

Will the Game Rules of Asia Natural Gas Market Change and Singapore be a Trading Hub for It?

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Abstract

In the recent few years, world energy landscape has changed drastically due to forces from both demand side and supply side. On the supply side, oil production increases tightened and could not pace up with demand increases. In the meantime, shale gas revolution in the US reshaped world's expectation on natural gas, which may see its share in total energy consumption of many countries overpassing that of oil. On the demand side, due to fast growth of energy demand and the concern about substituting dirty coal and oil with cleaner natural gas, the demand for natural gas from Asian countries has been surging higher.

The expected increasing reliance on natural gas in Asia then calls for full-fledged natural gas markets, both spot market and derivative markets, in the region to stabilize prices and ensure security in supply. Despite this requirement, the current natural gas market in the region is fragmented and dominated by long-term contracts with natural gas prices indexed with oil. Such a market structure not only incurs volatility in natural gas prices, but also to certain extents hinders the development of natural gas infrastructure including pipeline network and LNG terminals in the region. Regional natural gas trading hubs are thus demanded and being gradually developed.

Singapore long stands as an energy trading hub, especially for oil products, in the region. It has many advantages in becoming a natural gas trading hub for the region as well. The advantages include but are not limited to competitive energy markets, competitive and matured financial sector, well-functioning legal system, and a government which takes "hands-off" policy towards the functioning of all markets but keen in supporting infrastructure developments. In addition, the recent natural gas infrastructure such as LNG terminals and storage facility in Singapore and Trans-ASEAN Gas Pipeline network in the neighbouring countries is another plus to support a natural gas trading hub in Singapore.

This report gives an in-depth review of key issues around establishing natural gas trading hub in the region and focuses on Singapore's potential to develop one by examining how well the city-state meets key conditions and qualifications of a natural gas trading hub. It concludes with business strategy implications for energy industry players in the region and policy implications for governments in the region.

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Key words: Natural Gas, Trading Hub, Asia, Singapore

Key References:

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