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LNG in World Markets Mid-Month

Asian Spot Prices Stay Above $30/MMBtu, After Huge Swings

Asia-Pacific spot LNG prices remained above $30/MMBtu for the past two weeks on a global supply crunch. LNG production issues continue to plague the market at the same time that demand is rising with the arrival of the peak winter season. Several firms saw their credit lines stretched thin by the high prices, especially those faced with large margin calls as financial hedges on physical positions turned sharply negative. Some sellers and buyers prefer to transact on fixed prices for prompt cargoes amid price volatility, although the sellers are willing to price volumes on JKM and TTF for cargoes further out.

The Japan Korea Marker (JKM) Asian LNG benchmark – assessed at around $38/MMBtu in mid-October – has been volatile. It spiked more than $16/MMBtu intra-day to close at a record high of $56.33/MMBtu on Oct. 6, following a surge in Dutch TTF futures. This was likely triggered by exchanges forcing companies unable to meet spiraling margin calls to liquidate their hedges. At a basic level, this made players who had sold TTF as a hedge buy back their hedges, lifting the benchmark. The short-lived nature of the price spike supports this scenario, as once the hedges were covered the rally dissipated.

JKM prices dipped more than $20/MMBtu to $35.60/MMBtu the next day (Oct. 7). These price swings are believed to be the largest in JKM's history. It is unclear if any fixed price spot cargoes were sold at above $50/MMBtu. Market sources suggest it is unlikely, despite talk of a $54/MMBtu spot deal involving a Japanese firm. Recent transactions were around $35/MMBtu, including a November cargo sold by Russia's Sakhalin LNG and two October shipments that Bangladesh and Thailand each bought. Prices similarly rose back in January, when Trafigura bought a February 2021 cargo from TotalEnergies on the JKM trading window at $39.30/MMBtu.

Asian spot prices remain poised for strength through winter, although many end-user buyers have lined up cargoes for the cold season and do not appear to be in desperate positions. For market participants, key issues going forward are winter weather and failure-to-deliver risks. Unexpected cold spells and cargo defaults could cause more price spikes if utilities are forced to pay up in spot markets for prompt shipments.

Supply woes linger

Supply-side issues continue to plague several LNG plants worldwide. In the Asia-Pacific, Malaysia's 30 MMt/y Bintulu export complex has seen output dip on upstream, pipeline and plant issues especially at its two-train 7.2 MMt/y Tiga plant. Operator Petronas has asked term buyers to accept delivery deferments, but at least two are unwilling to do so. Talks are underway. Petronas was heard to have sold in September a November-loading Gladstone LNG (GLNG) cargo to Trafigura at a JKM premium (see tenders table).

Indonesia's 3.8 MMt/y Tangguh Train 2 faced technical issues at its acid gas removal unit, sources say. Exports from the two-train plant dipped to an annualized rate of around 4.5 MMt/y in September, down by nearly 20% from the previous month, and look set for a further drop in October.

Elsewhere, production issues have also been flagged at Freeport LNG in the US and the Equatorial Guinea LNG facility. There is limited supply upside this winter, with upcoming projects like Venture Global's Calcasieu Pass and Tangguh Train 3 expected to commence deliveries only later in 2022.

Russia's 9.6 MMt/y Sakhalin LNG, meanwhile, was expected to offer a strip of winter cargoes but has marketed just two November cargoes recently. Sakhalin joins Darwin LNG, Australia Pacific LNG (APLNG), Angola LNG and Egypt's Egas in offering November spot cargoes in the past two weeks. BHP and Kyushu Electric Power have also marketed North West Shelf (NWS) equity and contractual offtake. BHP's cargo is loading December while Kyushu Electric's shipment will deliver to Japan in March 2022. Kogas, meanwhile, has been heard offering a December DES cargo from Australia's Prelude LNG. The state firm has marketed Prelude volumes – whose specifications can be tricky for Northeast Asian terminals – in the past. Another Korean firm is heard to be reselling a November-December spot cargo diverted from Boryeong.

Some Australian LNG plants appear to be cancelling planned turnarounds amid lucrative spot prices. GLNG said it will take half a train's capacity (around 1.9 MMt/y) offline for 17 days from Oct. 19 to Nov. 4, instead of 34 days from Oct. 18 to Nov. 20 previously scheduled in June. APLNG, meanwhile, has scrapped plans to take half a train (around 2.3 MMt/y) offline from Oct. 5-13.

But Australia's meteorology bureau is predicting an average to slightly more intense cyclone season from November 2021 to April 2022, which could impact LNG production. There is a 62% likelihood of an above-average number of cyclones in the northwestern region, where several LNG plants are located, the bureau said, citing moderate outlook accuracy. There is a 66% chance for more cyclones than average on the east coast, although outlook accuracy is low.

Northeast Asian end-users pause buying

Asia-Pacific spot demand remains propped up by second-tier buyers and portfolio and trading firms, rather than key Northeast Asian end users. Portfolio majors and trading firms are seeking spot cargoes to cover short positions to Asia this winter. Companies like Aramco Trading, Vitol and Glencore, for instance, have delivery positions to China from November 2021 to March 2022, after being awarded cargoes in Unipec's recent winter strip tender. Thailand, Bangladesh and Singapore have also sought October-November spot volumes.

South Korea's Kogas and Taiwan's CPC have secured winter volumes via strip deals and negotiations with term suppliers. They have retreated from spot buying for now but could still need to meet winter demand further ahead. Taiwan is expected to see incrementally higher LNG demand this winter compared to a year ago, due to the decommissioning of its 985 MW Kuosheng No. 1 nuclear reactor in July. Poten forecasts Taiwan's demand to be capped at 16.5 MMt/y due to terminal capacity restrictions.

Japanese LNG inventories are comfortable heading into winter, although larger buyers and utilities with higher spot exposure were heard tentatively enquiring about winter cargoes. Tohoku Electric Power was heard to have bought six cargoes for February-November 2022 deliveries from BP at a Brent slope of

over 20%. Some Japanese utilities, however, have been selling LNG cargoes. Kansai Electric Power was heard to have some four December-January cargoes to offer. And Kyushu Electric Power possibly sold a March 2022 Japan DES cargo from NWS.

Pakistan LNG has received no offers for any of the December-January cargoes sought in its latest tender, possibly a reflection of its credit standing and tight global supply. It is unclear if it will re-tender. The country is poised for a gas and energy crisis if it fails to secure spot volumes. Pakistan LNG has increased alternative fuel oil generation and sought help from Qatar for to secure more LNG (see LNGWM, Sep '21).

Rising LNG demand in Thailand, meanwhile, means it must jostle with buyers from other countries for cargoes. State-run PTT bought two prompt October cargoes at around $35/MMBtu, possibly from Shell. The last-minute procurement may have been due to delay in government approval. PTT may have been seeking volumes to backfill its supply to EGAT. The power utility bought at least two Sep-Oct cargoes from PTT via tenders in September at around $30/MMBtu. Thailand's Energy Regulatory Commission has signaled the country will encourage buyers to sign short-term and strip LNG deals.

State-run Singapore LNG (SLNG) Corp. has joined the buying fray, seeking around two November cargoes for delivery at its 11.5 MMt/y SLNG terminal. SLNG rarely buys LNG – it is more of a terminal operator – although it has shown spot interest before. SLNG is likely seeking the LNG cargoes to enhance Singapore's energy security, by ensuring adequate LNG volumes in its storage tanks. Singapore has been affected by the global power crisis, with at least two power retailers shutting down due to higher generation fuel prices. Another two power retailers have indicated plans not to accept new customers. The city state receives term LNG via four licensed importers – Pavilion Energy, Shell, ExxonMobil and Sembcorp – but other players can import spot cargoes via a separate framework.

Credit lines stretched; controls stepped up

Second-tier Chinese buyers, European utilities and trading firms have seen credit lines evaporate, as banks tighten financing for LNG purchases after cargo values surpassed $100 million. Some firms were also near breaching their internal credit limits and must seek approval from their risk departments to start deal-making processes.

Sellers are stepping up controls for transaction processes, as they assess creditworthiness of counterparties, evaluate which firms to grant open credit and check if counterparties have problems obtaining standby letters of credit (SBLCs). Margin calls were a major reason for stretched credit lines, especially when JKM spiked to over $56/MMBtu. But the tightness eased following JKM's correction to around $35/MMBtu.

Many of the firms affected have exposure to US FOB supply, as it meant they bought volumes on Henry Hub and sold TTF and JKM on paper. Trading firms have sought to manage soaring margin calls by placing lower fixed price bids in the JKM window or managing the TTF-JKM price spread.

US FOB offtakers with winter lifting schedules have approached traders and third parties for hedging services rather than taking TTF or JKM financial exposure themselves. For a fee, third-party firms would warehouse that margin call and credit exposure on their own balance sheets.