

# Platts Daily Spot LNG Price Assessments

## HOW IS SPOT LNG TRADED?

In the liquefied natural gas (LNG) market space, traditional patterns of trading are evolving fast. Where cargoes once changed hands only through opaque bilateral deals, the market now exhibits open sell tenders for multiple and single cargoes, brokered trades, cargoes sold in longer trading chains, and speculative trading positions taken up by non-traditional participants including banks. Over time, as in other commodities, long-term LNG contracts may adapt to spot LNG price discovery, and will no longer be dependent upon weaker correlations to oil or piped gas prices. Upstream, an increasing volume of non-associated gas supplies is breaking the production link with oil, while downstream gas demand has broadened as a new fuel for transport and industry. Market pipeline prices of natural gas are delinking from oil prices, and buyers and sellers are looking for price benchmarks that reflect the real world of shipped gas.

## IS LNG REALLY TRADED ON A SPOT BASIS? DOESN'T THE LNG INDUSTRY RELY EXCLUSIVELY ON LONG-TERM CONTRACTS?

LNG as a commodity has traditionally been sold under closed, long-term contracts. But the market is rapidly evolving. A surge in new supply from diverse sources, the entrance of a variety of new market participants and shifting demand patterns have driven the development of spot trade. Cargoes initially sold under long-term contracts now move into the spot market, where buyers and sellers seek to achieve the best possible value for each cargo.

## HOW CAN DAILY LNG SPOT PRICE ASSESSMENTS BE USED?

Platts assessments can be used by anyone needing timely, independent spot LNG price information. Daily prices reflect changes in value that occur every single trading day. Consistent and respected LNG spot price information supports critical decision-making about cargo trade, arbitrage between regions, storing or transporting natural gas to markets; investment in infrastructure projects, optimal production rates, processing margins and consumption levels. Platts spot prices also facilitate hedging, transfer pricing, differential pricing and taxation.

## ARE THERE ENOUGH ACTIVE SPOT MARKET PLAYERS TO MAKE FOR UNBIASED ASSESSMENTS?

Platts contacts active market participants from across the wide spectrum of the marketplace, including buyers, sellers, brokers, producers and consumers, to ensure that the real tradable value of LNG is assessed. The LNG marketplace is global and fast-growing, which demands a network of daily coverage of market activity in both Pacific and Atlantic basins. Platts achieves global coverage of LNG news and pricing from market experienced editors based in the trading hubs of Singapore, London and Houston. Platts submits its own price assessments to internal compliance for review, ensuring that they are objective and market-neutral, and that assessment processes continue to be applied consistently. Platts has more than 100 years of experience of publishing commodity prices and is fully independent from the marketplace.

## IS THERE ENOUGH LIQUIDITY FOR SPOT ASSESSMENTS TO BE VERIFIED?

Market observers estimate that spot trade already represents about 20% of LNG volumes produced each year. This trade includes bilateral deals, inter-regional diversions, tenders, chained cargoes and a variety of other transactions. The LNG market demonstrates a greater proportion of spot trade than most commodities, which typically are supplied under a term contract to spot ratio of 90:10. As much as 40 million metric tons (mt) of LNG, equivalent to 650 cargoes a year, are being traded on a spot basis. As global supply volumes and market participation grow, spot market liquidity will continue to build. Price transparency and market sophistication accelerate this process, by raising comfort levels behind each act of spot trade.



**WHAT DAILY SPOT LNG PRICE ASSESSMENTS DOES PLATTS PUBLISH?**

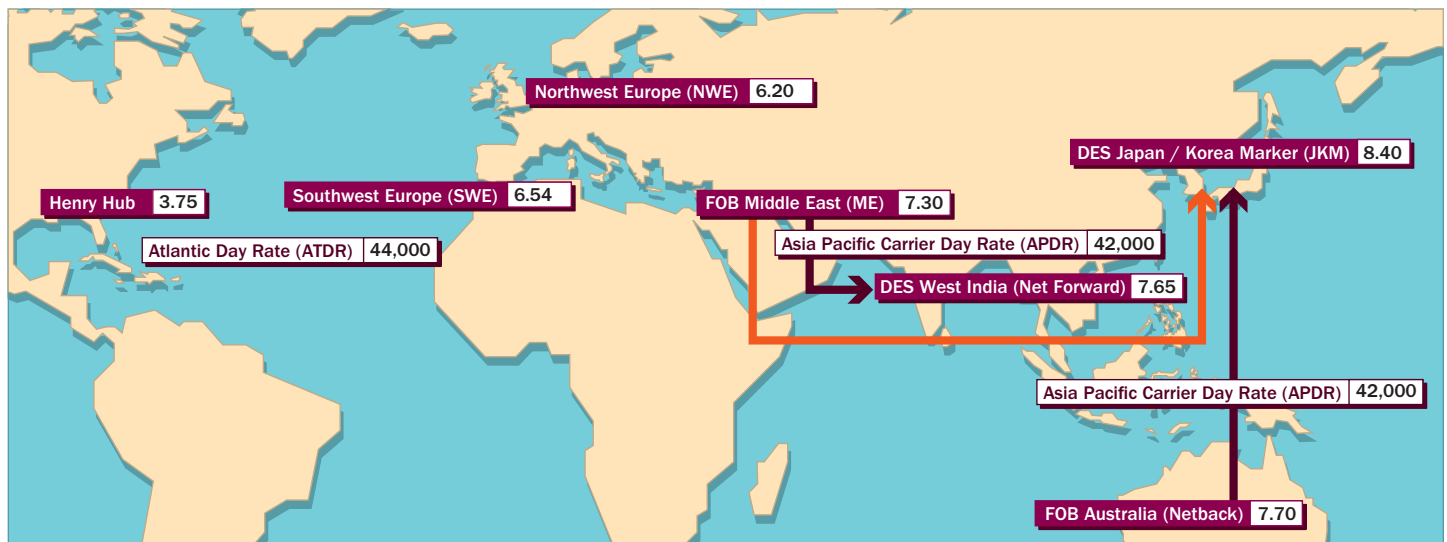
Platts is the first to publish daily assessments for LNG delivered ex-ship (DES) in Japan/Korea, and also assesses daily prices free on board (FOB) Middle East, DES West India, and FOB Australia. Platts also publishes daily Asia Pacific LNG Carrier Day Rates (APDR) to help determine the price relationship between these assessed supply and demand centers.

Expanding from its Asian spot LNG market coverage, Platts launched daily spot assessments for delivery ex-ship DES Southwest Europe (SWE) and Northwest Europe (NWE) on June 28, 2010.

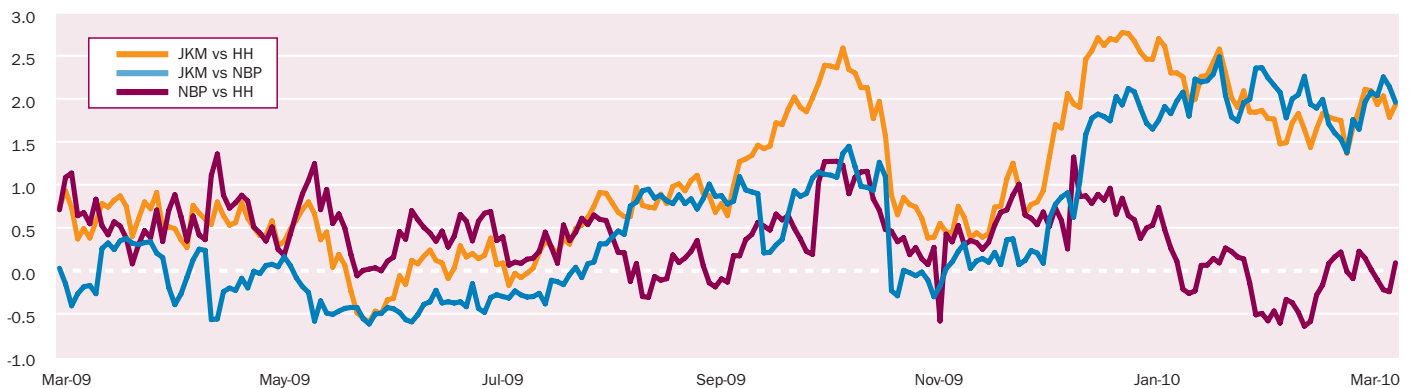
**WHAT IS THE BENCHMARK JKM?**

Platts JKM (Japan/Korea Marker) is the benchmark daily assessment of the spot price for cargoes of LNG delivered exship into Japan or Korea. Japan/Korea is the largest and most concentrated spot market for LNG in the world. JKM is a key reference for calculating price differentials for every Asia-Pacific supply source and destination market. As a proxy for all Asian LNG prices, JKM is also a leading indicator for global demand growth for LNG.

**Global price picture**



**(\$/MMbtu)**



### **WHAT ARE THE SWE AND NWE ASSESSMENTS?**

Platts SWE LNG (Southwest Europe) is the daily assessment of the spot price for cargoes of LNG delivered ex-ship into Spain or Portugal. Platts NWE LNG (Northwest Europe) is the daily assessment of the spot price for cargoes of LNG delivered ex-ship into the UK and Belgium. Europe often competes with Asian-Pacific countries for LNG supplies and the SWE and NWE markers are therefore key references for producers, consumers and traders of natural gas and LNG globally.

### **WHAT ARE FOB MIDDLE EAST, DES WEST INDIA AND FOB AUSTRALIA?**

Platts FOB Middle East (ME) is the daily assessment of free on board cargoes loaded in Ras Laffan, Qatar or Das Island, Abu Dhabi, representing the largest LNG production area in the world. DES West India represents a net forward from this value, adding the cost of freight to FOB ME. FOB Australia is a netback from the JKM, subtracting the cost of freight. Both of these make use of Platts Asia Pacific Carrier Day Rates.

### **WHAT ARE ADPR AND ADTR?**

The Platts Asia Pacific Carrier Day Rates (ADPR) and Atlantic LNG Day Rates (ATDR) are daily assessments of the spot charter rates for LNG carriers in the Asia Pacific and Atlantic region respectively.

### **DO SPOT LNG PRICES MAKE THE MARKET TOO VOLATILE?**

An annual or multi-year contract price cannot capture the daily fluctuations in market value that occur in LNG, LNG shipping, and associated piped gas and oil markets around the world. Long-term LNG contracts expose either the buyer or seller to market price risk. Daily spot prices mitigate this risk by representing actual market value for product bought and sold each day. In many commodities, annual or monthly averages of daily spot prices (called floating prices) are therefore preferred for negotiating and settling long-term contracts, with locational, quality or customer-specific differentials typically applied to the underlying benchmark. Daily prices do not introduce volatility – rather, they make inherent market volatility both visible and manageable.

### **WILL FINANCIAL DERIVATIVES FOR LNG EMERGE?**

As of September 2010, derivative financial (paper swap) LNG contracts have not emerged, although they are widely anticipated due to the fast pace of market commoditization. Consistent, high-frequency spot cargo prices are typically a pre-requisite for the development of financial derivative instruments, as greater price transparency helps financial institutions and market players to understand and thereby manage the financial risks faced in the underlying physical marketplace.

### **HOW ARE PLATTS LNG PRICES ASSESSED?**

Platts' experienced market reporters interview active market participants from across the industry spectrum on a daily basis. Confirmed spot cargo deals, firm bids/offers, current shipping costs and fundamental supply/demand conditions are collated, tested and analyzed. Platts then applies its methodology to assess the tradable value of LNG.



## WHO SHALL I CONTACT FOR MORE DETAILS ON LNG?

For more information from our editorial staff on LNG, please contact [LNG@platts.com](mailto:LNG@platts.com).

### •Platts LNG Daily

Platts LNG Daily was among the first daily independent news publications for the global LNG industry and provides readers information on every aspect of the global market from spot prices to new LNG supply projects to gas quality issues.

LNG Daily can give you the competitive edge by providing:

- Daily spot market assessments
- Market-moving news and analysis
- Information on new LNG supply projects
- Reports on development/construction of new liquefaction projects and plants
- Updates on siting/development/construction of new receipt terminals
- Information regarding regulatory proceedings
- Reports and news on shipping
- Details of contract pricing terms
- Review of supply/demand fundamentals
- Monitoring of the impact of competitive fuels
- Safety updates
- Gas quality reviews
- Congressional proceeding reports
- Updates on state and local government proceedings
- Details of LNG project financing
- LNG Terminal Trackers capture details and data on existing and proposed terminals across Asia, Europe, Middle East, Africa and the Americas

### •Platts Natural Gas Alert

Platts Natural Gas Alert provides news and market coverage of the North American natural gas industry, including intraday reports on trading and key end-of-day gas price assessments.

### •Platts Electricity Alert

Platts Electricity Alert provides real-time news and market coverage of the North American electric power industry, including spot market transaction reports, end-of-day price assessments, weather reports and production figures.

### •Platts European Power Alert

Platts European Power Alert offers real-time news and market coverage of the European gas and power markets, including independent price discovery and market commentary, vital cross-fuel comparisons, information on fundamentals (i.e. weather), nuclear power and hydro-electric reservoir levels. EPA also delivers daily exchange summaries direct from each of the leading European exchanges.

For more information, please contact the Platts sales office nearest you.

North America  
+1-800-PLATTS8 (toll-free)  
+1-212-904-3070 (direct)

EMEA  
+44-(0)20-7176-6111

Latin America  
+54-11-4804-1890

Asia-Pacific  
+65-6530-6430

Russia  
+7-495-783-4141

[www.platts.com](http://www.platts.com)  
[support@platts.com](mailto:support@platts.com)