Energy Intelligence

Energy Intelligence Premium Weekly

Thursday, September 8, 2022

LNG: Severe Price Stress Through Mid-Decade

Elevated natural gas prices will continue through 2025-26 amid tight LNG supplies and disrupted Russian flows, according to our analysis. Current demand erosion is not expected to compromise long-term LNG demand growth, but we will watch closely for material policy shifts that could temper gas uptake.

- **Nord Stream uncertainties will keep gas prices higher for longer.** We warned in July that reductions in Nord Stream flows to Europe killed the chances TTF gas would return to \$25-\$35 per million Btu (€85-€120/MWh) this year. Now, Gazprom's protracted shutdown of the export line has introduced even higher record price spikes, pushing the limits of European and Asian gas demand. TTF has retested \$80/MMBtu, while spot LNG prices into Northeast Asia sit near \$65/MMBtu — more than four times higher than some major Chinese buyers are willing to pay, Chinese sources tell us. We expect TTF and spot Asian LNG prices to remain near current levels through the winter, with the market's pre-Ukraine \$25-\$35/MMBtu price band likely off the table for 2023.

- **Europe's storage build will offer minimal price relief — and may not be repeatable.** EU storage hit its 80% target ahead of schedule, doubling the 2017-21 average. However, these volumes exist to avert catastrophe amid extreme cold or extended halt of Russian supplies, not to dole out price relief. Delegates at Gastech in Milan this week expressed concern that European supplies could be far more stressed heading into the 2023-24 winter and beyond if Russian flows are more severely constricted, impeding storage refills and putting further upward pressure on prices. European LNG purchases YTD are up 65% vs. 2021, per Kpler, but the continent (including Turkey) still received 72.3 Bcm of gas from Russia, our calculations show. Further price-led demand erosion and EU demand reduction targets would alleviate supply needs but not bridge the gap.

- **Pipeline and LNG plans can't ease Europe's pressures quickly.** Few significant alternative gas supplies to Europe can materialize before 2026, our analysis shows. Aboveground risks are delaying East Med development, an FID eludes Neptun Deep off Romania and long-mooted pipelines like Trans-Saharan Gas face continued financing challenges. LNG additions ex-Russia are limited through 2024. Some options, including hydraulic fracturing in the UK and Germany and Iranian gas, are likely nonstarters. Local production and incremental output via existing pipelines have rapidly picked up, but have limited upside. UK gas production is 10% below 2020 levels despite a 26% year-on-year rise in H1'22. A best-case 10 Bcm/yr of incremental gas from Norway, Azerbaijan and Algeria equates to just 7% of Gazprom's 2021 European pipeline exports.

- **LNG demand contraction in Asia is real.** Lacking the impetus to shun Russian gas, Asia is ceding its role as the world's premium LNG market to Europe. Economic sensitivities to energy prices are pushing China, India, Pakistan and Bangladesh toward higher polluting coal and fuel oil at the expense of LNG. Asia's LNG imports fell by 7.5% to 125.7 million tons in H1'22, our calculations show, with China's Covid-19-constrained economy seeing a 21% drop. South Asian buyers have broadly avoided spot LNG since June, while some Chinese buyers are reselling cargoes to Europe to capture premium pricing. Japan and South Korea are starting to secure winter stocks, but Chinese market players tell us they expect domestic gas consumption to fall this year, muting their appetite.

- **Years of elevated pricing could threaten gas' transition role.** For now, the long-term drivers behind our robust base-case LNG demand growth projections remain intact. These include (1) declining domestic gas output, (2) growing industrial gas demand, (3) more palatable prices longer term, and (4) myriad challenges for alternatives (coal and fuel oil's emissions; patchy nuclear progress; time required to scale renewables and electrify economies). But fresh caution is warranted. Europe's supply substitution constraints will likely drive periods of stratospheric pricing until a major wave of new LNG capacity arrives in 2025-26, with weather dictating how tight markets become. We will be closely watching for shifts in government policies that expedite renewables and electrification, favor nuclear and/or support domestic gas development at the expense of LNG/wider gas uptake. Already of note is China's dropping of coal-to-gas switching and concrete gas demand targets from its 2021-25 energy plan, with greater headroom for coal and emphasis on domestic gas. Any clean technology breakthroughs in heavy industry or more systemic energy efficiency improvements could also dampen gas demand.

Energy Intelligence REPORTS

Critical Trends, August 2022
European gas market chaos continues to underpin Asian prices, even as the TTF premium has widened since June. Gas supply solutions remain distant... *click for full report*

No Quick Fixes for Europe's Energy Shortages
Operators are doing what they can to boost production this winter, but volumes are small relative to demand... *click for full report*

Chinese Gas Demand Could Shrink for the Next Five Years
Once a relentless growth engine for the global gas market, now China's gas demand growth is expected to fall for the next three to five years... *click for full report*

Moscow's Demands Mean Nord Stream Restart Unlikely
Gazprom is expected to indefinitely delay the restart of the Nord Stream pipeline, keeping supplies to Europe tight over the coming winter... *click for full report*

Europe's Profound Gas Challenge
EU policymakers face the trickiest of balancing acts — reducing gas consumption while supporting struggling households and industry — and the stakes are high... *click for full report*

Energy Intelligence SERVICES

Global LNG
- News
- Analysis
- Research
- Data

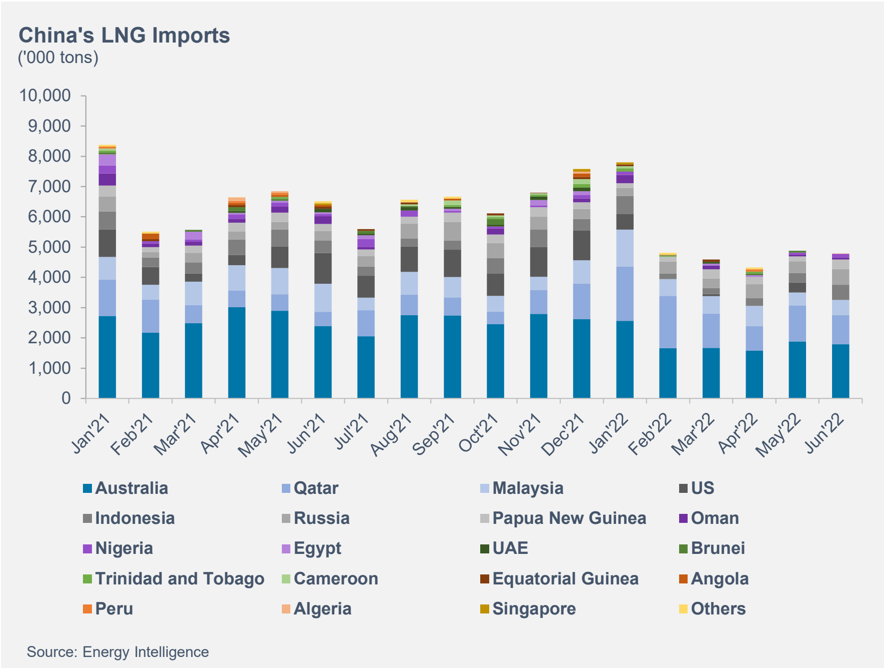
Energy Intelligence EXPERTS

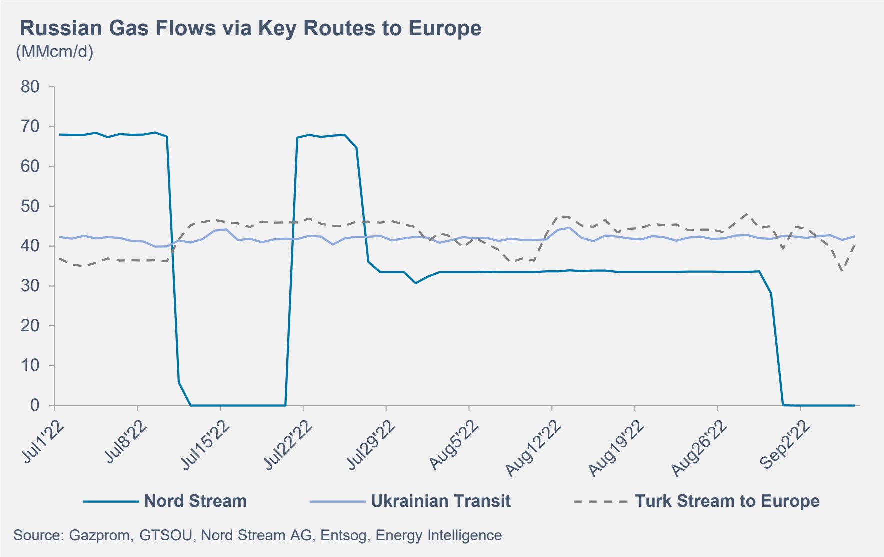
Ian Nathan
Director, Global LNG Research
+1 646 616 0828
inathan@energyintel.com

Clara Tan
Singapore Bureau Chief
+65 6538 0363
ctan@energyintel.com

Jaime Concha
Editor, World Gas Intelligence
+45 21 34 02 20
jconcha@energyintel.com

Thursday, September 8, 2022





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:
Casey Merriman
Editor, EI Premium
+1 832 687 8770
cmerriman@energyintel.com