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Update on Global Gas and LNG Prices in 2020: How has it Coped with Recent Market Dynamics?

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As the world slowly progresses through 2020 and adapts to what may be a 'new normal' for some time to come, countries have started easing lockdown measures as governments try to balance weakening economies and containing the spread of COVID-19. The gas market is also struggling to cope as gas demand has been diminished and prices have reached unprecedented lows.

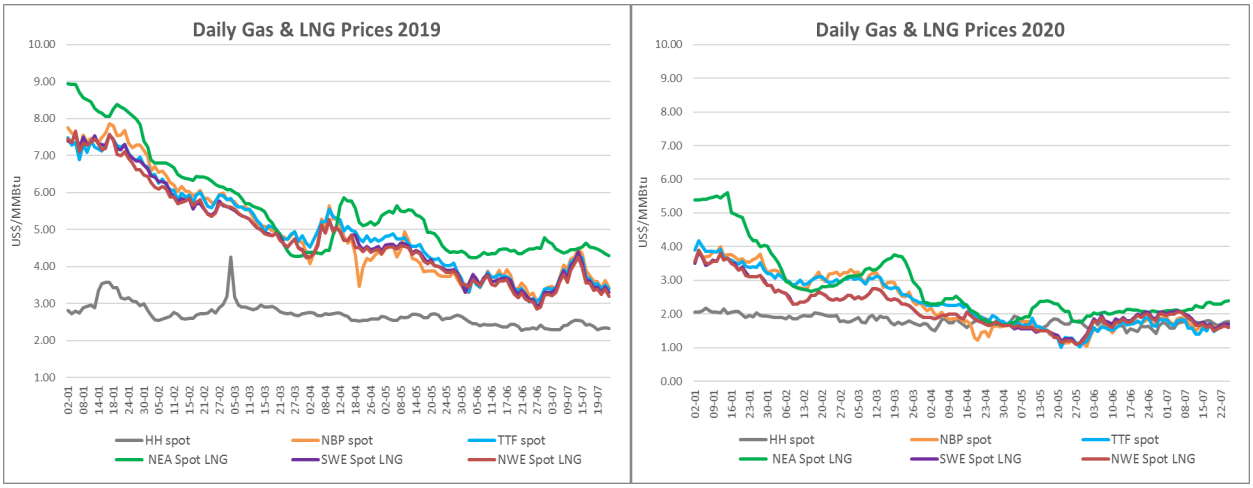
This article serves as an update to our previous expert commentary, published in March 2020, on the dynamics of global gas market and how prices have responded over the period January to 20 March 2020. In this article, we extend our price assessment up to the first half of 2020 on how natural gas and LNG prices continued to be prisoner of an oversupplied LNG market, combined with an aggressive COVID-19 that drastically impacted gas demand worldwide. In addition, we extended our analysis to look at the impact of COVID-19 in terms of the survival strategies of companies to manage supply and cut investments.

A comparative analysis of the trends in daily gas and LNG prices in 2020 compared to the previous year illustrates how the market has responded to these events (see Figure 1). At the start of 2020, prices were relatively weak with daily prices hovering in the range US$2.00-5.50/mmBtu. The Northeast Asia (NEA) Spot LNG price was at a premium to European LNG prices in January 2020, however, this quickly deteriorated and it slumped to record lows of US$1.68/mmBtu on 30 April 2020. Over the period 22 April - 8 May 2020, daily spot and LNG prices converged to below US$2/mmBtu. Another anomaly observed was the fact that Henry Hub (HH) became the most expensive gas on 23 April 2020 at US$1.86/mmBtu whilst the National Balancing Point (NBP), Title Transfer Facility (TTF), and NEA Spot LNG were US$1.47/mmBtu, US$1.80/mmBtu, and US$1.81/mmBtu respectively, making even the margin to markets negative, and thus shrinking export opportunities for the U.S. LNG. In the first half of 2020, gas and LNG prices in Asia and Europe plunged by more than 50% y-o-y

with the average NBP, TTF, and NEA Spot LNG prices declining by 57%, 53%, and 50% respectively.

In comparison to the previous year, European and Asian spot gas and LNG daily prices ranged from US$7-9/mmBtu in January 2019, after which they sharply declined over Q1 2019 and converged between US$4-5/mmBtu at the end of May 2019[1]. This contrast emphasises the stark reality of the current situation. Global gas demand was already bearish due to expectations of mild weather conditions, and then tumbled under the restrictions and lockdown measures associated with COVID-19. This, combined with an already oversupplied market, has created the unparalleled pricing scenarios that we are witnessing today.

Figure 1: Daily Gas and LNG Prices for 2019 and 2020 (as of 24 July)



Source: GECF Secretariat based on data from Argus, Refinitiv Eikon, and OANDA

Notwithstanding the current situation, market forces will react to find its equilibrium, and prices are expected to slowly recover as this happens. However, the average gas and LNG prices in Asia and Europe are not foreseen to be higher than US$3/mmBtu in 2020.

On the supply side, the U.S. producers have already begun to shut-in wells in response to uneconomic oil prices, which in turn will affect U.S. gas production, as associated gas accounts for approximately a third of its total gas production. The U.S. Energy Information Administration expects HH spot prices to average US$1.93/mmBtu in 2020 and US$3.10/mmBtu in 2021 according to their Short Term Energy Outlook July 2020[2]. A number of U.S. shale gas producers have filed for Chapter 11 bankruptcy. Chesapeake, the pioneer of shale gas in the U.S. is currently on the list for potential insolvency.

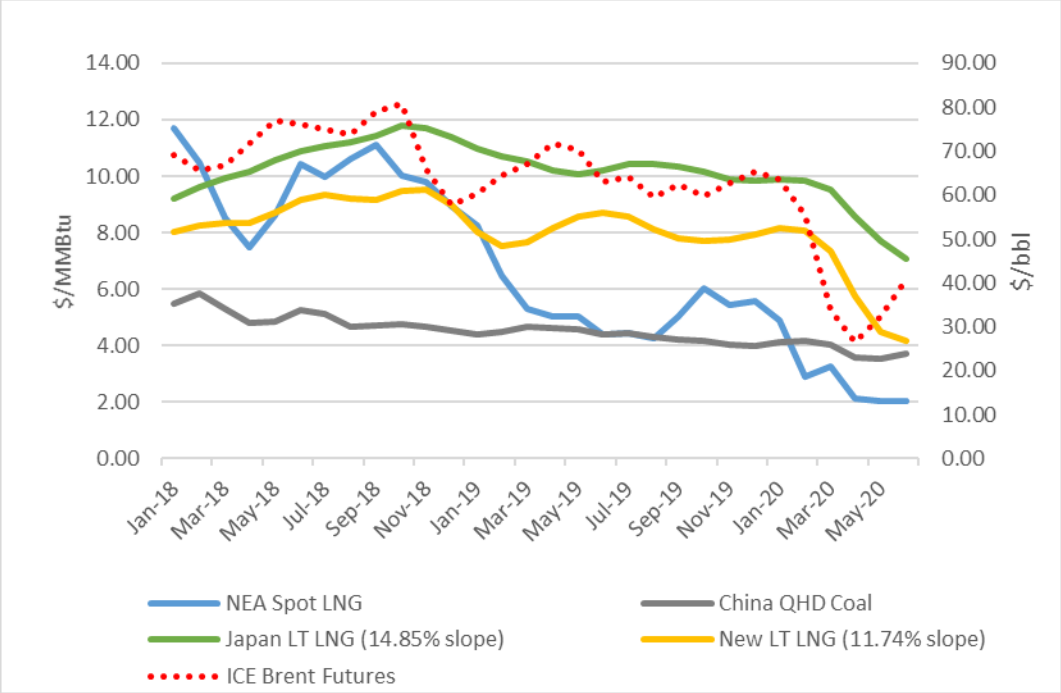
Globally, many LNG Final Investment Decisions (FIDs) have been delayed, with more projects expected to be shelved as their economics are reassessed within the current market situation. Furthermore, there may also be delays for projects under construction due to

[1] (Singh, GECF Expert Commentary, 2020)
[2] (U.S. Energy Information Administration, 2020)

workforce and supply chain limitations. In addition, there have been major budget cuts across the sector from International Oil Companies (IOCs), National Oil Companies, and service companies estimated at more than US$110 billion as of 15 June 2020[3]. Several IOCs have also revised down their price assumptions for oil and gas prices over the next 3-4 years.

The real effects of low oil prices on gas/LNG prices would be more prominent in the second half of 2020 and in 2021 due to oil price lag of three to six months in the majority of oil-indexed long-term contracts. Oil indexed prices with a six-month lag have started their decline, reflecting the low oil prices at the beginning of the year. Figure 2 below illustrates the fluctuations between gas/LNG vs. coal prices in the Asian market on a Btu basis. The NEA LNG spot price has been on a downward trend since the start of the year, with the exception of March in which there was a peak owing to easing of lockdown measures in China. In February 2020, the monthly average NEA Spot LNG price dipped below the China Qinhuangdao (QHD) coal price and has bottomed out at about US$2/mmBtu over the past two months. In H1 2020, NEA Spot LNG was 34% lower than the China QHD coal price, averaging US$2.88/mmBtu and US$3.85/mmBtu respectively.

Figure 2: Changing Dynamic of LNG and Coal Prices in Asia



Note:
Japan LT LNG price assumes a 14.85% slope and 6-month historical average of Brent.
New LT LNG assumes a 11.74% slope (average for 2015-2019) and 3-month historical average of Brent.
Data as of 30 June 2020
Source: GECF Secretariat based on data from Argus and Refinitiv Eikon

Sustained low oil prices would definitely boost the price competitiveness of natural gas compared to coal in Asia. This is evident in the trend observed in Figure 2 above in which

[3] (WoodMackenzie, 2020)

estimates for oil-indexed contracts, Japan LT LNG and New LT LNG, have steadily declined since January 2020. The average Japan LT LNG price in H1 2020 was US$8.77/mmBtu, 16% lower y-o-y. The New LT LNG price experienced a steeper decline, as it is based on a 3-month historical average of Brent, and averaged US$6.34/mmBtu in H1 2020, 22% lower y-o-y. Based on this trend, the New LT LNG price may even dip below the China QHD coal price in the coming months.

There was a slight recovery in oil prices following OPEC+ production cuts of 9.7 million barrel per day that came into effect from 1 May 2020, and easing of lockdown measures in many countries. Furthermore, ICE Brent Futures climbed above US$40 per barrel following the decision of OPEC+ to extend production cuts to July 2020 and averaged US$42 per barrel in H1 2020, a 36% drop y-o-y. However, there is still great uncertainty surrounding consistent oil price gains which will depend on OPEC+ and its allies upholding commitments as well as the success of easing lockdown measures.

Gas and LNG prices will continue to be bearish as long as gas demand remains low, as decisions to constraint supply will take some time to be felt by the market. However, as governments gradually phase out COVID-19 restrictions and economic activity picks up, gas demand is expected to recover.

The magnitude and timing of gas demand recovery will depend on two crucial factors. Firstly, on the strategies that oil and gas companies employ in going forward and their risk appetite. Secondly, and more importantly, policy decisions that are implemented by governments as they attempt to balance economic recovery, environmental considerations and the possibility of a second wave of COVID-19 will be critical to gas demand prospects, and thus prices.

The gas market is suffering from an unprecedented turbulence for all market players. Oil and gas producers around the world are cutting budgets, postponing projects and reducing jobs. The GECF producers are not immune to these dynamics, and such low prices have resulted in the postponement of some projects, without losing the focus on the most lucrative ones. Nevertheless, it is worth mentioning that the GECF, as a dominant gas and LNG supplier in the world representing 72% of global natural gas proven reserves and strengthened by long-term experience in oil and gas industry, continues to sustain its supplies to its customers.

Though the GECF Member Countries' gas and LNG exports have declined in the face of an eroded gas demand, this has not prevented them from showing resilience thanks to their amortised costs of the production chains, and the strategies of budget optimisation and diversification that continue to be undertaken.

The response of the GECF community has always been in line with the Statue of the Forum, its long-term strategy and the Summits' declarations of Heads of State and Government that call for strengthening energy security, and the importance of fair value for natural gas to sustain investments across the gas value chain. In this regard, the GECF reiterates the crucial role of cooperation and dialogue among producers and consumers for gas market stability.

As such, the GECF Member Countries emphasise the essential role of long-term oil/oil products indexed gas contracts to revive natural gas resources developments.

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