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Low Prices Threaten US LNG Exports

US LNG export capacity is ramping up just as natural gas prices are hitting multiyear lows in Europe and Asia, prompting questions as to whether some US capacity might be shut in now the export arbitrage window has slammed shut. For the moment, analysts say there is little evidence of this happening. But if low prices persist, export curtailments look to be a real possibility — indeed, cargo tracking data shows that while 40 US cargoes loaded in both March and April, and 44 in May, only 22 have left or are scheduled to leave US ports out to Jun. 25.

Four plants are now operating in the US — Sabine Pass, Cove Point, Corpus Christi and Cameron — with current combined capacity of around 36 million tons per year (4.7 billion cubic feet per day). Decisions on whether to lift the LNG will generally be left to offtakers, as most cargoes are sold on a free on board basis that gives buyers the right to cancel or lift them on several weeks' or months' notice. Spot prices in Asia are now at three-year lows of $4.30 per million Btu. Spot LNG prices in Southwest Europe are around $3.85/MMBtu, while spot prices on the UK National Balancing Point (NBP) and Dutch TTF gas hubs were at $3.70-$3.80/MMBtu this week.

"With NBP at levels of around $3.50/MMBtu and Henry Hub at around $2.40/MMBtu, the cost of natural gas delivered to [Cheniere's Sabine Pass and Corpus Christi] plants is about $2.75/MMBtu after adding a 15% uplift to cover gas used in the plant and other gas sourcing costs," a source says. "That leaves approximately 75¢ to cover the cost of shipping to Europe plus the regasification cost at a European terminal." European regas costs are put at around 30¢/MMBtu, and are considered sunk costs at many terminals where companies have committed to take capacity so pay fees regardless. Similarly, firms with ships on charter have to pay fees whether they use the vessel or not, so the marginal cost of shipping for a charterer is the cost of fuel plus port costs. "For companies in this position, a $0.75/MMBtu differential between NBP or TTF probably covers the short-run marginal costs of shipping and regasification," the source says. Offtakers are "probably earning a small margin on the US LNG delivered to Europe and are therefore not at the stage where they would choose not to lift LNG cargoes."

But that could change. Analysts at Citigroup believe the US LNG export arbitrage will remain closed into the autumn. Contractual obligations require offtakers to notify plant operators several weeks or months in advance if they want to underlift contracted volumes. As a result, offtakers have to be reasonably confident the arbitrage window will stay closed for at least a few months before deciding not to lift a cargo, so it might take until August or later before US LNG is actually curtailed, Citigroup says. Columbia University Center on Global Energy Policy senior research associate Akos Losz also believes some capacity might be shut in if prices remain low and supply keeps mounting — "probably not all at once, but progressively and selectively, depending on the individual circumstances of the various offtakers," he says.

As global LNG supply continues to build — with Royal Dutch Shell shipping its first Prelude cargo this week — Europe, the world's LNG "dumping ground," has been inundated. European stocks were over 63% full at the start of this week — levels typically not seen until early to mid-July, and about 10 billion cubic meters (350 Bcf) more than last year — and could reach around 90% full by August or early September, Citigroup says. It has consequently revised down average 2019 prices from $2.80/MMBtu to $2.50 for US Henry Hub, from $6.10/MMBtu to $5 for TTF gas, and from $7/MMBtu to $5.80 for Asia's Japan Korea Marker.

Restricting US exports for two months might make sense, Citigroup says, as that could trim about 400 Bcf of supply in late summer and early autumn, similar to Europe's inventory overhang. There has as yet been little sign of reductions in piped gas imports from Norway and Russia — and much may hinge on Russian export strategy. Gazprom's sales to Europe and Turkey totaled 80.3 Bcm (18.8 Bcf/d) in the first five months of 2019, down 6.6% year-on-year. But this was largely because of much lower sales to Turkey, and the Russian gas giant still expects full-year sales of 194 Bcm-204 Bcm (18.8 Bcf/d-19.7 Bcf/d), similar to last year's record 201.8 Bcm (19.5 Bcf/d). Citigroup suggests the strong Russian sales strategy may be designed to test the response of the global gas market in a low price environment, especially US LNG export resiliency — in which case low prices could persist through autumn or even the start of winter. Losz agrees: Whether Russia continues to send spot gas to Europe should "at least partly depend on how they judge the resilience of US LNG flows in the face of unfavorable export economics." ■

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