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Asia Remains Top Buyer of US LNG in 2019

Asia looks set to remain the largest consumer of US LNG in 2019 as new US liquefaction capacity comes on line. The region soaked up 35% of a total of 319 US LNG cargoes exported in the January-August period, with South Korea taking in 48 out of the 113 Asia-bound shipments. Last week, the first trains from both the 12 million ton per year Cameron LNG in Louisiana and the 14 million ton/yr Freeport LNG terminal in Texas started up, with the first Freeport cargo expected later this month. These two projects take total US LNG liquefaction capacity to 41.2 million tons.

Persistent bearish gas and LNG prices prompted concerns that US LNG would be shut in as it has higher variable costs compared to conventional LNG plants elsewhere. But no US LNG plant owners or off-takers have publicly said they are curbing offtake or output. Plans by US LNG pioneer Cheniere to undertake “scheduled maintenance” at its Sabine Pass Train 1 and 2 in late March followed by a second shutdown for Train 3 and 4 earlier this month set off alarms that these were prompted by low spot prices. However, sources say there are several reasons why US LNG curtailment will not take place yet. First, on a cash cost basis — the cost of gas procurement and shipping costs — US LNG is still lower than spot prices. Current cash costs to ship to Asia are at \$4 per million Btu, assuming 115% of US Henry Hub price at \$2.20/MMBtu and \$1.50/MMBtu shipping costs, which is lower than *World Gas Intelligence’s* Northeast Asian spot LNG price assessment of \$4.60/MMBtu. US cash costs to Europe are at roughly \$3.20/MMBtu, assuming 60¢ shipping costs, also below WGI’s Southwest Europe assessment of \$3.50/MMBtu.

Other factors support US LNG plants remaining open. Winter LNG futures prices are currently higher than spot prices, which makes lowering volumes unnecessary as off-takers need to give an advance 60-day notice to project developers before taking any output action. Platts Japan Korean Marker January 2020 futures price is currently at roughly \$6.90/MMBtu. US LNG also benefits from the type of agreements signed by each project operator. Buyers which have signed tolling agreements with developers, such as those with Cameron LNG

and Dominion Energy’s Cove Point, can source US feed gas at less than 115% of Henry Hub, a source said. Cheniere’s customers, meanwhile, face higher sunk costs as the company has to procure US feed gas themselves. Offtakers may have also prepared for these costs by hedging their positions in advance, the source added.

Overall US LNG volumes into Asia — which includes Japan, India, Taiwan, China, Pakistan and Thailand — were stable year-on-year and are expected to remain strong despite bearish prices, analysts say. “Utility buyers like [South Korea’s] Kogas would probably need strong and sustained price incentives to start going to the trouble of redirecting contracted US cargoes in any event,” Columbia University Center on Global Energy Policy senior research associate Akos Losz says. Kogas, the world’s second-largest LNG buyer, mainly uses US LNG to meet baseload requirements rather than to trade as a portfolio player, Losz says (p2). In Japan, Cameron LNG has agreements to sell 4 million tons/yr each to Mitsui and Mitsubishi of its total capacity. Freeport has sold roughly half of its capacity to Asian buyers including Japan’s Osaka Gas and Jera and South Korea’s SK E&S. The remaining volumes are sold to portfolio players such as BP and Total, meaning they could still end up in Asia.

Meanwhile, Europe received the greatest increase of US LNG cargoes during the January-August period, taking 97 cargoes compared with only six a year earlier. Spain received the lion’s share at 21 ships, or 26% of the region’s total US LNG imports. European underground gas storage facilities are close to 90% full, partly in anticipation of a potential supply disruption if Ukraine’s Russian transit contract talks break down by end-2019 (WGI Aug.14’19). Europe’s current favorable coal-to-gas switching, high seasonal demand in Spain due to lower than anticipated hydropower levels, and supply side management through heavy maintenance at Norwegian gas fields could still help deplete storage. “Oil-linked pipeline gas contracts are also dialed back to the bare minimum to make room for cheap spot LNG,” Losz said. ■

Alexandra Chapman, London, Michael Sultan, Washington, and Clara Tan, Singapore

US LNG Exports Jan-Aug 2018 vs. Jan-Aug 2019

Imports (# of Cargoes)	2018	2019	%Chg. 2018-19
Asia	113	113	0
Europe	6	97	1,516
Americas	70	88	28
Middle East and Africa	16	21	31
Total	205	319	56

Source: Reuters Eikon Ship Tracking