

Rising Demand

Whilst the market continues to feel the impact of the Freeport LNG outage, recent heatwaves have been occurring across Europe and areas of Northern Asia. Demand for LNG is increasing, with this demand representing a combination of both seasonality and broader rising demand for energy, which is putting a clear emphasis on seaborne LNG volumes. The market supply and demand balance was already exceptionally tight following the Russian invasion of Ukraine and the dramatic increase in European LNG demand with a shutdown of the Nord Stream 1 pipeline remaining a possibility. Short term demand for gas; to be used in higher electricity generation to power air-conditioning units will likely continue to provide support over the remainder of summer. Over the coming months, both regions will increasingly compete to secure their share of any additional spot LNG volumes that enter the market, as winter stock building accelerates ahead of the seasonal temperature drop in the Northern Hemisphere. The extent of which will impact how firm demand could be, especially should Russian supplies become scarce.

LNG Prices Remain Firm

Naturally, this market tightness led to skyrocketing LNG and natural gas prices. The benchmark Northeast Asia JMK LNG contract has gone from \$30.505/MMBtu at the start of 2022 to \$38.99/MMBtu as of writing (28% YTD), whilst \$40.095/MMBtu was briefly reached in early July. Over in Europe, UK NBP prices have reached 315p/therm, up 45% YTD and Dutch TTF prices surged 88.27% YTD to €168.5/MWh. These contracts are trading firmly relative to historical levels and in some cases have reached record highs. Further tightening of the market in the coming months is likely to lead to further increases in contract prices with little extra supply expected.

Winter Bidding War

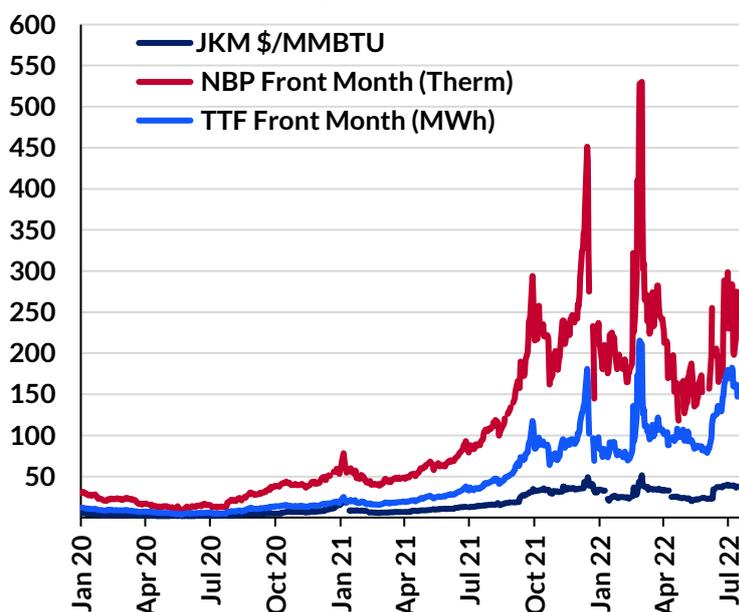
As winter stock building gathers pace in both East and West, the market will see buyers competing for spot cargoes at high prices relative to past building seasons. High demand and a lack of suitable alternatives to Russian pipeline gas in Europe will ensure purchasing remains robust despite the higher prices. Inevitably this is likely to lead to some demand destruction as some price sensitive buyers either cut back their purchases or find alternatives, either in the form of commercially difficult Russian cargoes or alternatives to LNG for power generation such as oil or renewables where available. The prospect of a winter gas shortages has led to the EU introducing a plan to cut gas consumption by 15% until the end March 2023 to ensure adequate supplies should Russian pipeline flows cease.

LNG Freight Rates Remain Unsettled

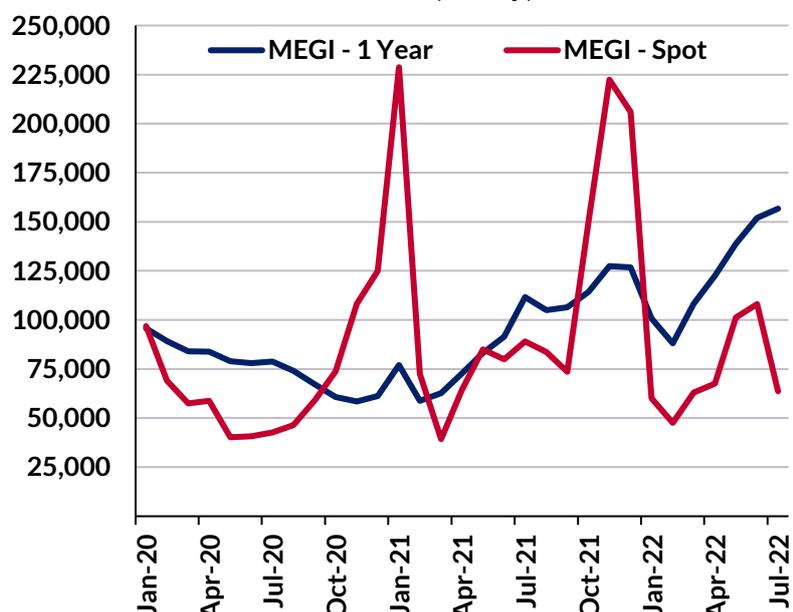
Whilst higher cargo demand should in theory mean higher LNG carrier demand, the fallout from the Freeport LNG outage continues. Vessel availability remains high in the spot market and the possibility of subletters bringing modern MEGI and TFDE/DFDE vessels into the market during peak winter demand could keep freight rates depressed. Nonetheless, the current strength of the period market could provide some support to rates as charterers and traders try to physically hedge their exposure to any tonnage shortages over the winter months. Although we have seen a recent slight correction of the disconnect between spot and period rates.

Therefore, both owners and charterers will remain poised to see what the coming months bring. Fundamentally, such strong demand should provide the necessary support for spot freight rates as the combination of high demand and tight supply of LNG will result in a busy season for LNG carrier owners who have some reason to be optimistic despite the currently weaker spot rates.

Benchmark East/West Natural Gas Prices



MEGI Charter Rates (\$/day)



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