ANALYSIS
Prolonged Oil Price Slide Factoring More Into Global Natural Gas Market, Analysts Say

As the oil market rout continues, a clearer picture is emerging of its impacts on global natural gas trade, with analysts predicting both downside and upside consequences for various regions across the world.

The impacts could run the gamut, said Wood Mackenzie Research Director Giles Farrer, who noted that everything...

PRICES
Despite Mid-Year Bump, EIA Expects 2020 Natural Gas Prices to Average Just $2.11

An expected decline in domestic natural gas production and increased power sector demand will push prices to an average $2.22/MMBtu in 3Q2020, but Henry Hub spot prices will average just $2.11 for the full year, according to the Energy ...

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THE OFFTAKE: LNG IN BRIEF

A ROUNDUP OF NEWS & COMMENTARY FROM NGI’S LNG INSIGHT

- Freeport LNG Train 3 reaches final commissioning stage, which includes introducing feed gas. Train 3 on track to reach initial production by end of March.
- Tudor, Pickering, Holt & Co. analysts note Train 3 will add 600 MMcf/d of “much needed demand for the U.S. market,” but said the opposite is true for worldwide supply “as pricing has dipped to all-time lows and demand is quickly peeling off as we move into shoulder season.”
- Pavilion Energy and Singapore LNG Corp. (SLNG) sign five-year deal for LNG storage and reload services at SLNG terminal on Jurong Island near Singapore. First such agreement signed for longer than two years, supporting more LNG trading activities, Pavilion says.
- IHS Markit’s Daniel Yergin: “The No. 1 target in Russia’s crosshairs is the U.S. shale industry,” the vice chairman said of the country’s price war with Saudi-led OPEC in a column for the Wall Street Journal.
- “Russia may be an energy superpower, but it has been overtaken by America, which produces more oil and more gas, and considerably more oil than Saudi Arabia,” Yergin added. “The U.S. is also on the way to becoming one of the world’s major exporters of natural gas, in its liquefied form.” Another reason for Moscow to pressure U.S. production, he said.
from ANALYSIS - Oil Price Slide Factoring into Global NatGas Market, pg. 1

from Henry Hub prices, to final investment decisions (FID) on liquefied natural gas (LNG) projects with exposure to oil prices and Asian gas demand could be effected.

Lower oil prices have already prompted U.S. exploration and production companies to cut their budgets. As a result, Henry Hub prices could increase as associated gas volumes fall and make U.S. LNG producers selling on the benchmark less competitive with oil-indexed LNG, Farrer said.

Global oil prices have plunged below $40 as the Organization of the Petroleum Exporting Countries and its allies (OPEC+) face off against Russia in a price war that promises to deliver even more crude supplies at a time when demand is forecast to decline due to the coronavirus outbreak.

“An escalation of oversupply conditions for crude markets renews risk of U.S. crude production shut-ins later this year if OPEC+ members are able to hold prices this low for an extended period,” said Schneider Electric analyst Christin Redmond. “A decline in U.S. crude production would also reduce associated gas production, leaving less supply in domestic natural gas markets.”

Wood Mackenzie affiliate Genscape Inc. recently lowered its U.S. gas production forecast by 900 MMcf/d below its pre-oil crash estimates. Evercore ISI on Wednesday also noted that North American upstream spending could decline by 35-40% year/year in 2020, which would drop global upstream spending by 18% year/year.

Oil-indexed LNG contracts are typically sold based on an average crude price over the previous three to six months. Given the lag, oil-indexed gas still looks uncompetitive against the price of gas at European hubs or in the LNG spot market.

Most of the world’s LNG is still purchased under long-term oil-linked contracts that have fetched big premiums to historically low spot market prices, sideling some of the world’s biggest importers from the LNG buying spree. The oil rout, however, could provide relief for offtakers, while producers

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could be evaluating whether new capacity is viable at lower oil-linked prices later in the year.

“The greater risk to supply is pre-FID investments,” Farrer said. “Record LNG supply investments last year and plunging LNG spot prices this year were already testing the appetite of LNG project developers to sanction new LNG projects in 2020. But the drop in oil price will make these decisions more complicated.”

He added that fewer LNG projects across the world are likely to take FID this year and next, with facilities in Mozambique, Mauritania, Senegal and Australia likely to face pressure. That could lower global supply in the coming years.

In Asia, meanwhile, where long-term contracts are largely tied to the average price of a cocktail of Japanese crude oil imports, oil’s fall could stoke more demand for gas. Sustained lower oil prices could lower the price of gas for consumers in the region, Wood Mackenzie said, making the fuel more competitive with coal in places like Japan and South Korea that would encourage coal-to-gas switching.

In other markets, however, gas demand could face pressure from oil, particularly in India where lower oil prices could slow the shift from oil to gas in the industrial sector, according to Wood Mackenzie.

European gas demand isn’t likely to be impacted by the slide in oil, but some Russian and Algerian pipeline contracts indexed to oil and priced on previous six- to nine-month crude averages could prove more appealing.

“Assuming lower oil-indexed prices later in the year, buyers with nomination flexibility in their contracts will likely minimize their imports under these contracts now in favor of higher import nominations later in 2020,” said Energy Aspects analyst James Waddell.
The full-year price forecast, included in EIA’s latest Short-Term Energy Outlook (STEO), is down a dime from the previous STEO.

Still, EIA expects a turnaround in 2021, with natural gas prices forecast to reach an annual average of $2.51. Henry Hub spot prices averaged $1.91 in February, according to the STEO.

The front-month natural gas futures contract for April delivery at the Henry Hub settled at $1.78 on March 9, down 4 cents from Feb. 3. Warmer-than-normal weather patterns during the month continued to keep prices at historically low levels, according to the STEO.

“Europe and Asia have also experienced warmer-than-normal winter weather,” EIA said. “As a result, natural gas benchmarks for Europe (the Title Transfer Facility, or TTF, and the National Balancing Point, or NBP) and Asia (Japan Korea Marker, or JKM) have followed an even steeper downward trend compared with the Henry Hub contract. At the end of February, the JKM price reached near parity with TTF, although it typically trades at a premium.

“The decline of global natural gas prices and narrowing of spreads between markets likely reflects lower demand levels and reduced need for imports in European and Asian markets.”

EIA expects U.S. LNG exports will average 5.3 Bcf/d in the second quarter of 2020, down by 0.5 Bcf/d from the February STEO.

U.S. dry natural gas production, which reached a record high 92.2 Bcf/d last year, is forecast to increase 3% to 95.3 Bcf/d this year, despite generally declining monthly production. From a peak 96.5 Bcf/d in February, production is expected to decline to 92.3 Bcf/d in December.

“The falling production mostly occurs in the Appalachian and Permian regions,” EIA said. “In the Appalachian region, low natural gas prices are discouraging producers from engaging in natural gas-directed drilling, and in the Permian region, low oil prices reduce associated gas output from oil-directed wells.” In 2021, EIA expects production, prompted by higher prices, will again be on the rise, averaging 92.6 Bcf/d for the year.

Last week, EIA reported a 109 Bcf withdrawal from U.S. natural gas stocks for the week ending Feb. 28, leaving total Lower 48 gas in underground storage at 2,091 Bcf, well above year-ago stocks (1,411 Bcf) and ahead of the 1,915 Bcf five-year average. EIA forecasts that total working inventories will end March at 1.9 Tcf, 12% more than the five-year average. In the forecast, inventories rise by almost 2.1 Tcf during the April through October injection season to reach almost 4.0 Tcf on Oct. 31.

The STEO had been scheduled to be issued March 9, but EIA delayed the release two days “to allow time to incorporate recent global oil market events,” including a price war launched by the Organization of the Petroleum Exporting Countries (OPEC).

“As a result of the outcome of the March 6 OPEC meeting, EIA’s forecast assumes that OPEC will target market share instead of a balanced global oil market,” the agency said in the STEO. “EIA forecasts OPEC crude oil production will average 29.2 million b/d from April through December 2020, up from an average of 28.7 million b/d in the first quarter of 2020. EIA forecasts OPEC crude oil production will rise to an average of 29.4 million b/d in 2021.”

Brent crude oil prices are expected to average $43/bbl in 2020, down from an average of $64 in 2019, and average $55 next year as declining global inventories put upward pressure on prices, EIA said.