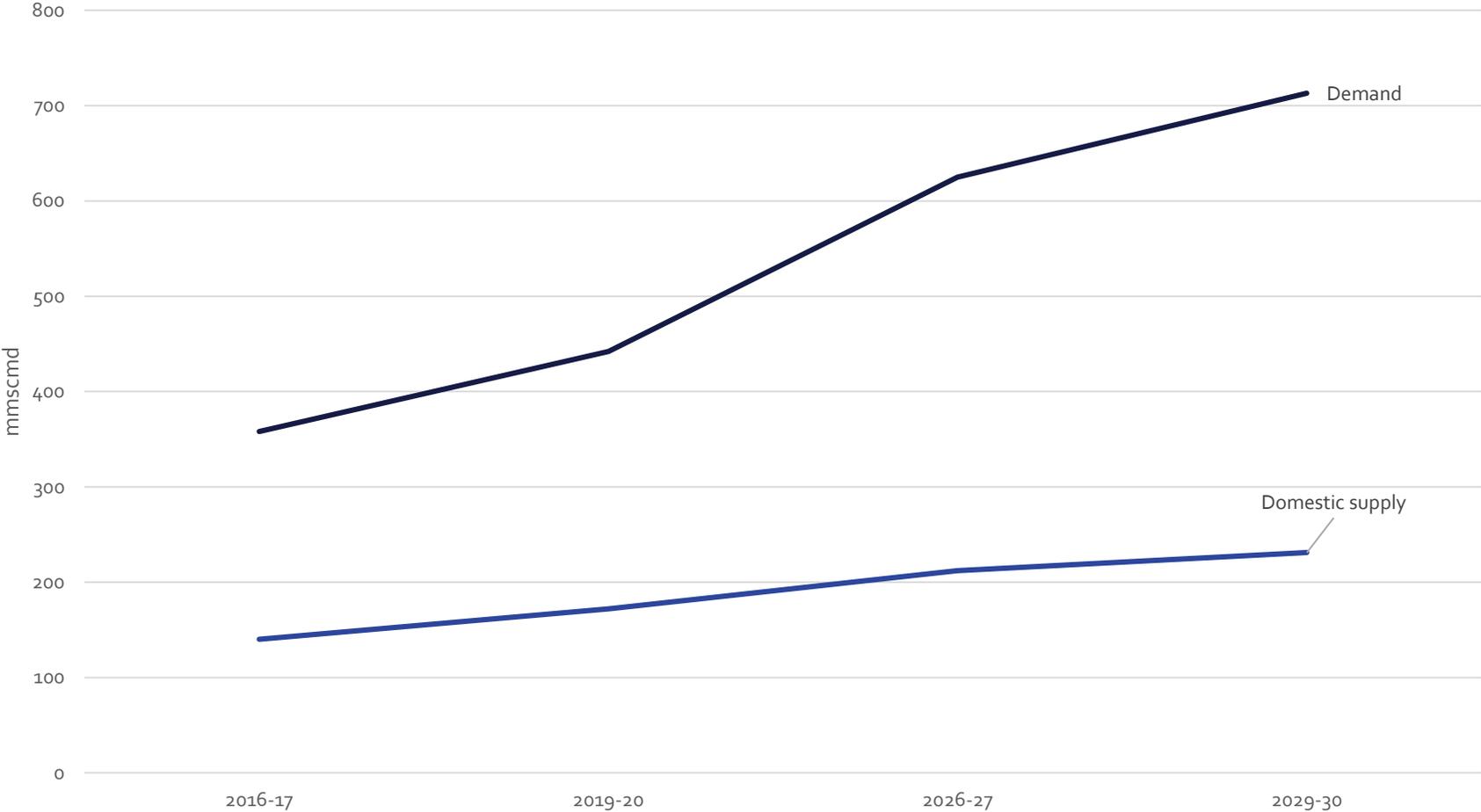


Source: Washington Post



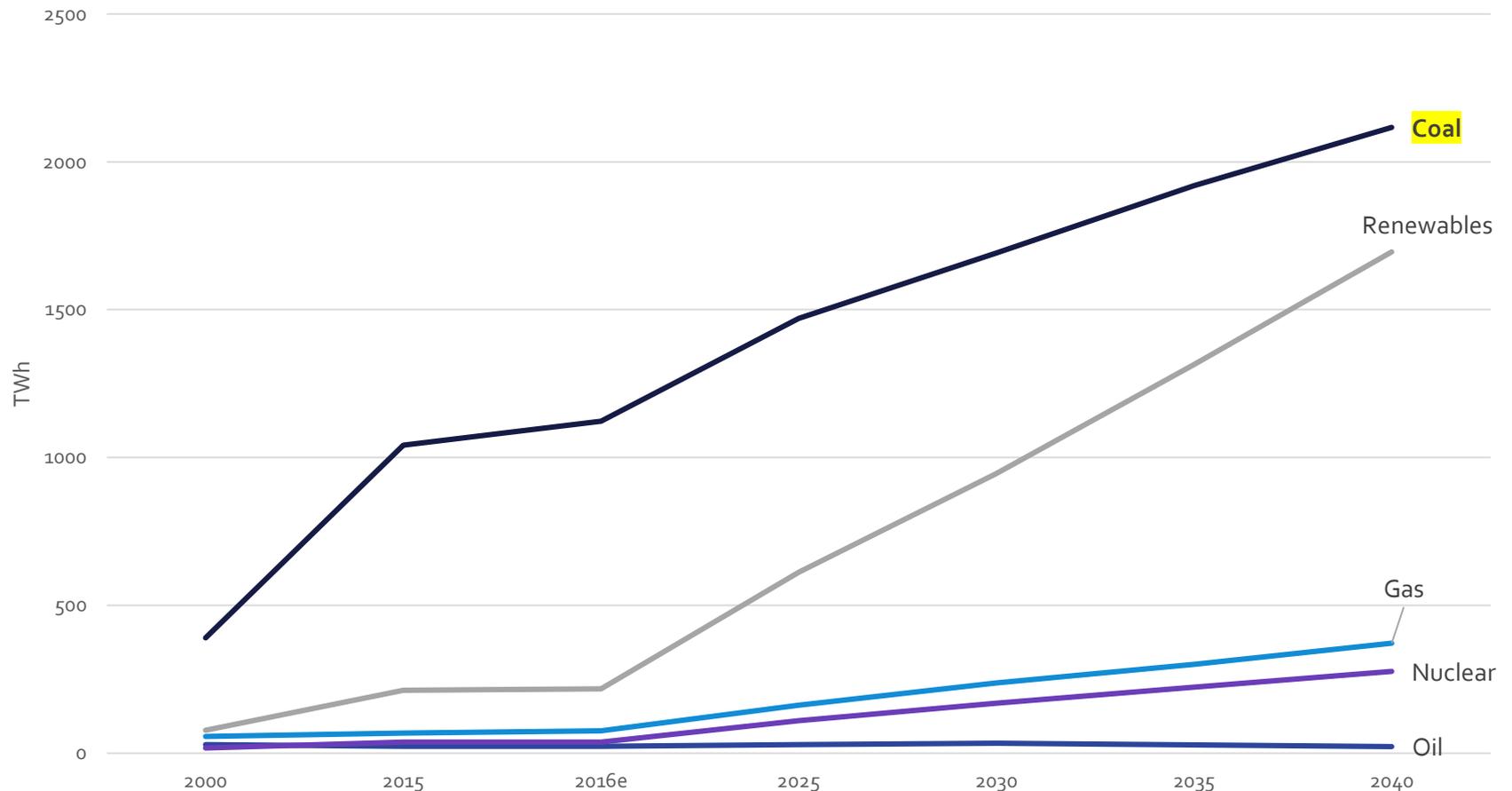
In India, a driver for LNG import growth is diverging supply/demand

India's gas supply and demand forecast



But coal is still king in price sensitive countries, unless governments put their weight behind off-coal policies

Electricity generation forecast in India



Source: International Energy Agency



Gas market development indicators in Asia

Governments/populations willing to pay premiums for cleaner air

Long-term LNG contract commitments and investments

Development of a regional pricing benchmark





Conclusions



Conclusions and key takeaways

The actual geopolitical impact of Trump's "energy dominance" agenda is not as clear for gas/LNG, and in some cases, the narrative does not go over well (Europe, China)

US trade tensions present a risk, but may not be that disruptive for gas markets outside of North American (mostly Mexico)

Russia will continue to fight for European market share, though US LNG does give the EU more optionality

No major disruptions expected from the Qatar crisis, but the threat of Iran sanctions poses a risk to investment and tensions more broadly in the region

Air quality is the biggest gas demand driver for China, but there is not as much political will/motivation in other parts of the region like India and Southeast Asia

A big indicator for a shift in this would be a China-like backlash to pollution/deteriorating air quality





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