

Energy Intelligence Premium Weekly

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Thursday, June 9, 2022

LNG: Imports Relieve Europe Crunch, for Now

Europe has ratcheted up LNG imports since the Ukraine crisis as it works to wean itself off Russian gas, our data show. But risks to Europe's long-term supply picture persist amid energy security and decarbonization concerns.

- **Market forces are the key driver behind higher European LNG imports.** European price premiums — compounded by Russia-Ukraine — have driven elevated LNG flows. Deliveries to Europe (including the UK, excluding Turkey) through May 2022 reached 48 million tons, up about 50% from a year earlier, with weekly deliveries peaking at 3 million tons in early May. US volumes covered around 80%, augmented by flexible cargoes from Egypt, Angola and Peru. Key Dutch benchmark TTF has eased from \$35/MMBtu in early April to around \$25/MMBtu, but premiums over Asia have persisted. We see limited price upside for spot LNG this summer given [robust supplies](#) available for gas-fired cooling in Southern Europe. European gas inventories are closing in on their 2017-21 average for this time of year, despite reduced Gazprom volumes. Still, markets remain sensitive to disruption, i.e. this week's [Freeport LNG outage](#).
- **Rebounding Asian demand could still push prices higher later this year.** Europe will face competition with Asia for supply needs as concerns of further Russian gas disruptions loom, demand rebounds and colder winter weather approaches. European terminal bottlenecks and a narrowing TTF premium could also help steer shipments toward Asia. We expect Chinese LNG demand will rise as Covid-19 lockdowns ease, even if higher prices, elevated Russian pipeline imports, rising domestic gas output and elevated coal use temper growth. Chinese LNG imports through May were down 19% year on year, with April and May off 30% amid stringent lockdowns, prompting Chinese buyers to resell surplus cargoes. This trend could accelerate as winter approaches, with Asian seasonal demand adding to European supply pressures. We expect Asian spot prices to reside at the \$30/MMBtu level this winter, supported by limited new liquefaction capacity additions.
- **Asian buyers have quickly moved to secure long-term US LNG.** Global buyers have signed some 21 deals for US LNG since January, totaling 30 million tons/yr, driving a restart to stalled projects. Venture Global took FID on Plaquemines LNG, while the Rio Grande and Lake Charles ventures are among those announcing supply agreements totaling around 11 million tons/yr to date in 2022. Long-term contracting has [found a foothold](#) again, with deals averaging 19.4 years for projects starting up in 2026-28. Asia, not Europe, has dominated the action, as European buyers also prioritize accelerating low-carbon goals. Only three buyers from Europe (Engie, RWE and PGNIG) have stepped forward — for 7 million tons — with two netting shorter 15-year contracts. Absent further European support for new US projects, portfolio players and traders will be well positioned to provide European buyers with flexible, shorter-duration contracts to help alleviate LNG overcommitment concerns.
- **Non-US LNG deals will be more limited.** Tight markets and disrupted Russian developments have prompted a fresh review of proposed LNG projects, from [Canada](#) to Tanzania. But projects still need to navigate political, security and social license risks (e.g. pipelines in Canada, insurgency in Mozambique), manage costs amid inflation, and secure firm commercial interest. The next 70 million ton/yr capacity wave currently under construction, anchored by QatarEnergy's North Field East expansion ([set to announce](#) partners imminently), will impact the market around 2025-26. We expect additional projects like TotalEnergies' Papua LNG and BP's Tortue Phase 2 expansion to reach FID within 12-18 months. Additional capacity, including debottlenecking efforts and New Fortress Energy's Fast LNG developments, is critical given maturing output from legacy ventures.
- **Energy security has not pushed decarbonization off the agenda.** At the recent World Gas Conference in South Korea, LNG buyers told us energy security is their [immediate priority](#). But suppliers remain aware that "greening" LNG is essential to gas' long-term role in the energy mix — and could help ease caution among European buyers. We heard of broader easing of carbon considerations in contracting, with attention to carbon mitigation rare in recent supply agreements. Carbon-neutral cargoes have all but disappeared this year as buyers seek to avoid additional costs. But producers — under pressure from investors and governments — are maintaining efforts to reduce emissions. In the near- to medium-term, we expect more moderate prices and balanced markets to support greater buyer interest in emissions mitigation.

Energy Intelligence REPORTS

Deals, Expansions, FIDs Mark Busy Week for US LNG

The importance of North American LNG to the global market became increasingly evident this week as a variety of firms announced new supply contracts, expansion projects and final investment decisions (FIDs)... [click for full report](#)

Critical Trends, May 2022

US LNG supply growth remains in the spotlight, with a flurry of long-term supply agreements supporting momentum for project prospects... [click for full report](#)

Postwar LNG Contract Pricing: How High Should It Go?

Long-term LNG contracts are back in fashion, fueled by buyers' concerns over security of supply and spot price volatility... [click for full report](#)

China's Imports Face Double-Digit Decline

Industry insiders now think imports could tumble 20% this year if spot prices remain high and strict measures to halt the spread of Covid-19 continue to hit economic growth... [click for full report](#)

Asian LNG Buyers Warn of High, Volatile Prices

Asian buyers warn that high and volatile LNG prices could lead to demand destruction and hurt the role of gas in the energy transition... [click for full report](#)

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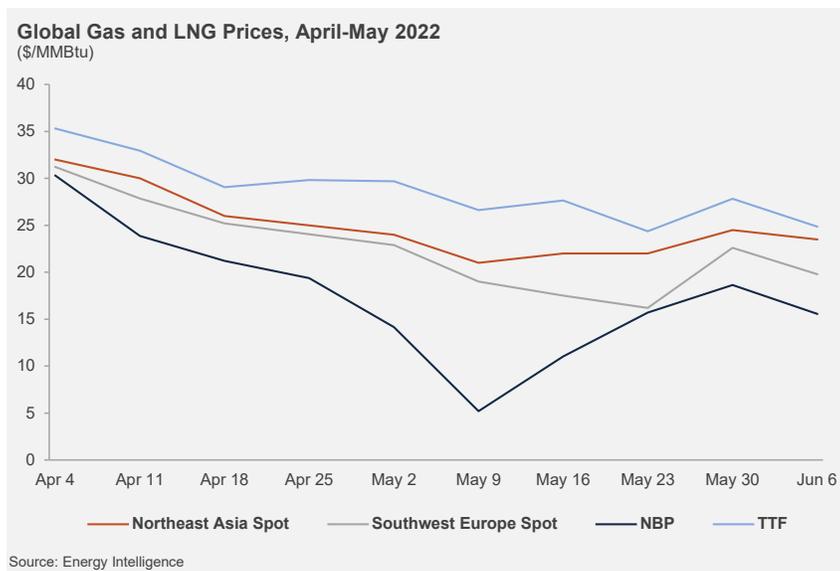
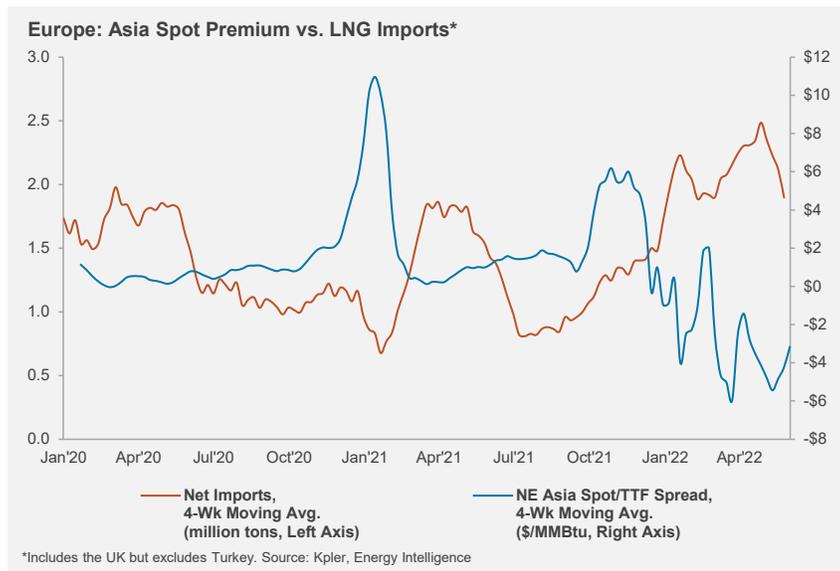
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