

Investing in Energy

Global gas prices under pressure as demand wavers

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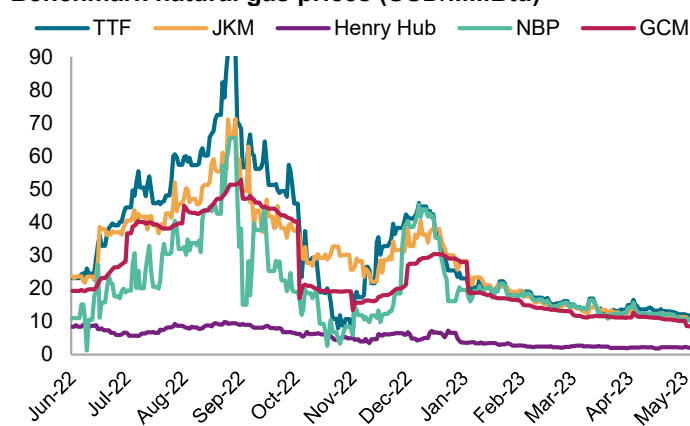
Natural gas prices outside North America continued to drift downward in April, albeit without triggering the sort of demand response that might set a floor on prices. European gas demand has not yet shown any substantial recovery, while the return of some Asian buyers to the spot LNG market has attracted attention but not tightened the market materially.

TTF day-ahead prices averaged \$13.6/MMBtu in April (down 3.5% from March levels), despite colder-than-average weather in northern Europe. Meanwhile, JKM averaged \$12.1/MMBtu, down 9.4% from March levels. Prices remain weak in the uncorrelated US market, where Henry Hub continues to flirt with the \$2/MMBtu level.

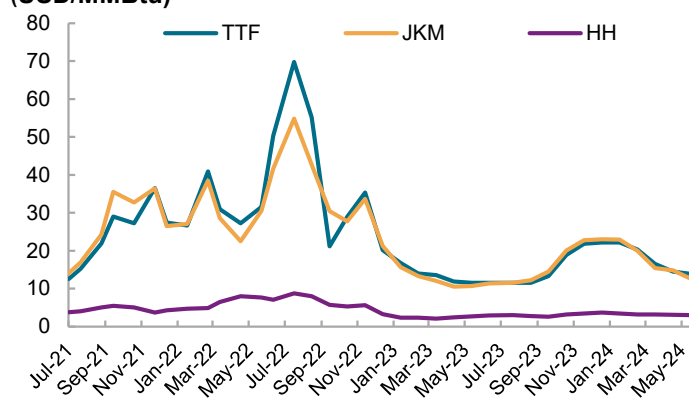
Our base case forecast continues to see TTF and JKM closely aligned through the summer (June-August), with both in a range between \$11 and \$11.5/MMBtu, before starting to recover along with seasonal demand. We have recently reduced our summer price forecast, but as discussed [here](#), we continue to believe there is further downside price risk in the third quarter, given the possibility for European storage to be full well before the end of the injection season.

We project winter (November-February) spot prices in both Europe and Asia to surge back to a range between \$21– and \$22/MMBtu—assuming average weather, of course—as the fundamental tightness of the global LNG market reasserts itself. In the US, we see Henry Hub moving closer to \$3/MMBtu through summer and then pushing above \$3/MMBtu (but not at any point above \$4/MMBtu on a monthly average basis) in winter 2023/24.

Benchmark natural gas prices (USD/MMBtu)



Benchmark gas prices (monthly averages), with forecast (USD/MMBtu)



EUROPE

Industrial demand remains sluggish. The impact of lower prices on industrial gas demand in the EU remains modest in aggregate. Total industrial consumption in the top six European markets in April 2023 was down 12% year-on-year and, strikingly, fell 13% from March 2023. One key factor recently has been a sharp reduction in global ammonia prices, which has prompted producers of nitrogenous fertilizers to import ammonia feedstock rather than produce their own. More generally, forward purchases and hedging strategies by large industrial consumers continue to delay the transmission of price signals through to demand. We continue to see EU industrial gas demand increasing in 2023 relative to 2022 levels, but only by 3%.

How early will storage fill? EU began May with its gas storage capacities 60% full—with 28.5 Bcm more gas held in store than on May 1, 2022—reducing Europe's effective requirement for gas through the summer and more than offsetting the year-on-year reduction in summer pipeline flows from Russia. This situation suggests the possibility that EU storage will approach full capacity well before the pickup of heating demand that typically occurs in October, which, in turn, would exert downward pressure on prices in the latter part of the third quarter of 2023.

Can Ukrainian storage play a role? The current situation on the forward curve—with TTF prices for the first quarter of 2024 at a premium between \$6 and \$7/MMBtu to month-ahead prices—would normally drive traders to buy gas in Central Europe and store it in Ukraine, taking advantage of Ukraine's extremely attractive transmission and storage tariffs. This would help stabilize prices on the downside while allowing the EU to go beyond 100% storage fill as it prepares for winter 2023-24. But this activity is uninsurable, and there are no signs of any policy actions being taken at the EU level to address this.

ASIA

Some growth in South and Southeast Asian demand for spot cargoes—but no material impact. Some buyers in India, Bangladesh, Singapore, and Thailand have increased or restarted purchases of spot LNG cargoes in recent months. But the impact on the overall market has been overstated in some quarters: Ultimately, this activity amounts to no more than 10-15 additional cargoes per month in an Asian LNG market that, in aggregate, imports 300-400 cargoes (including those delivered on long-term contracts) per month.

Weak import demand in Japan and South Korea. More significant is activity in the more developed Asian LNG markets, where high storage levels, strong nuclear output (in Japan) and weak demand (in South Korea) have caused LNG imports to decline recently: April 2023 saw the lowest monthly LNG import levels into both countries since 2021. It has been reported that Japanese utilities Kyushu Electric and Kansai Electric have re-sold contracted cargoes for June delivery on the spot market, and Kogas may be in a similar position.

Chinese LNG demand growing only slowly. Chinese buyers are no longer redirecting contracted LNG volumes to Europe, as they did at times in 2022, but there has been no major return of mainland China to the spot LNG market. Chinese buyers bought 53 spot and short-term cargoes in March-April 2023—ten more than March-April 2022 but still 45% below the levels seen during the same period in 2021. At current JKM prices, imported LNG remains uncompetitive with coal in both power generation and industry, and at present, there is no policy push to further reduce coal for air quality or climate reasons. We continue to see Chinese LNG demand increasing by about 8% in 2023 relative to 2022 (to 69 million metric tons [MMT] or 94 Bcm), based largely on new long-term contract deliveries, but this would still leave Chinese LNG demand far short of the 2021 level of 81 MMT (110 Bcm).

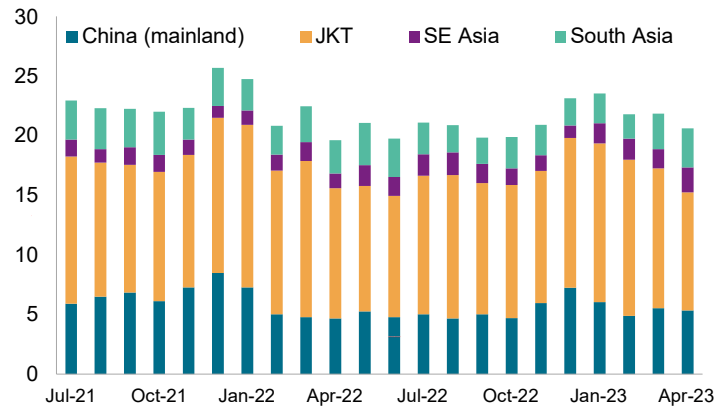
NORTH AMERICA

High storage levels continue to weigh prices down. US lower-48 gas storage levels remain well above their five-year average owing to the aftereffects of a mild winter and the eight-month outage at Freeport LNG. Coal-to-gas switching in the power sector—which, in the past, would have boosted gas demand with Henry Hub prices in their recent range between \$2 and \$2.50/MMBtu—is not providing a meaningful price floor for gas, owing to reduced coal capacity and the tendency of US domestic coal prices to chase gas prices down.

No upstream response to low prices. Drilling activity has been mostly unaffected by low prices as producers remain reluctant to release drilling crews in a tight services market and look at the forward curve to assess drilling economics. Producers are flush with cash after 2022's high prices and are confident in their ability to ride out the current period of pain. Meanwhile, associated gas production from the Permian Basin continues rising, unaffected by gas prices.

APPENDIX

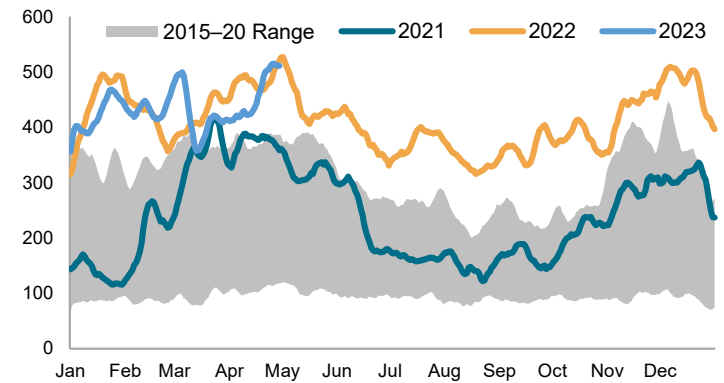
Asian LNG imports, by month (million metric tons)



Note: JKT = Japan, South Korea, Taiwan.

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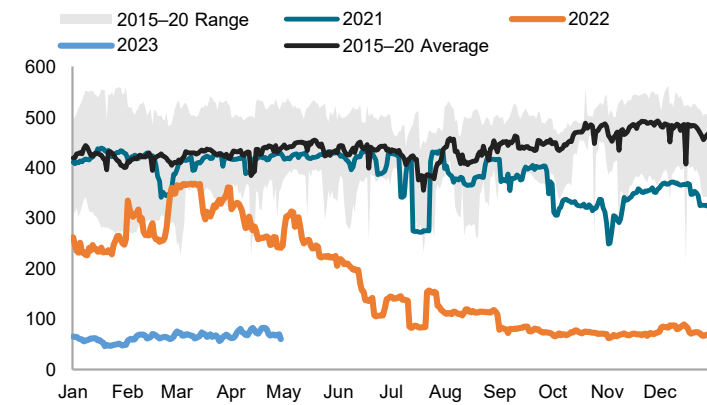
Europe: LNG sendouts (MMcm/d)



Note: Seven-day moving average

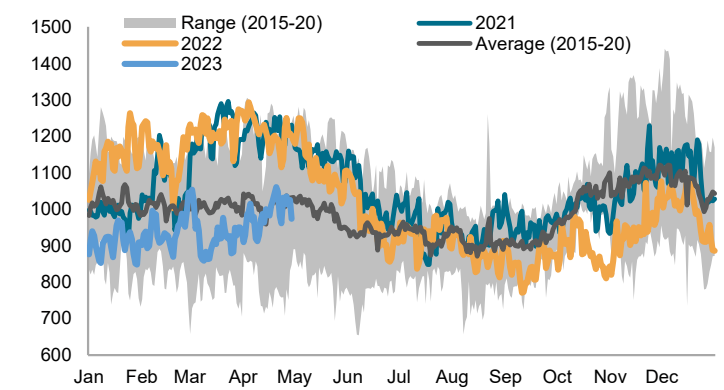
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Russian pipeline deliveries to Europe (MMcm/d)



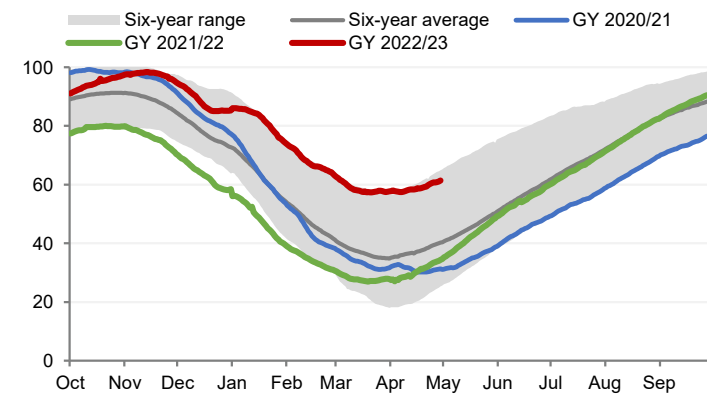
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Total European gas imports (MMcm/d)



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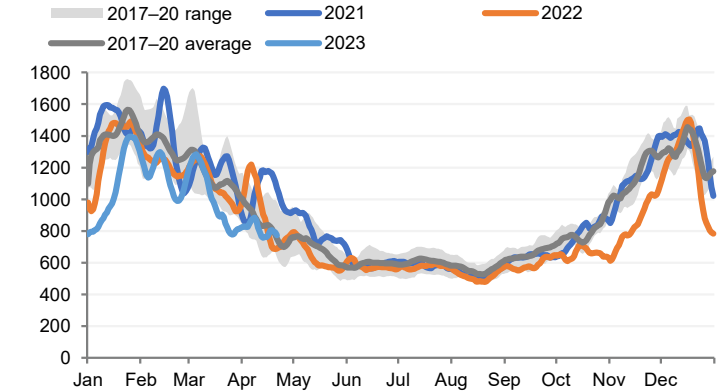
European storage inventories (Bcm)



Note: GY = Gas year.

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Gas demand in top six European markets (MMcm/d)



Note: Data covers France, Germany, Italy, Netherlands, Spain and United Kingdom.

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