

# Is the Gas Curve Overpriced?

Tight LNG balance to pressure 2024-2026 prices  
Yet a potential regime change down the road

Natural Gas Market Update – Montel

August 29<sup>th</sup>, 2024



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## MACRO/GEOPOLITICS

### NATURAL GAS MARKET

SUPPLY

DEMAND

EU INVENTORIES

NE ASIA LNG PULL

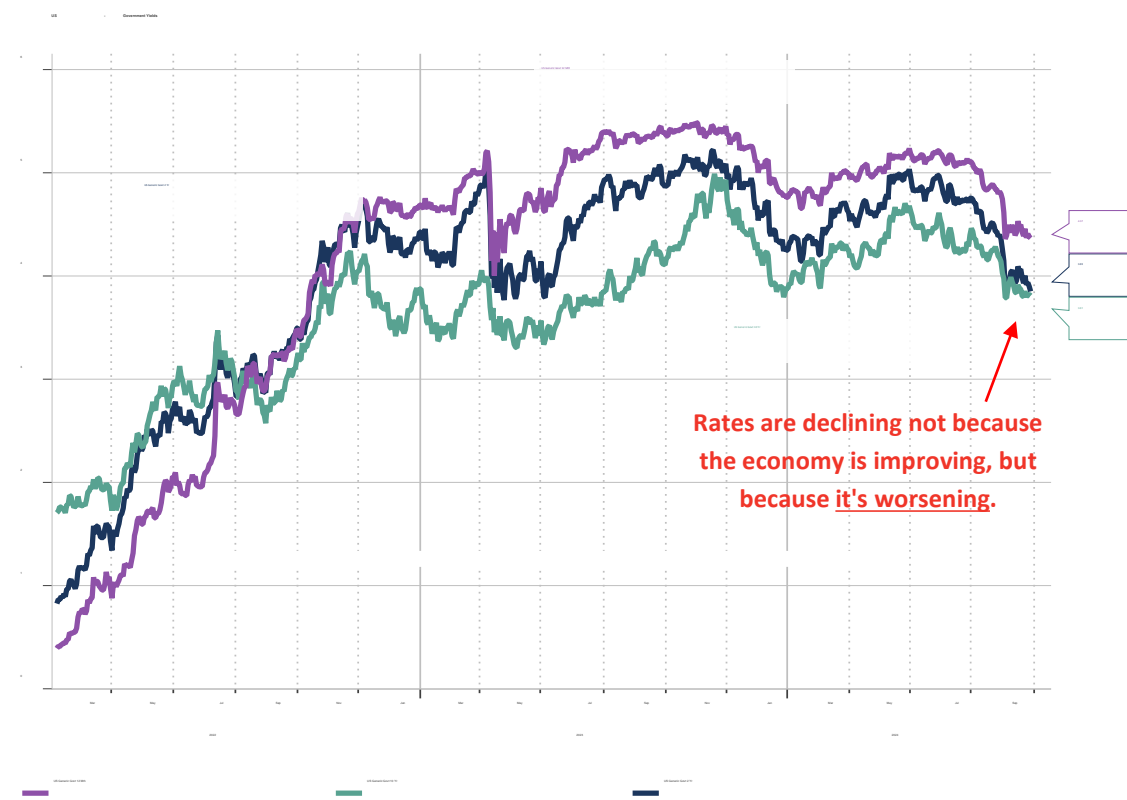
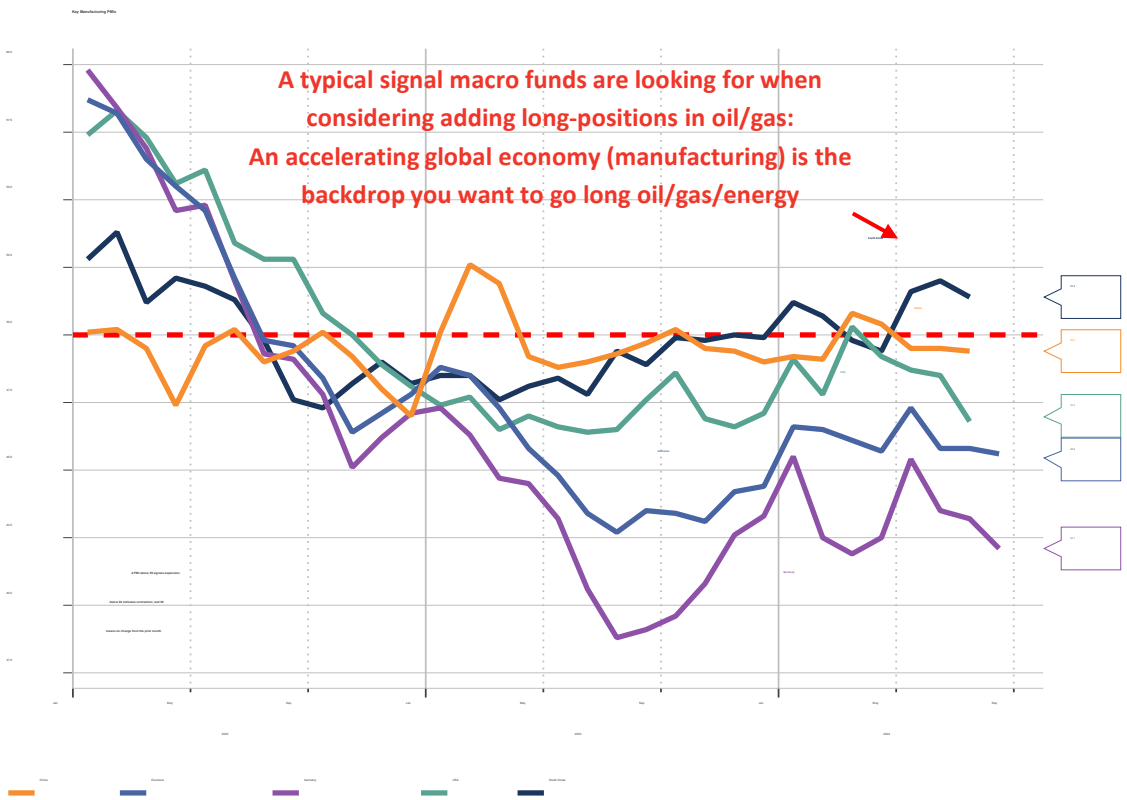
GLOBAL LNG BALANCE

# South Korea: an early mover... and US recession/slowdown

**South Korea:** still above the 50-line → a key data point as it produces a wide range of industrial sub-components which everyone in the world need if they want to accelerate manufacturing... **US:** Manufacturing PMI → continued the tumble from the 50-line...

Global Manufacturing PMIs for Eurozone, Germany, USA, and South Korea

US Government Yields (1yr; 2yr; and 10yr)



...YET, global nat gas more priced at a fundamental supply risk

Source: SEB

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MACRO/GEOPOLITICS

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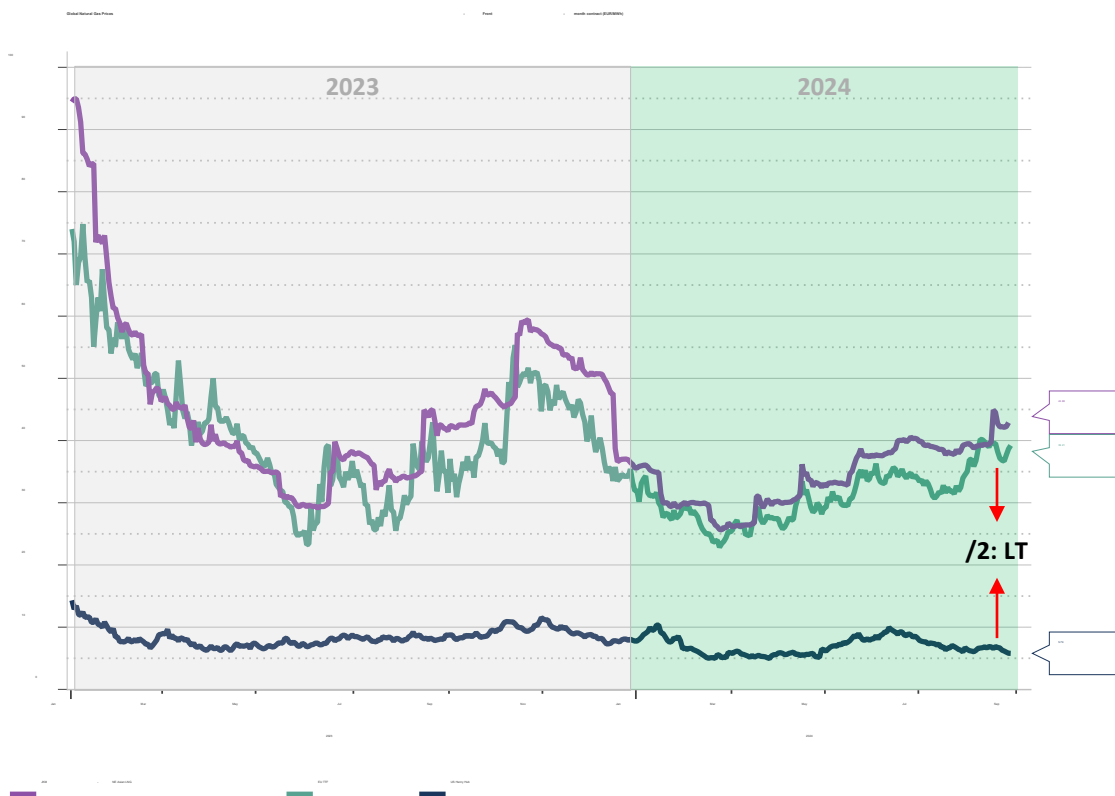
**GLOBAL LNG BALANCE**

# Prices well above hist. norm... LNG: from opportunistic buy to baseload

...In the wake of **1)** earlier-than-expected supply risks due to the RU-UKR conflict; **2)** major maintenance on the NCS; **3)** rising LNG demand from NE Asia; **4)** further delays in US LNG export terminals; **5)** always uncertainties with winter weather (20-60-20)

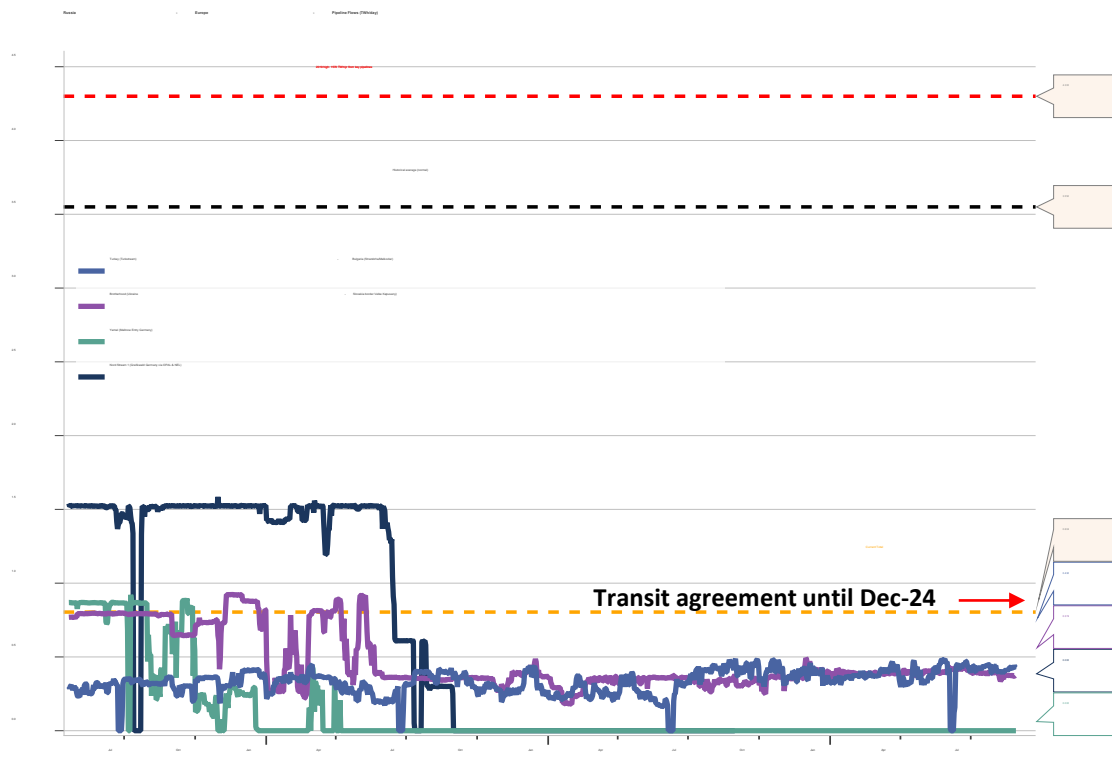
Front-month contract: International Nat Gas prices (EUR/MWh)

Status for Key Russian pipelines to Europe (TWh/day)



→ **ATH (perfect storm):** M1 contract reached above **EUR 300/MWh August 2022**... 80% reduction in RU gas in 3 months; cooling demand (weather); river Rhine; FR Nuclear @ ATL

Source: SEB, Bloomberg



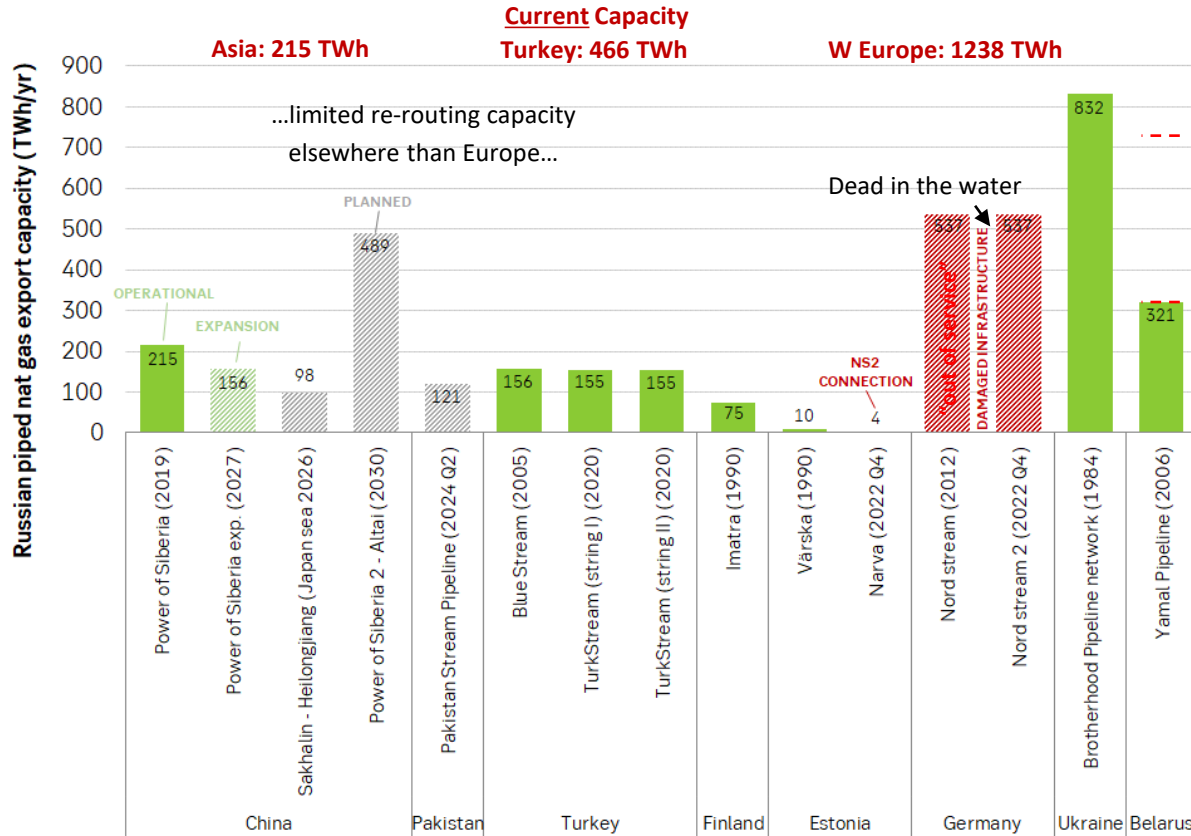
An 80% reduction in key pipelines since mid-2022...  
 ...Weaponizing energy has “failed” – **markets always finds a way!**  
 Russia’s “gas-card” is partly\* played out...

Source: SEB, Bloomberg

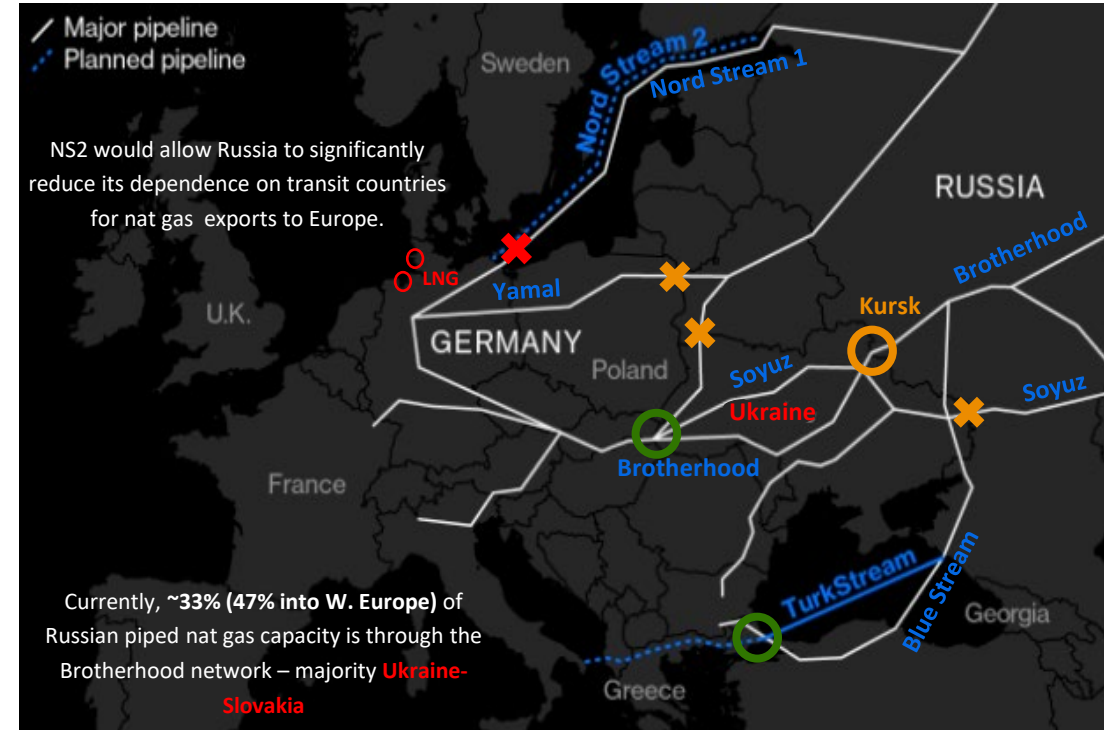
# Russia: a giant natural gas squid with wide-reaching tentacles

...Ukrainian forces are now fighting on Russian territory, increasing the vulnerability of natural gas infrastructure...

## Russian nat gas pipeline export capacity in detail (TWh/yr)



## Russian nat gas pipeline network – an overview



**Sudzha: Critical processing point for RU gas to the EU**

Summing up: Russia (Q1-22) has a pipeline Export Capacity (if fully utilized) of ~2,613 TWh.

In 2030: ~3,032 TWh (neglecting PoS expansion – 2023 and NS2 – 2022)...

...in comparison, the Russian LNG export capacity for 2022 is moderately 366 TWh... But this will be more than 2X already from 2027 at 777 TWh.

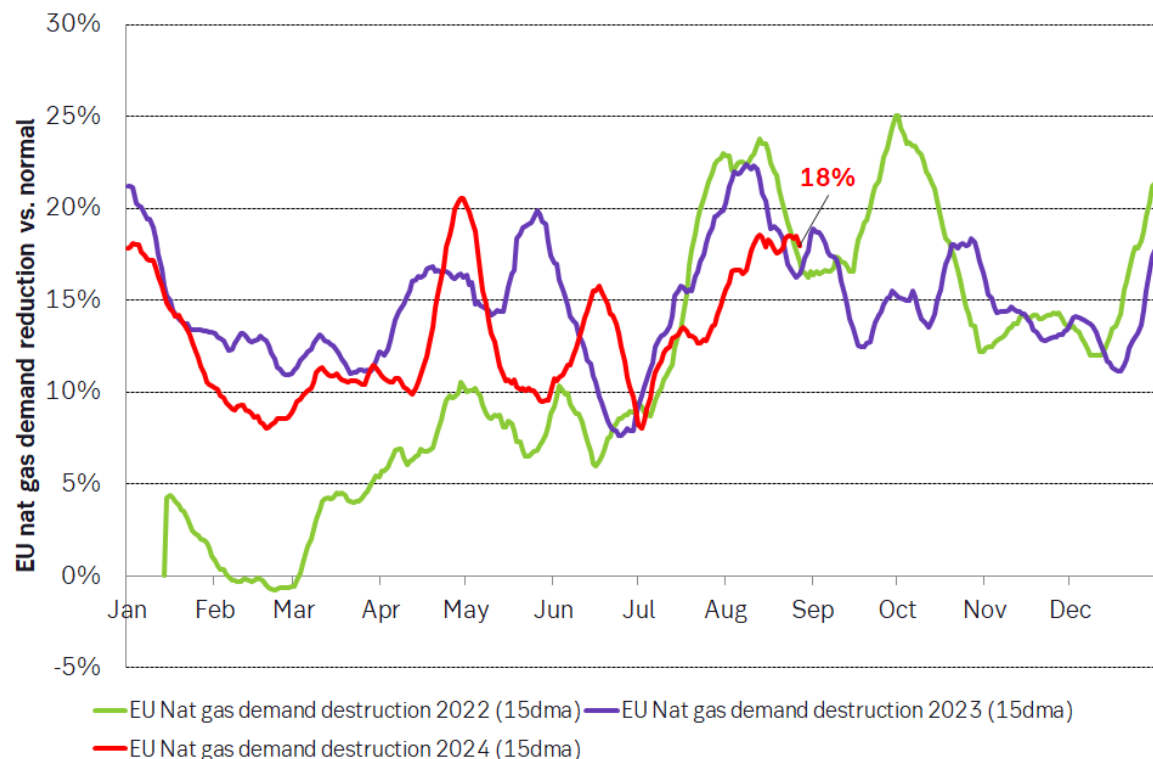
Source: SEB, Rystad Energy, Eurostat, Entso-g

Source: SEB, Agency for Cooperation of Energy Regulators, BNEF

# Demand destruction continues along with higher prices...

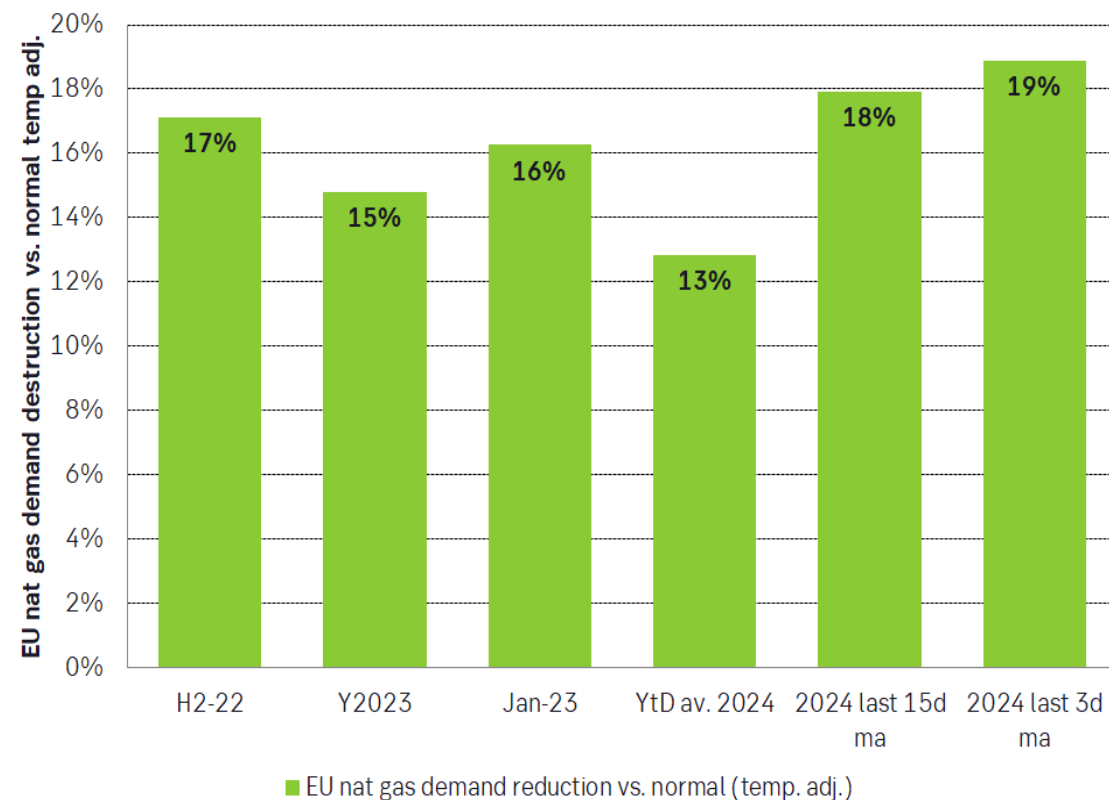
Surprisingly, strong demand destruction as a function of price... similar levels as 2022 and 2023, **currently 18%** compared to 20-25% at peak of the energy (gas) crisis...

European natural gas demand reduction vs. normal demand (in %)



Source: SEB, Bloomberg

European nat gas demand destruction vs. normal temp adj. demand (in %)

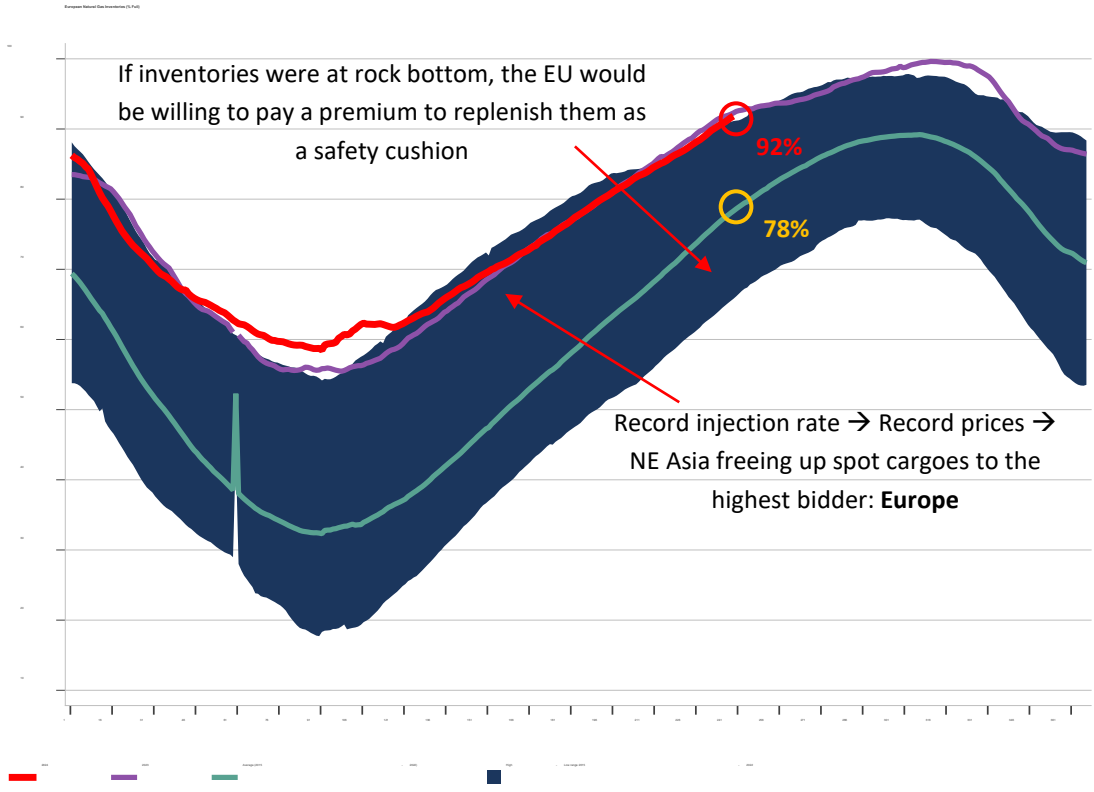


Source: SEB, Bloomberg

# Inventories outperform hist. norm (+14%!) – chasing a safety buffer

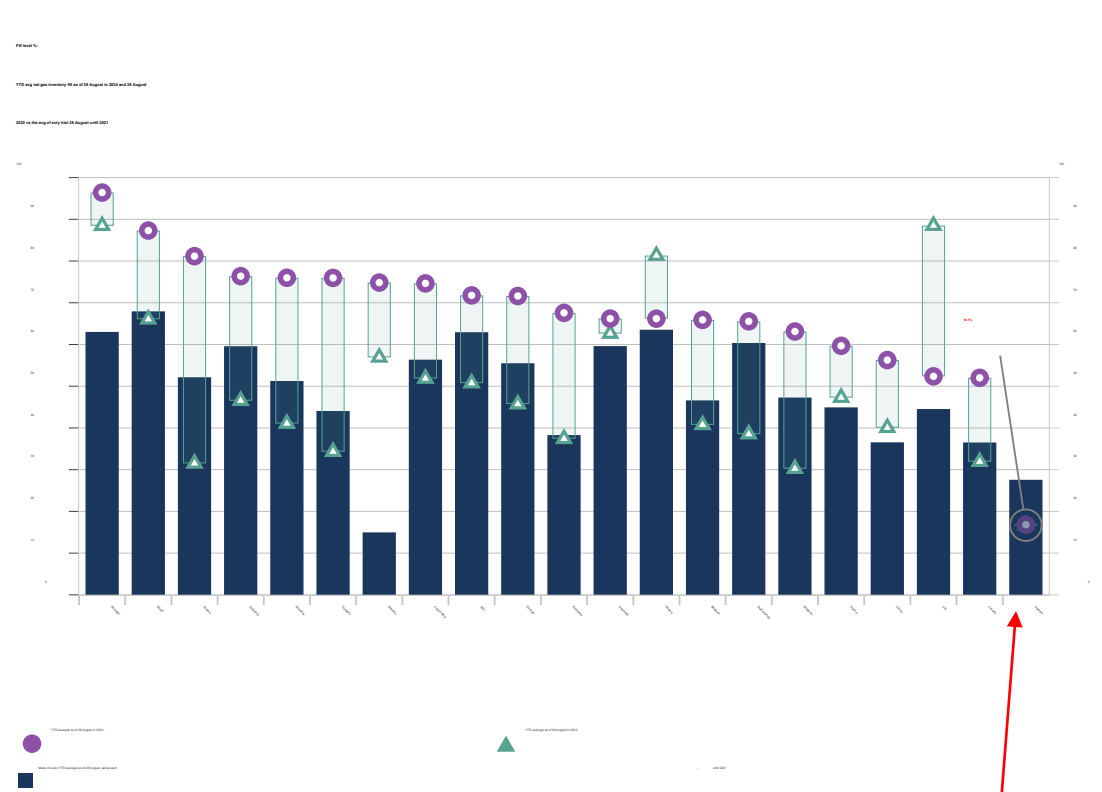
High legacy prices, mild weather and a lingering industrial recession have suppressed consumption and left the region in a new inventory path... Similar as in the power market → the market are pricing in the winter risk until you know the outcome for sure...

European nat gas inventories in %



Source: SEB, Bloomberg

Putting European natural gas inventory levels into perspective (% fill)



Source: SEB, Bloomberg, GIE

Pull back of international use of Ukrainian inventories (31 Bcm – among Europe's largest) → increased local risk



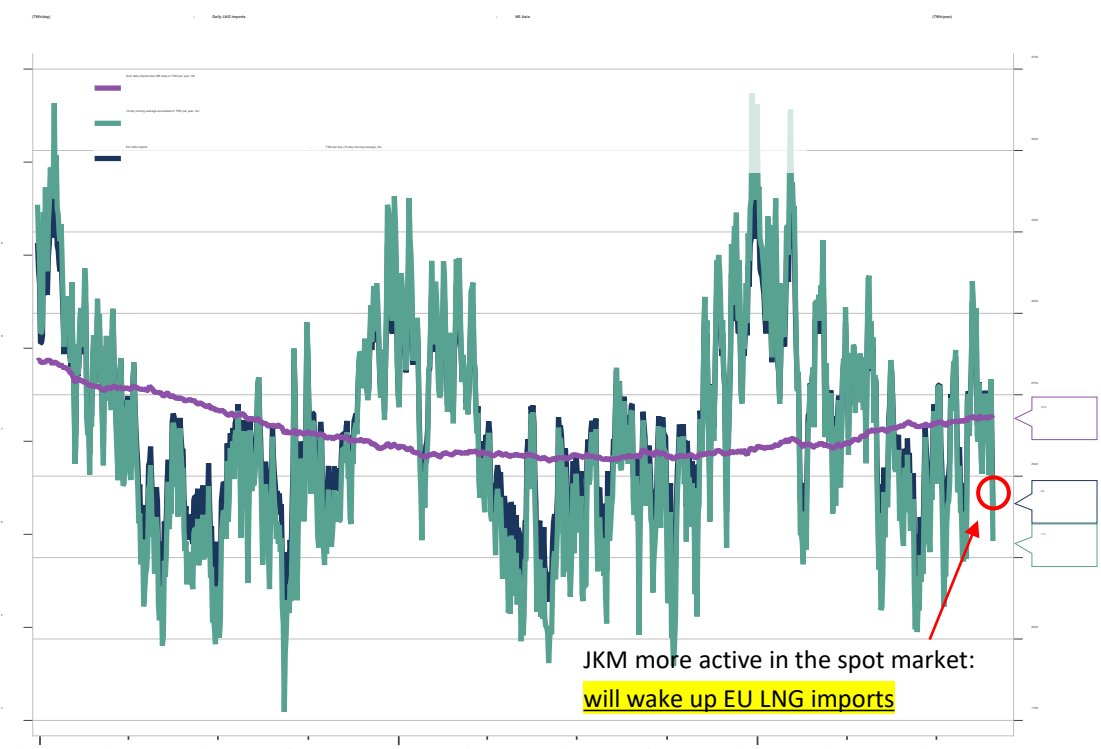
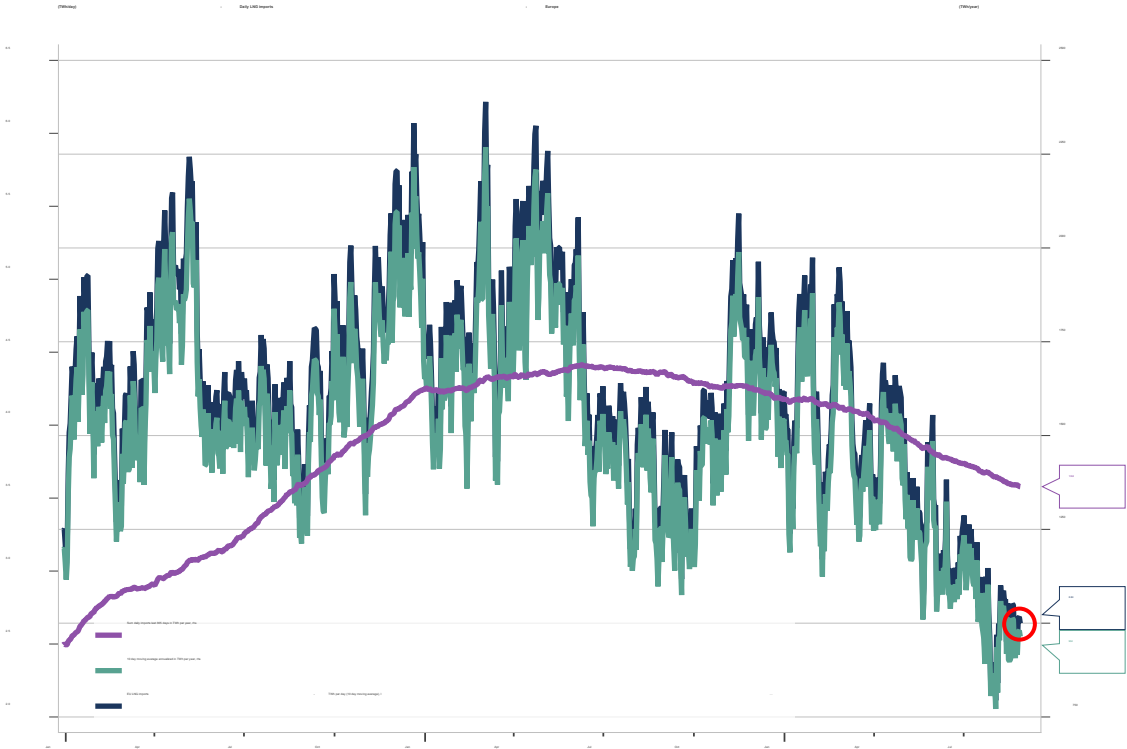
# ...JKM has mostly remained above the TTF since August'23...

i.e., a stronger pull for spot LNG cargoes towards NE Asia (esp. China)... continuous low EU demand and very strong EU inventories are key for keeping prices "low" ...

European LNG imports (TWh/day and TWh/year)

NE Asia (China, S. Korea, and Japan) LNG imports (TWh/day and TWh/year)

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...LNG has been **key for the EU**... the largest adjustment to the energy crisis. It is essentially a **Demand(Price) effect in Asia**. Price was high enough for Asia to say NO to LNG → **NE Asian comeback** is ongoing at current prices....

JKM 3-month contract above the TTF: a price spread of USD 3/MMBtu (EUR 15/MWh) is usually where US-Asia netback is stronger than US-EU... EXACTLY where winter 2024/25 are trading now...

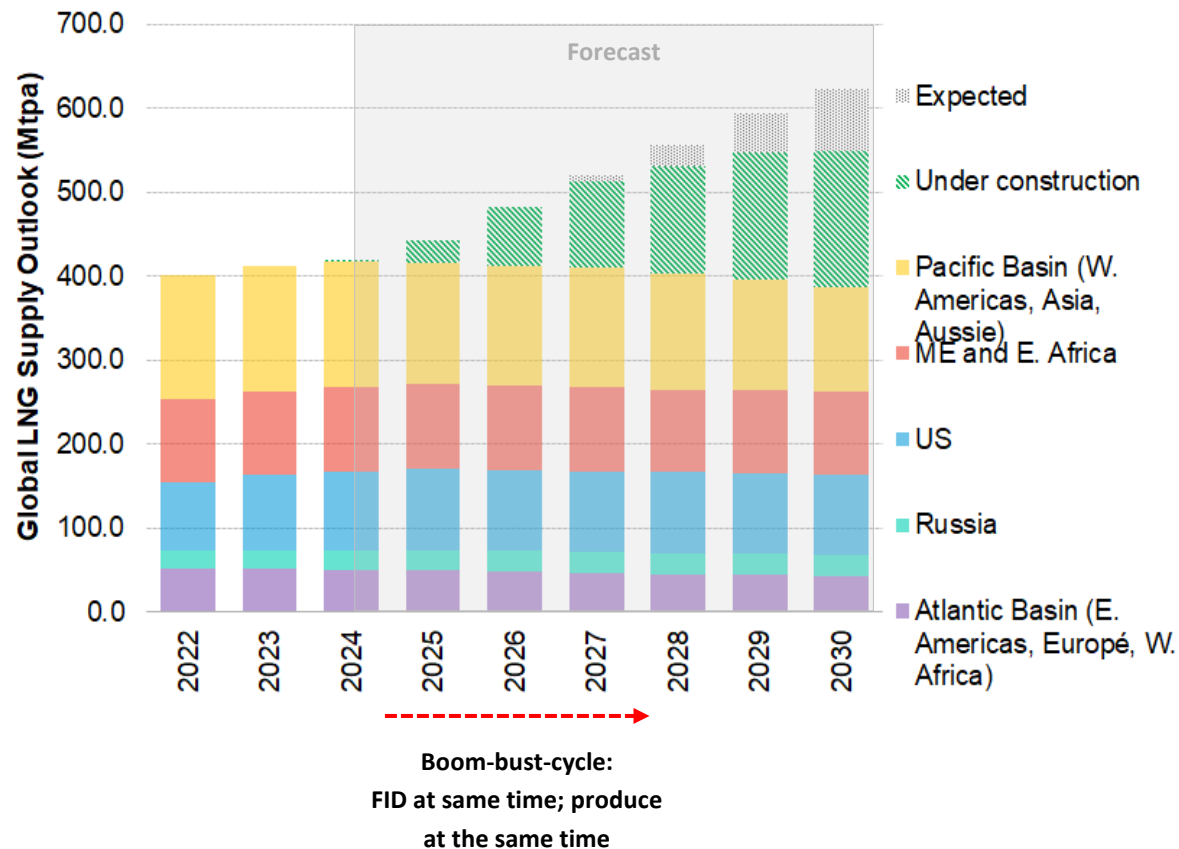
Source: SEB, Bloomberg

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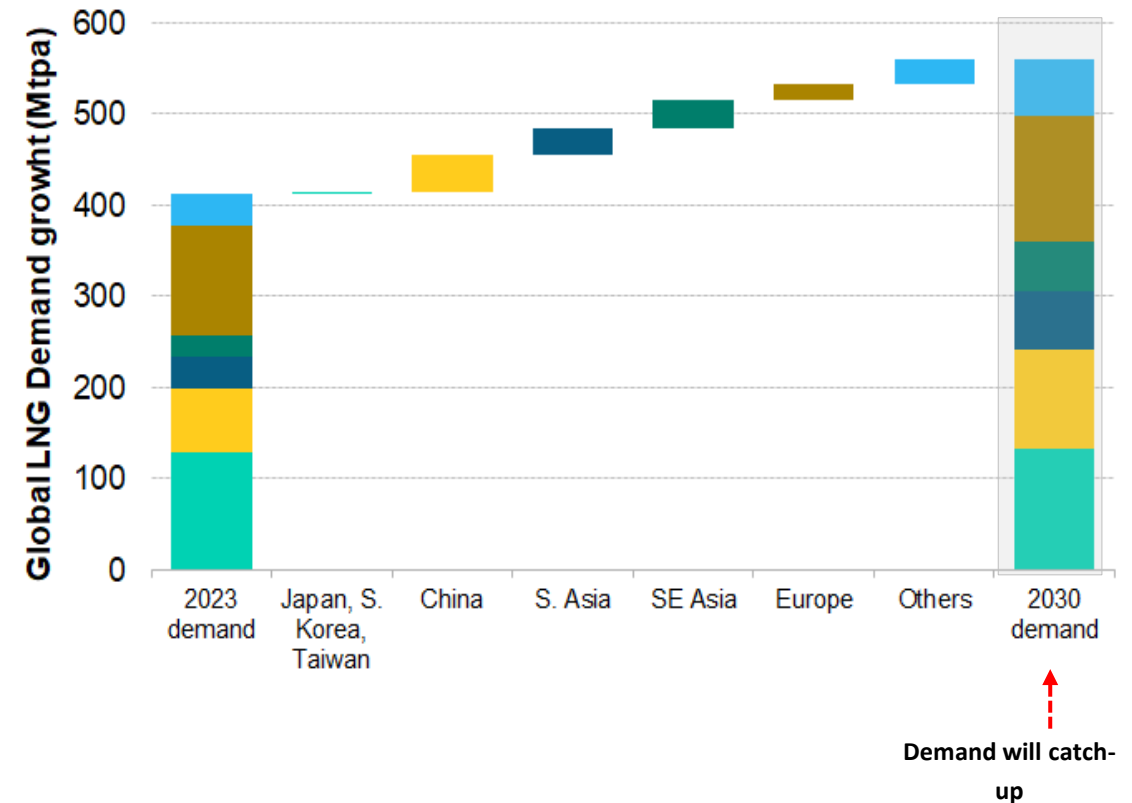
US LNG exports are likely to flourish as energy costs in the EU and the US are miles apart → strong business case of transporting energy/natural gas from the US to the EU → Yet, new LNG capacity will be delayed – pushing us into 2.5 tight years...

Global LNG supply outlook (million tonnes per annum)



Source: SEB, Rystad Energy, BNEF, AXS Trade Flows

Global LNG demand growth (million tonnes per annum)



Source: SEB, Rystad Energy, BNEF, AXS Trade Flows

# Higher for longer! – EU nat gas at EUR 30-35/MWh likely new norm...

Longer-dated prices don't seem overpriced → We have recently seen early signs of LNG export capacity delays... Yet, supply and demand will likely catch up in early 2027... a massive LNG wave are definitely coming – it's just a matter of when...

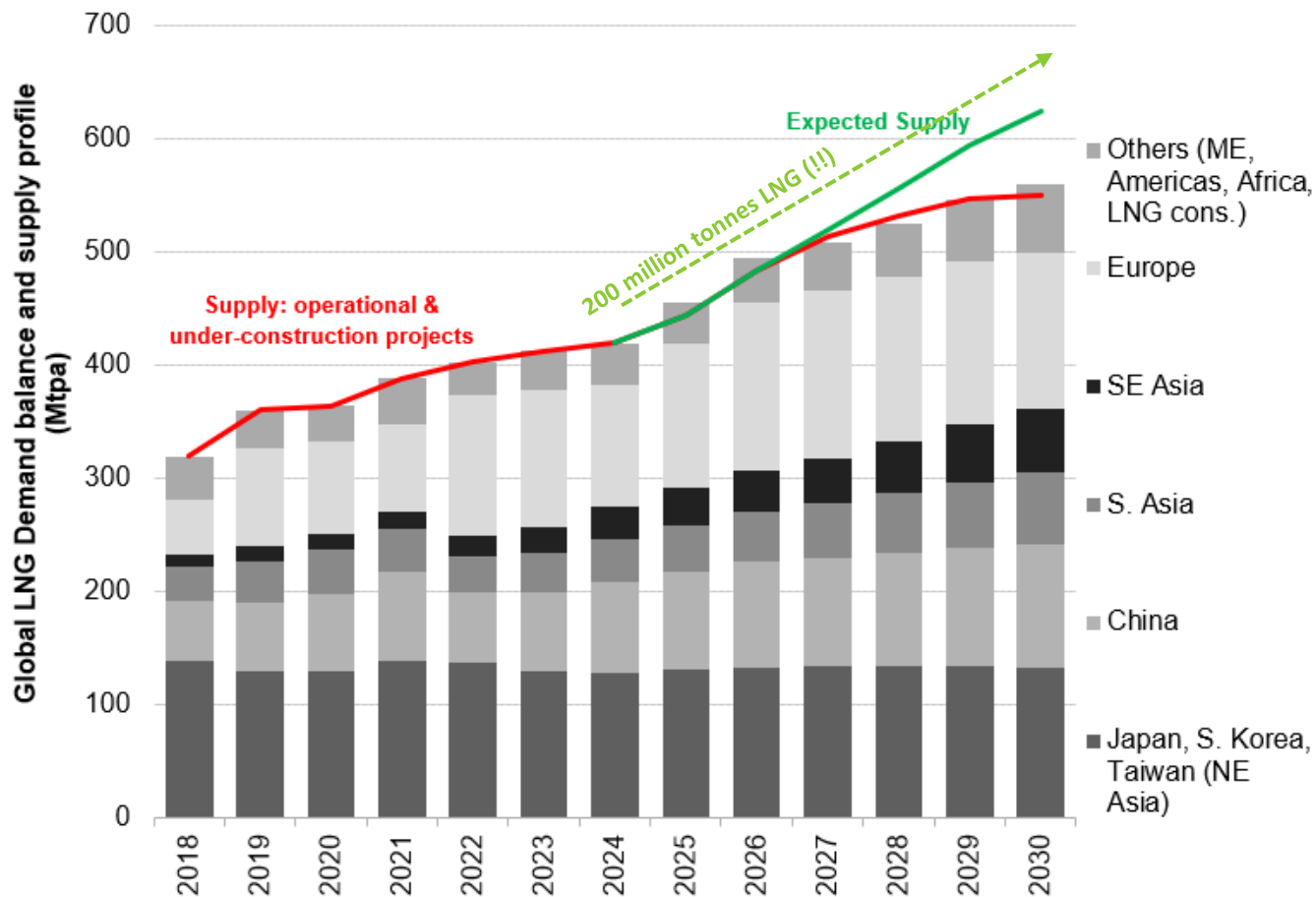
**Global LNG balance: Tight market 2025-2026 – followed by the LNG Wave**

### ST maintenance

- Damietta; Idku (Egypt)
- Freeport (Texas)
- Ras Laffan (Qatar)
- Yamal LNG (Siberia): EU block transshipment (red. 15% in H2'24)

### LT delays:

- Golden Pass (Texas): 24' to 26'
- Plaquemines I: 24' to 25'
- Artic LNG (Siberia): US sanct. and vessel availability
- Qatar LNG: pre-defined offtaker
- Rio Grande (Texas): 27' 28'... but risk of delays
  - Similar with Port Arthur and Woodfibre



- YTD: EUR 31/MWh
- Rest of year '24: EUR 35 /MWh
- 2025: EUR 38/MWh
- 2026: EUR 34/MWh
- 2027: EUR 30/MWh

Source: SEB, Rystad Energy, BNEF, AXS Trade Flows



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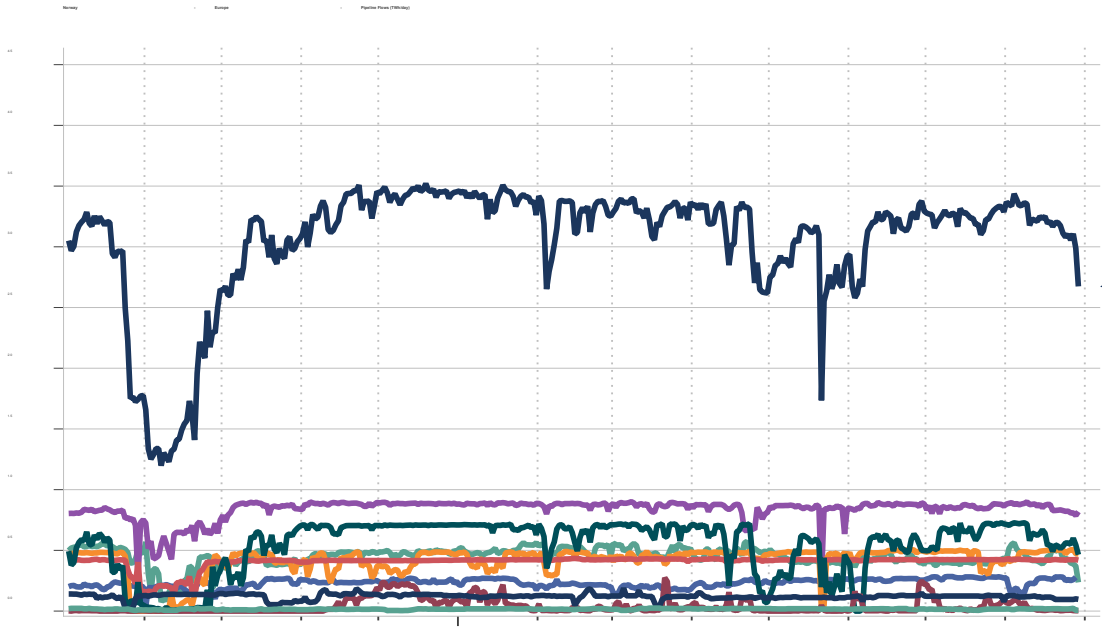
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# Maintenance at the NCS: risk of delays have heightened concerns...

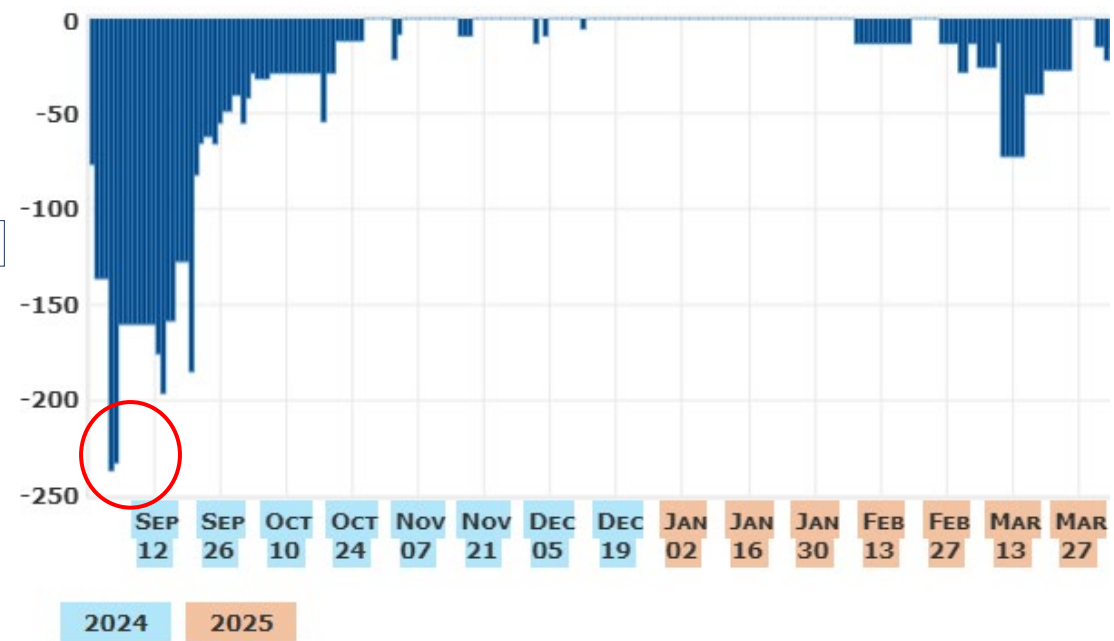
...may seem minimal and has been signaled to the market as “planned maintenance,” yet it could still impact gas supply... always a risk of longer-than-expected maintenance period in the wake of the energy crisis...

Norway – NCS → Europe Pipeline Flows (TWh/day)

NCS Maintenance Schedule – Aggregated event Fields & Proc. Plants (mcm/day)



Callout box pointing to a dip in the total flow line in late 2023.



Source: SEB, Bloomberg

Source: SEB, Bloomberg, Gassco

# Global forward prices at 0.5-0.6 X crude: was attractive buying levels...

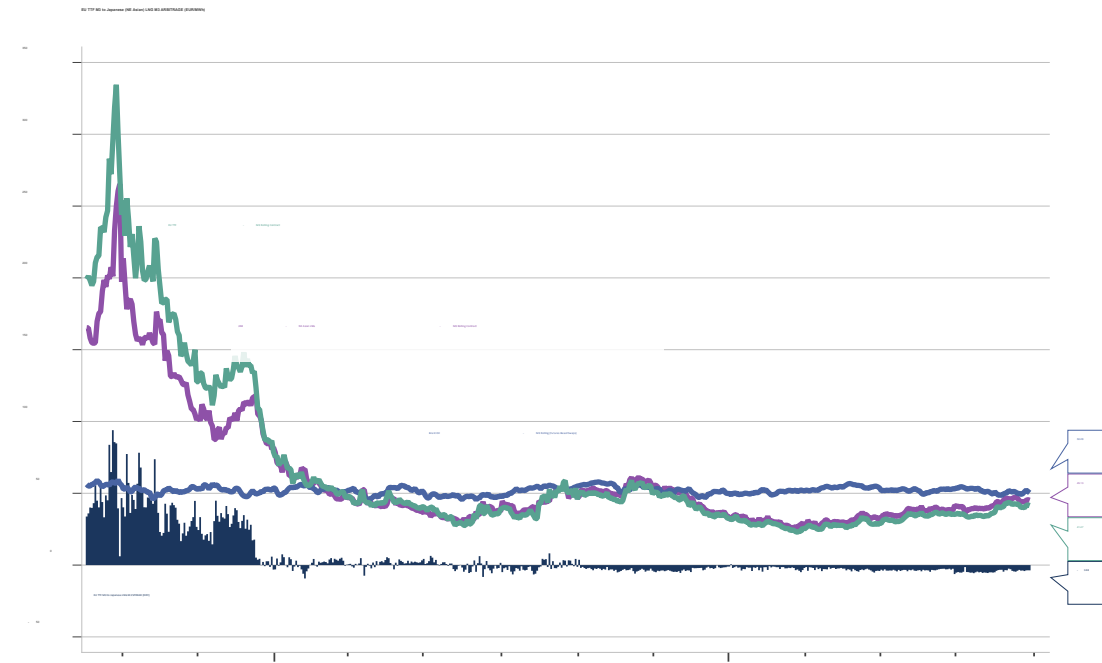
Historically, NE Asian buyers have been purchasing LNG “in parity and lower” compared to global crude...  
 Recent forward prices indicated Asian shopping spree → but highly dependent on coal demand and “ESG comeback”

EU TTF M1 to Jpn LNG Q125 ARB (EUR/MWh)



Source: SEB, Bloomberg

EU TTF M3 to Jpn LNG M3 ARB (EUR/MWh)



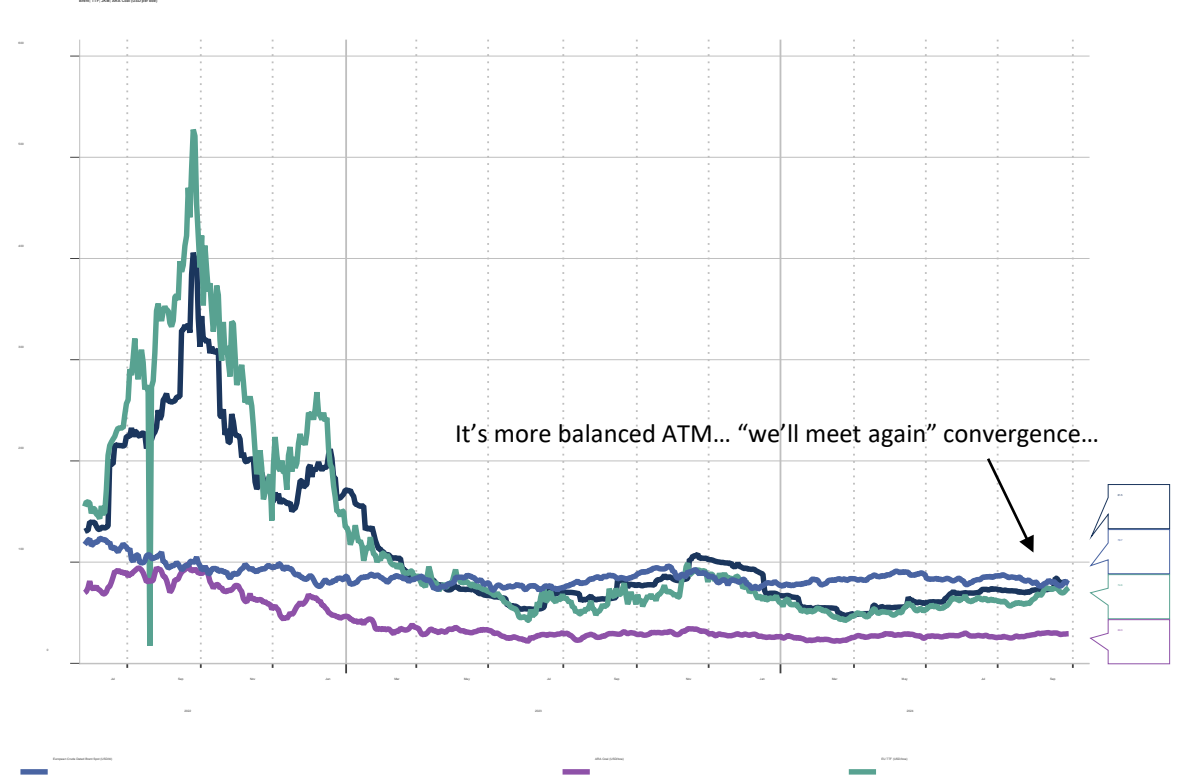
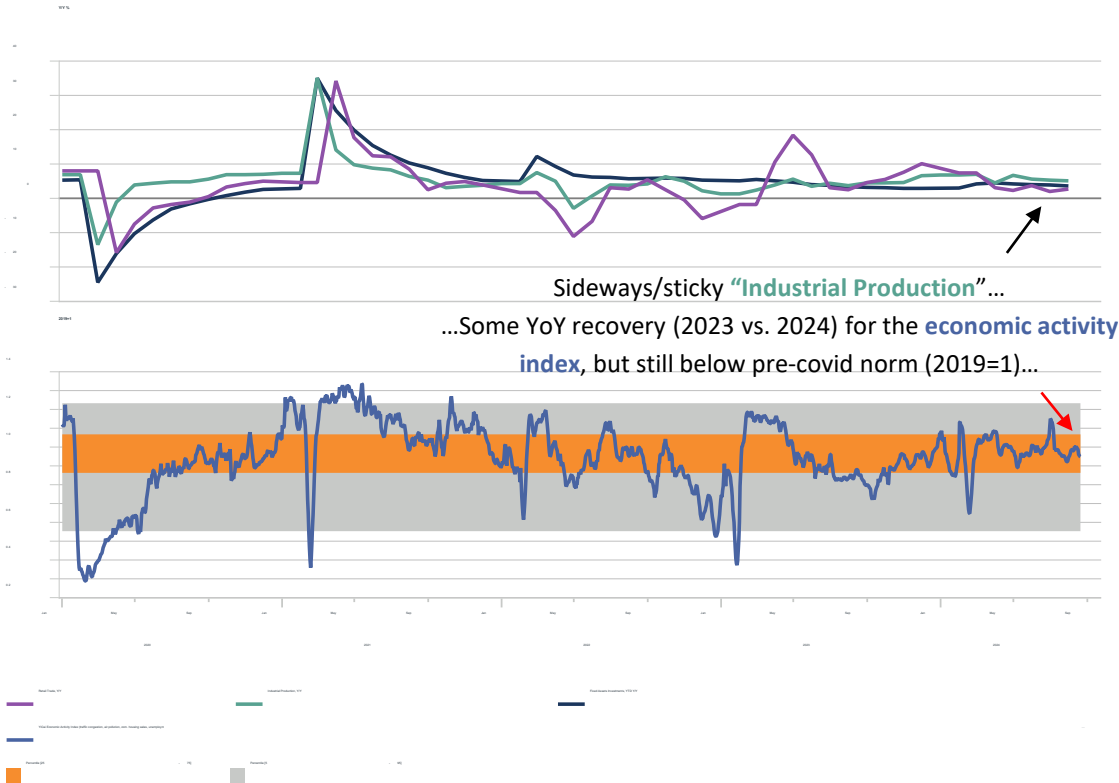
Source: SEB, Bloomberg

# China: sluggish, but NE Asia buys nat gas according to the oil price

Nat gas prices above oil was not sustainable → hence the convergence... Brent, Asian JKM and EU TTF closer to parity (towards normalization)... TTF usually/historically 0.6-0.8 of Brent (**current = 0.95...** bid up by Asia which is comfy. buying LNG in oil parity)

China's industrial/economic activity data: sluggish signs of recovery (Y/Y%)

Global energy prices (USD/boe)



Better momentum in reopening, but industrial activity remain slow:  
 currently **7% below historical normal**... Chinese govern. has shifted to growth focus, but with stricter economic control (The Chinese: careful with spending).

Source: SEB, NBS, YICAI, China's high-frequency activity daily data

Source: SEB, Bloomberg