Energy Intelligence

Energy Intelligence Premium Weekly

Thursday, June 23, 2022

LNG: Freeport Outage Causes Turmoil

A recent shutdown at the key Freeport LNG terminal disrupted US exports and further tightened global gas markets, but threw domestic prices into reverse. This highlighted the increasing exposure of US gas markets to volatile global supply-demand dynamics.

- **The Freeport terminal's shutdown upended global LNG markets.** The Jun. 8 explosion at Freeport LNG in Texas severed a key supply link between US and global markets as Europe was pushing to diversify supply in the Ukraine crisis. The terminal had exported 4 million tons to Europe in the first five months of 2022, 71% of its 5.6 million ton total. Europe took sharply higher US LNG volumes, some 24 million tons, 70.8% of total US exports of 33.7 million tons over that period. Initial estimates of a three-week return to service were extended: Partial operations won't be back for 90 days and full operations until late 2022. That sent already-high European gas prices skyrocketing — Dutch TTF leaped from $25/MMBtu to over $35/MMBtu. The explosion did not damage any liquefaction trains, storage tanks, dock facilities or LNG process areas, but federal regulators still must approve restart.

- **Hurricane or other outages could further roil LNG markets.** We expect any further lost US LNG export capacity, even if temporary, to drive further global market turmoil. The Freeport outage is of particular concern given the June-November Atlantic hurricane season — and projections that storm activity may run above average. Other US terminals are maxed out. Feed gas to US LNG terminals ahead of the outage was 12.89 Bcf/d, just shy of the 12.98 Bcf/d nameplate capacity, suggesting virtually no room to grow output or accommodate other disruptions. Debottlenecking at Cheniere's Sabine Pass could help, but volumes are well short of Freeport losses.

- **The outage paused the most dramatic US gas market rally in a decade.** The prompt-month US gas futures contract had staged a surprising rally in recent months, and was headed to $10/MMBtu for the first time since 2008. The shutdown sent prices below $7 within days — still more than double year-ago levels. The run-up in US prices came as traders failed to anticipate escalation in domestic coal prices to $11-$12/MMBtu, which prompted power plants to rely more on gas despite higher prices. Gas inventories lagged five-year averages and production has been sluggish post-pandemic. Also key was the supply call on exports, with LNG sales and pipeline shipments to Mexico making up 25% of dry gas output, up from 10% four years ago.

- **Producers have been slow to respond to sharply higher gas prices, adding to tightness.** Large publicly traded companies, under investor pressure to reduce debt and boost dividends, continue to keep a tight lid on drilling programs. But private operators lacking those demands are responding with more activity, evident in climbing rig counts and permitting data. We expect headwinds of rising costs, supply chain problems, pipeline constraints and labor shortages to constrain output. But we expect a substantial inventory of drilled but uncompleted wells and surging associated gas volumes from Permian Basin oil production to help build momentum. On balance, we expect modest output growth this year of about 3.4% to 97.1 Bcf/d, and 3.1% to 100.1 Bcf/d in 2023.

- **US gas supply is more connected to global markets — bringing opportunity and risk.** Recent events highlight how the greater role for US LNG, especially in supplying Europe, has brought more global exposure to US markets. That has lifted the US market — after being stuck in a decade-long shale glut of $2-$3 prices — but also brought greater vulnerability to global market shocks. We see more potential for fluctuations this year: Our forecast has Henry Hub prices sticking around $7 in third-quarter 2022 and returning to $9 in fourth-quarter 2022 amid ongoing tightness. Longer-term, we think US prices will moderate somewhat as production catches up. However, we expect a notably higher price floor amid elevated inflation and the greater supply call, averaging $6 for 2023-24 and $5 in 2025-26. In addition to weather, variables we are watching include: (1) political pressures from higher utility bills, including emerging calls for export curbs; (2) the progress of Freeport repairs and any regulatory delays; (3) the response of US production to higher prices, particularly public companies; and (4) global gas market dynamics, including any further Russian moves to cut supply.

Energy Intelligence REPORTS

Extended Freeport LNG Outage Has Market, Political Ramifications
News that Freeport LNG will be out of commission for several months sent US and global natural gas markets into turmoil, prompting some renewed calls to cap LNG exports to protect domestic consumers*... click for full report*

Tough Summer Expected for Europe's US LNG Imports
Europe's record intake of US LNG face summer headwinds due to planned and unplanned outages on both sides of the Atlantic and a potential recovery of competition from Asian buyers*... click for full report*

US Gas Price Response Highlights Producer Divide
US natural gas drilling has reached post-pandemic highs, with privately held companies – facing less investor pressure – driving the trend*... click for full report*

US LNG Complex Braces for Active Hurricane Season, Supply Disruptions
A potentially disruptive hurricane season looms over the US Gulf Coast, where hits to the fast-growing LNG export complex there could upend global gas markets that are increasingly relying on US supplies*... click for full report*

Critical Trends, June 2022
Expectations for a sustained global gas price premium to Henry Hub is leading US upstream gas producers to seek expanded exposure to the LNG trade*... click for full report*

Energy Intelligence SERVICES

Global LNG
- News
- Analysis
- Research
- Data

Energy Intelligence EXPERTS

Michael Sultan
Editor, LNG Intelligence
+1 202 662 0717
msultan@energyintel.com

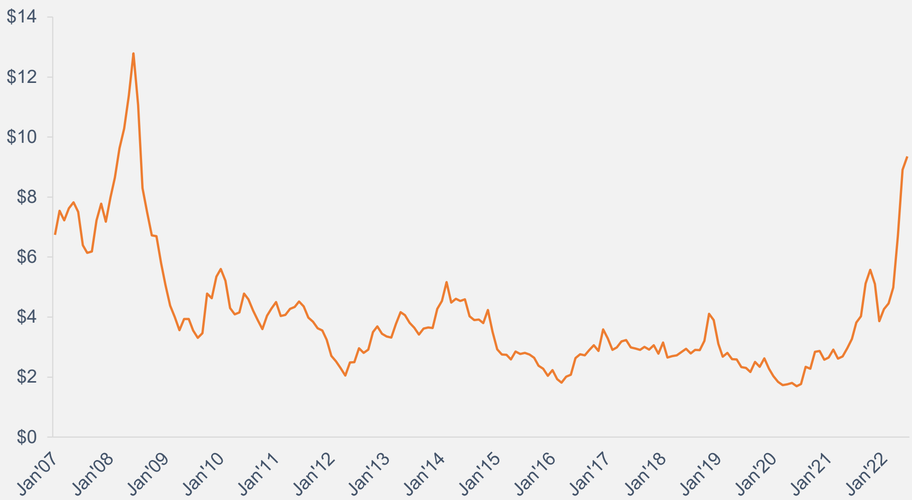
Tom Haywood
Senior Markets Reporter
+1 713 222 2479
thaywood@energyintel.com

Everett Wheeler
Natural Gas Markets Editor
ewheeler@energyintel.com

Thursday, June 23, 2022

US Gas Prices Soar to 14-Year Highs

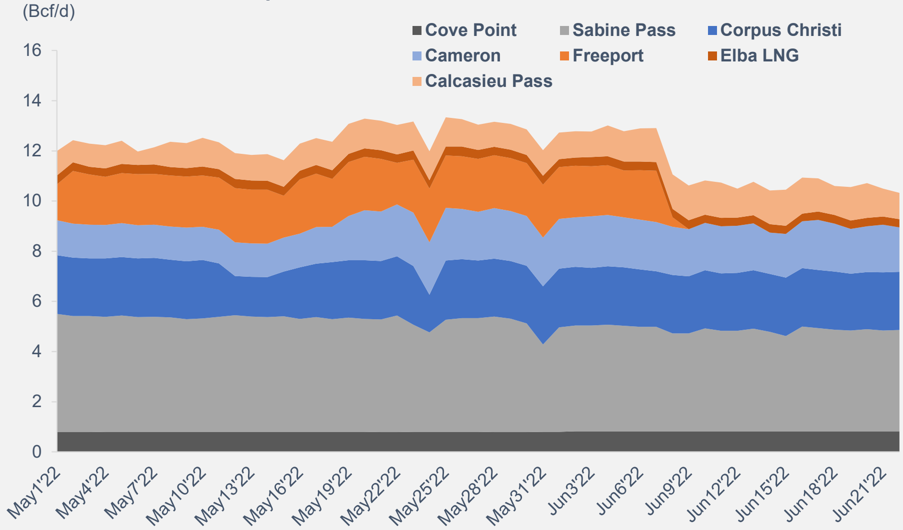
($/MMBtu)



Source: US Energy Information Administration

US Feed Gas Post-Freeport

(Bcf/d)



Source: Refinitiv

Energy Intelligence Commodity Forecast Summary

($/MMBtu)	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	2021	2022	2023	2024	2025	2026
Gas/LNG											
Henry Hub	5.00	4.70	8.00	7.00	9.00	3.83	7.18	6.00	6.00	5.00	5.00
Henry Hub-Appalachia	0.66	0.45	0.57	0.60	0.60	0.71	0.56	0.60	0.60	0.60	0.60
Henry Hub-Waha	0.43	0.58	0.80	0.80	0.75	0.27	0.73	0.60	0.40	0.40	0.40
LNG Netback — USGC to SW Europe	28.00	29.00	20.00	22.00	25.00	13.40	24.00	22.00	18.00	15.00	15.00
LNG Netback — USGC to NE Asia	28.00	26.00	21.00	22.00	25.00	13.75	23.50	22.00	18.00	15.00	15.00

Source: Energy Intelligence

ABOUT ENERGY INTELLIGENCE PREMIUM

Delivering just the right amount of tailored, relevant and concise insights to senior executives

The digital age has brought an abundance of unfiltered and often unreliable information, which takes time to sift through.

The **Energy Intelligence Premium** service provides senior executives with concise, value-added information on key issues to help quickly understand the global energy landscape.

The service provides you with both a high-level overview and the means to drill down to the granular level, through:

- The Daily Email – Our Must-Read News Stories
- The Weekly Email – Our Take on a Key Industry Topic
- The Bundle – Customized Content & Data Solution
- Access to Energy Intelligence Analysts

Energy Intelligence Premium CONTACTS

Sales:
Geoff Wright,
Global Head of Sales & Marketing
+1 646 616 0836
gwright@energyintel.com

Content:
Kathrine Schmidt, *Editor, EI Premium*
+1 609 273 6450
kschmidt@energyintel.com