Shock Therapy

The Hormuz crisis and medium-term Asian LNG demand

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- High LNG prices and disrupted supply increase pressure on Asian importers to reduce gas dependence for both direct use and power generation, potentially dampening medium-term LNG demand beyond the current crisis.
- South Korea's 2030 target of 100 GW of renewable capacity could displace 10 Mtpa of LNG imports, equivalent to over 20% of 2025 volumes.
- LNG import facilities are particularly at risk, especially in countries with high spot price exposure; lenders and investors should scrutinise utilisation assumptions and price forecasts, and review credit risk assessments and hurdle rates.
- For exporters, weakening demand could compound the effects of the coming supply glut, pushing Asian spot (JKM) prices lower vs prior expectations, squeezing margins amid rising Henry Hub (HH) prices and challenging project economics.
- Importers in South and Southeast Asia with high LNG dependence and/or spot price exposure, including Thailand and Bangladesh, may seek to follow Pakistan, which has seen gas demand decouple from economic growth.

Many forecasters point to an almost inexorable link between gas consumption and economic growth in Asia and the need for LNG imports given declining regional production. Wood Mackenzie, for example, forecast last year that Southeast Asian gas demand would grow to 2035 at a CAGR of 3.1%.[1] Yet while electrification of industry and transport will increase power demand, current high LNG prices and supply disruption could see countries eschew gas' role as a "transition fuel" and turn to other generation sources to increase energy independence, weakening LNG demand beyond the crisis.

LNG demand growth that falls short of forecasts would lead to lower asset utilisation and realised prices, reducing expected returns for equity investors and increasing the risk of default for borrowers. This note uses the evolution of Pakistan's energy system over the past decade as a case study for investors in the region, highlighting the medium- and long-term exposure of assets within the LNG value chain.

Pakistan shows economic growth and electrification need not increase gas demand

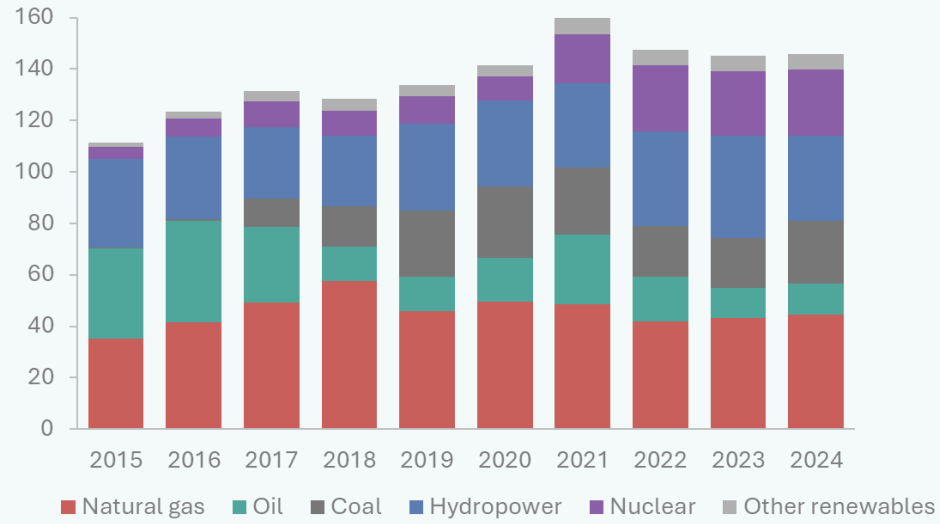
Gas-fired generation was a key driver of Pakistan's power growth in the 2010s, yet it peaked in 2018 with coal, nuclear and hydro driving recent growth (Figure 1). Combined with reduced direct gas usage, in part reflecting industrial electrification, overall gas consumption peaked in 2020, even as GDP continued to rise steadily (Figure 2).

[1] Wood Mackenzie, May 2025, https://www.woodmac.com/press-releases/sea-gas--lng-demand-2025/

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Electrification has continued despite the apparent 2021 peak in grid generation, with additional supply shifting behind the meter, driven by falling solar panel costs; 17 GW of panels were imported in 2024 alone.[2] The distributed nature of these additions can reduce strain on the grid and enable a rapid build-out of supply.[3] This is the energy transition in action: simultaneous electrification of demand and substitution of fossil fuels within the energy supply mix, catalysed by new technologies.

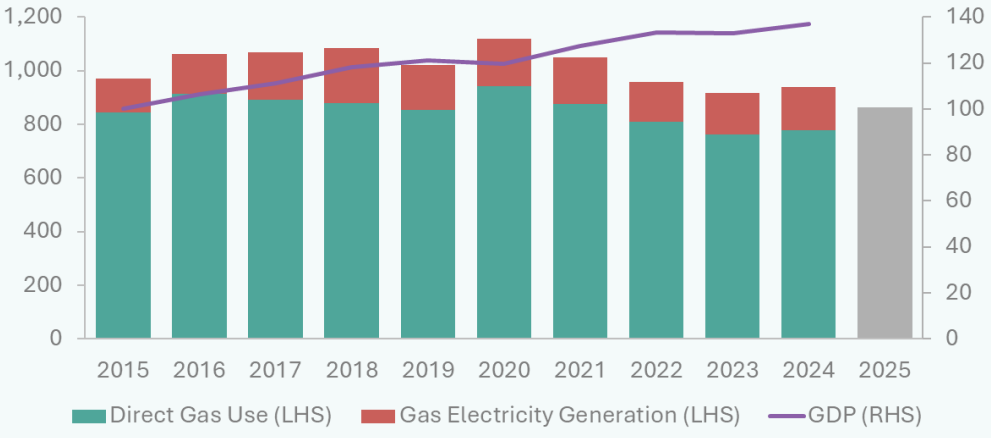
Figure 1. Pakistan electricity generation by source (TWh).



Source: IEA.

Notes: 'Other renewables' includes biofuels, solar PV and wind. Behind-the-meter solar not shown.

Figure 2. Pakistan gas consumption (PJ) and GDP (indexed to 2015).



Sources: IEA, World Bank.

Note: Split between direct use and power generation not available for 2025.

[2] Ember, July 2026, https://ember-energy.org/latest-insights/the-solarisation-of-pakistans-energy-economy/; WEF, August 2025, https://www.weforum.org/stories/energy-transition/pakistan-energy-affordable-reliable-electricity

[3] Connecting distributed solar to the grid remains valuable, facilitating flexibility and utility-scale storage.

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The Hormuz crisis is likely to accelerate Pakistan's shift away from LNG…

Pakistan's experience was in part outside its control, with price rises and cancelled cargoes reducing LNG imports in 2022,[4] resulting in load shedding and reduced industrial output. Yet the shift away from gas outlasted the 2022 crisis, with a persistent reduction in gas demand. The Hormuz crisis is likely to further boost Pakistan's energy transition in two ways. First, 85% of contracted volumes are with QatarEnergy, and deliveries are set to remain disrupted for some time as liquefaction capacity is repaired.[5] Second, these volumes are mainly oil-indexed, so rising oil prices increase the cost of LNG deliveries.

…and prompt other Asian importers to follow, weakening LNG demand

Pakistan is not unique in its dependence on LNG for its gas supply, and countries with either greater LNG dependence or higher exposure to spot prices may have an even stronger incentive to shift away from a gas- and LNG-dependent path. As South and Southeast Asian countries generally have a tropical or subtropical climate, seasonal variation in both energy demand and solar generation is lower than in Europe, reducing a key barrier to increasing renewables penetration. Meanwhile, utility-scale renewable infrastructure is becoming increasingly financeable across Southeast Asia.[6]

Thailand has both a higher proportion of LNG within the energy mix and a higher medium-term exposure to spot prices than Pakistan (Figure 3a). **Bangladesh** is also more LNG-dependent, although it is well contracted to 2029, having strengthened its position over the past 12 months; however, some new contracts are only short term, and a 1.5 Mtpa contract (over 20% of supply) with OQ (Oman) ends in 2029.[7] Both countries have a more diversified supply than Pakistan, and lower reliance on Qatari volumes.

Although imports to the **Philippines** and **Vietnam** are low, both are highly exposed to spot prices and LNG is a material share of gas supply (Figure 3b); the Hormuz crisis highlights the risks of increasing LNG dependence for both markets. While weaker demand in these markets would have little impact on current global LNG trade, the implications for demand expectations 10–15 years from now are significantly greater.

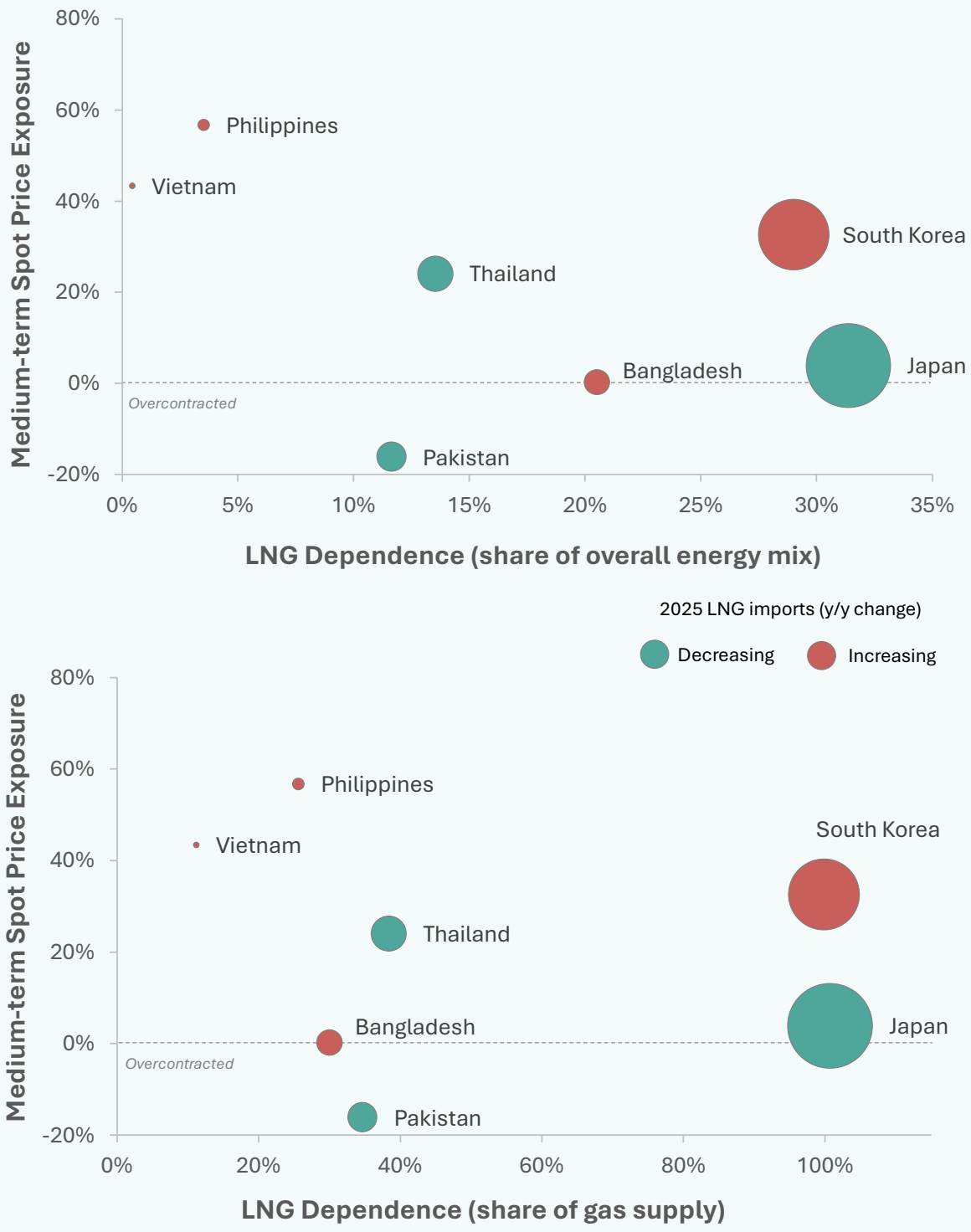
Malaysia and **Indonesia** are more insulated from higher prices given both are net exporters, yet both are exposed to longer-term supply and price volatility given current forecasts that they will become net importers in the 2030s.[8]

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[4] S&P Global, March 2022, https://www.spglobal.com/energy/en/news-research/latest-news/lng/032822-gunvor-backs-out-of-lng-deliveries-to-pakistan-from-april-june-officials
[5] IEEFA, June 2026, https://ieefa.org/resources/breaking-pakistans-lng-dependence-cycle
[6] Ember, October 2026, https://ember-energy.org/latest-insights/bankable-by-design-financing-aseans-energy-system-transformation/
[7] OQ, June 2023, https://oq.com/en/news-and-media/newsroom/20230621-oq-trading-signs-an-lng-spa-agreement-with-petrobangla
[8] Argus Media, June 2025, https://www.argusmedia.com/en/news-and-insights/latest-market-news/2700241-malaysia-s-petronas-to-build-third-lng-import-terminal; Energy Intelligence, July 2025, https://www.energyintel.com/00000198-4072-ddf7-afbc-64f215fe0000

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Figure 3. Medium-term exposure to spot LNG prices and LNG dependence as share of (a) overall energy mix (top), and (b) gas supply (bottom) for selected countries in Asia.



Sources: IEA, JOGMEC, IEEFA, World Bank, company press releases and trade publications.

Notes: Exposure to spot LNG prices is based on contracted volumes and calculated as 1– (mean 2026–2029 contracted volumes / 2024 demand). Behind-the-meter generation not included with final energy consumption. Bubble area = 2024 LNG imports (Vietnam = 0.3 Mtpa; Japan = 65 Mtpa). Change in imports (colour) is 2025 vs 2024.

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In East Asia, **South Korea** has a third of demand uncontracted. With JKM (the regional spot price) up 3x since the start of the year as of mid-October, year-on-year imports are down 6%.[9] It has recently announced a US$747 billion energy transition investment plan, targeting 100 GW of renewable capacity by 2030, up from 37 GW at the end of 2025.[10] If this additional capacity displaced only gas-fired generation, it would reduce LNG imports by around 10 Mtpa, equivalent to over 20% of 2025 imports (47 Mt).[11]

Japan's LNG imports are forecast by Kpler to be broadly flat year-on-year, given relatively low spot price exposure and a significant share of supply from Australia reducing Hormuz-related disruption.[12] Yet it too has a strong incentive to reduce its medium-term LNG dependence as rising US data centre demand will likely push Henry Hub (HH) prices higher, increasing the price of HH-indexed contracted volumes.

Investors in Asian LNG infrastructure exposed to weakening gas demand

Pakistan's experience cannot be applied directly to others in the region, but it demonstrates how the energy mix can change on timescales far shorter than the 30+ year expected lifetime of capital-intensive LNG assets. It also challenges the close coupling between GDP growth and LNG demand assumed within many forecasts.

If regional gas demand fails to meet expectations of rapid growth, utilisation rates and realised pricing may fall. Lenders and equity investors should test the sensitivity of LNG infrastructure to different demand and pricing scenarios, including differences between sub-regional markets, and consider adjusting credit risk assessments or hurdle rates.

LNG import terminals and their pipeline connections are particularly exposed to country-specific policy and demand. Floating storage and regasification units (FSRUs) may offset country-specific risk as they can be moved, but they remain exposed to systemic shocks to global LNG supply and are generally more expensive than onshore facilities on a full-lifecycle basis. Vietnam provides an example of the range of financial market participants within the LNG value chain. The planned Hai Lang terminal and

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[9] Seoul Economic Daily, October 2026, https://en.sedaily.com/finance/2026/10/17/koreas-north-american-lng-imports-double-as-middle-east

[10] Reuters, October 2026, https://www.reuters.com/business/energy/south-korea-unveils-747-billion-energy-transition-plan-through-2035-2026-10-07/; TaiyangNews, October 2026, https://taiyangnews.info/markets/south-korea-targets-87-gw-solar-by-2030

[11] Uses a weighted-average capacity factor of 14.5% for the additional solar and wind generation, derived from Ember's *Electricity Data Explorer*, https://ember-energy.org/data/electricity-data-explorer/ (accessed 25 October 2026), and a CCGT efficiency of 60% reflecting the range within Korean power generation: Modern Power Systems, November 2019, https://www.modernpowersystems.com/news/hl-class-power-island-for-south-korea-7518169/ and Power Technology, January 2002, https://www.power-technology.com/projects/seoinchon/. Energy converted to LNG using Shell factors (*2026 Energy Security Scenarios*); MEES, January 2026, https://www.mees.com/2026/1/23/news-in-brief/korea-imports-record-lng-for-2025-but-mena-share-down/bdccb3f0-f880-11f0-b03b-9b3be55c6f8a

[12] Gas Processing News (Reuters), January 2026, https://www.gasprocessingnews.com/news/2026/01/japans-lng-imports-fall-14-in-2025-to-6498-million-tons; Kpler, undated, https://www.kpler.com/blog/hotter-summer-raises-japan-lng-demand-lending-modest-support-to-asian-lng-prices (accessed 26 October 2026).

power complex, owned by T&T Group with KOGAS, Hanwha Energy and KOSPO, still needed to raise around US$1.7 billion as of August 2025, giving lenders the opportunity to scrutinise price and utilisation assumptions.[13] International banks already active in Southeast Asian LNG include Citi and ING at the Nhon Trach 3 & 4 power plants tied to the Thi Vai terminal,[14] and Standard Chartered, which led the financing for the BW Batangas FSRU in the Philippines.[15]

Shipowners are also exposed to weakening LNG demand, particularly those without significant long-term charters. Disrupted supply routes support them in the short term, but weakening Asian demand could see routes shorten as US cargoes are redirected. **Shipbuilders** are exposed to any weakening in the LNG order book, particularly those investing in specialist fabrication capabilities; South Korea holds the majority of this risk, with over two-thirds of global orders for LNG carriers.[16]

Weaker Asian demand would compound the impact of the supply glut for exporters

The IEA forecasts an additional 330 bcm/yr (c.240 Mtpa) of liquefaction capacity to come online between 2025 and 2030, with nearly 50% of it in the US.[17] This wave of supply was already set to reduce JKM prices, with BMI (Fitch Solutions) forecasting in March 2026 a reduction to US$6/MBtu in 2028.[18] This would narrow the JKM–HH spread over the coming years, particularly as US gas production growth slows alongside strong domestic demand growth,[19] squeezing exporters' margins and impacting project economics. Those with long-term contracts in place are more insulated.

Of the three largest **LNG exporters**, Australia is more exposed to weakening Asian demand than the US or Qatar given its dependence on Asian buyers and its distance from alternative markets. Lower medium-term prices could stimulate new demand from other markets, partly cushioning the impact on exporters. The IEA includes this mechanism in its scenarios, with higher LNG imports to Southeast Asia under its Stated Policies Scenario (STEPS) than under its Current Policies Scenario (CPS) despite higher overall gas demand in the CPS, while BMI forecast a "gradual rebalancing" from 2030.[20]

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[13] Vietnam Investment Review, August 2025, https://vir.com.vn/hai-lang-lng-power-plant-revises-timeline-targets-2029-launch-134653.html
[14] Norton Rose Fulbright, November 2024, https://www.nortonrosefulbright.com/en/news/fa1216bd/norton-rose-fulbright-advises-citi-and-ing-on-521-5-million-financing-to-pv-power-for-nhon-trach-3-4
[15] Standard Chartered, December 2023, https://www.sc.com/en/press-release/standard-chartered-plays-leading-role-in-usd145-million-facility-for-bw-batangas/
[16] Global Energy Monitor, *Global Gas Infrastructure Tracker*, https://globalenergymonitor.org/projects/global-gas-infrastructure-tracker (accessed 21 October 2026).
[17] IEA, *Global LNG Capacity Tracker,* https://www.iea.org/data-and-statistics/data-tools/global-lng-capacity-tracker (accessed 25 October 2026).
[18] BMI, March 2026, https://www.fitchsolutions.com/bmi/oil-gas/jkm-healthy-demand-eclipsed-by-rampant-supply-04-03-2026
[19] McKinsey, September 2026, https://www.mckinsey.com/industries/energy-and-materials/our-insights/blog/beyond-the-henry-hub-headlines-a-perspective-on-the-path-to-2030
[20] IEA, *World Energy Outlook 2025*, November 2025; BMI, March 2026 (see footnote 18).

Some importers may seek to diversify their LNG supply rather than reducing imports, for example by increasing contracted volumes from North America. Overall, however, we expect Asian LNG demand to come in below previous mid-point expectations as importers prioritise energy security given the current price shock and look to benefit from falling renewables costs. As a result, more LNG is likely to flow elsewhere, with South America a potential destination.

Coal fills the short-term generation gap, yet may reduce gas lock-in

A side effect of high gas prices and restricted supply is likely to be an increase in short-term coal consumption, with the IEA forecasting in September that global coal demand will rise in 2026.[21] In China, strong EV sales (including heavy trucks) and high diesel prices have seen coal consumption increase, while ASEAN countries have looked to coal to support electrification. If the Hormuz crisis continues through year-end, it could challenge the IEA's forecast of a fall in both global and Chinese consumption in 2027 vs 2026. From an emissions perspective, if continued coal utilisation avoids new gas infrastructure and so reduces lock-in over the coming decades, it could reduce aggregate greenhouse gas emissions to 2050 despite increased short-term emissions.

Concentration of LNG demand in China poses further financial risks

The dynamics are different in China, where gas consumption is predominantly direct industrial use and growing rapidly despite increasing industrial electrification. Coal dominates the power system, and hydro, nuclear, solar and wind are all larger sources of power generation than gas.[22] LNG imports make up a relatively low proportion of China's supply given significant domestic production and piped gas from Russia and Central Asia.[23] The Power of Siberia 2 pipeline has the potential to increase piped supplies further,[24] and the Hormuz crisis may accelerate its development and catalyse additional projects. In addition, China is becoming an LNG reseller, with estimated resales of 17–19 Mt in 2025, equivalent to over a quarter of imports;[25] forecasts based on gross imports may significantly overstate demand or mask its trajectory.

While the mechanism may differ from that in Pakistan, current high LNG prices could weaken China's medium- and long-term LNG demand vs previous expectations. Even if Chinese demand remains strong, weakening LNG demand elsewhere in Asia would increase concentration risk for exporters and shipowners, further exposing them to Chinese industrial policy and energy-security concerns, and calling into question developments beyond the current wave of export projects.

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[21] IEA, *Coal Mid-Year Update 2026,* September 2026.
[22] IEA, Country data for China, https://www.iea.org/countries/china (accessed 25 October 2026).
[23] China is not shown in Figure 3 given significant uncertainty over contracted LNG volumes.
[24] Al Jazeera, May 2026, https://www.aljazeera.com/features/2026/5/20/what-is-the-power-of-siberia-2-pipeline-that-russia-china-are-planning
[25] IEEFA, September 2026, https://ieefa.org/resources/buyer-broker-chinas-emergence-global-lng-reseller

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