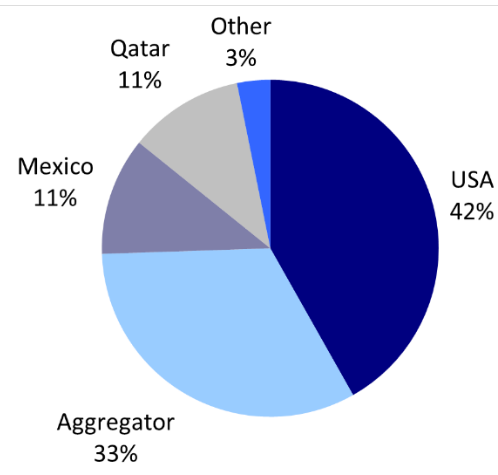
1H 2023 Contracting Pace Slows

LNG contracting activity slowed in IH 2023 after hitting record highs last year amid tight markets and price volatility following Russia's 2022 invasion of Ukraine. A total of about 36.2 MMt of sales and purchase agreements (SPAs) have been signed since the start of 2023, almost 20 MMt short of the volume signed in the same period of 2022. Tentative agreements such as head-of-agreements (HOA) and memorandums of understanding signed in 2023 so far amount to around 8.7 MMt.

Volumes from the US and Mexico represented more than half of the global total, with 42% and 11% of total SPAs signed in the first six months of 2023 respectively, as developers worked to reach final investment decisions (FIDs). These included export projects sponsored by Mexico Pacific LNG (MPL), Sempra, Venture Global and NextDecade – which took FID on Rio Grande LNG on July 12 after announcing a 5.4-MMt/y, 20- year SPA with TotalEnergies, the largest deal inked in 2023 so far.

Qatar signed a 4-MMt, 27-year contract with Chinese state-owned giant CNPC in the first half of 2023, and more Qatari volumes are expected to be sold this year as Qatar is heard to be in talks with Asian buyers, including Thailand's PTT and at least one potential Japanese offtaker.

2023 SPAs by Supplier



Contracts with a duration of 16-20 years accounted for 55% of total volumes – or almost 20 MMt of SPAs signed so far, remaining the most popular option among LNG buyers in 2023. While these longer contracts are mainly with US producers to underpin their upcoming projects, some are US volumes sold on a back-to-back basis by larger Chinese firms to manage portfolio volumes.

Poten sees an increasing preference for shorter contract tenures with smaller volumes and options for flexible shipping as traditional long-term contracts expire. Eleven short-to-medium term deals (2-10 years) have been signed so far in 2023, totaling about 7.3 MMt, which is more than double the 2022 level. These deals were mainly done by Asia-Pacific end-users and are priced as high as 23% of Brent, suggesting a preference for greater flexibility rather than a desire to lock in lower slopes to Brent over the longer term.

Increased Asia-Pacific demand

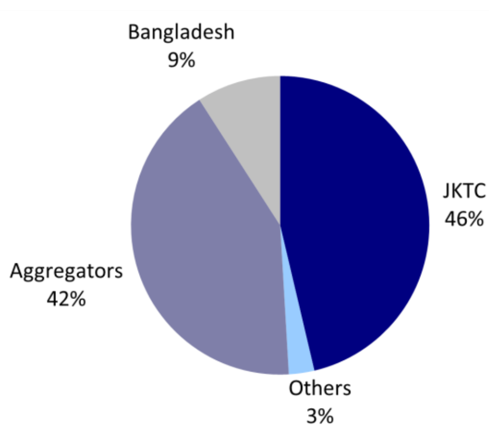
Asia-Pacific end-users showed continued interest in term supply, signing just over 20 MMt of contracts in the first half of 2023 alone, slightly short of the 23.9 MMt signed in the same period in 2022. These are buyers from key Northeast Asian and South Asian markets seeking to lock in long-term contracts amid supply security concerns. They were led by Chinese end-users at 34%, followed by Japan and Bangladesh, accounting for 9% of total volumes each. The latest signings are two non-binding HOAs by Indian Oil Corp. with TotalEnergies and Adnoc LNG.

Chinese companies signed a total of 11 contracts amounting to 12.3 MMt/y in 1H 2023, of which only two were Brent-linked, with the remainder indexed to Henry Hub (HH) or Asian spot benchmark Japan Korea Marker (JKM). This suggests that price continues to be the key factor for long-term buying as HH remains lower than Brent. Four out of the 11 contracts are back-to-back term supply deals done by Chinese state-owned Sinochem Group with second-tier Chinese buyers.

Excluding four deals that are five years or shorter, the average duration of contracts signed by Asia-Pacific offtakers was just over 17 years. While Chinese buyers generally signed deals of 10 years and above, Japanese players have been more inclined to ink shorter-term deals, with four out of six contracts done at eight years or below. Only two deals were done by Bangladesh state-owned PetroBangla – with Oman's OQ Trading and QatarEnergy Trading, with a duration of 10 and 15 years, respectively.

Aggregators – defined by Poten as companies that produce LNG as well as buy and sell production from other suppliers – have been less active in 2023 so far, signing four SPAs for about 9 MMt. These are mainly deals with US projects, though they include one signed with Adnoc LNG. MPL is also in advanced discussions to sell 2 MMt/y to a US portfolio player for its second train. While there is some buying activity from portfolio players, it appears they are now concentrated on selling after a flurry of buying activity over the past few years.

2023 Volumes by Buyer Country



Henry Hub still favored

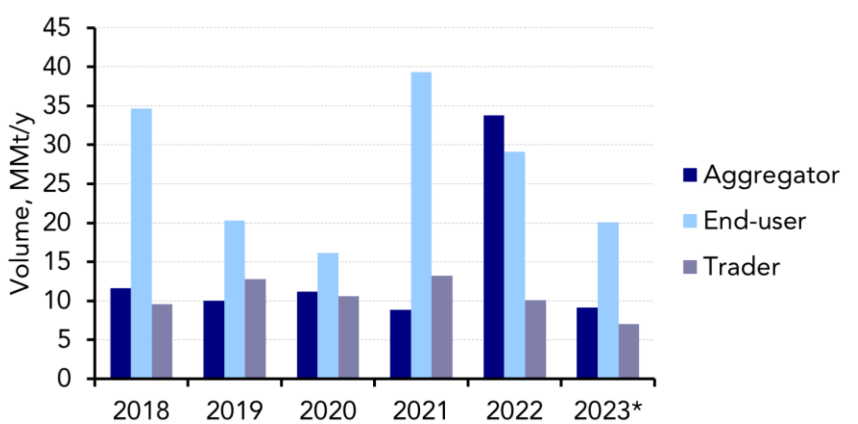
Representing 68% of total volumes transacted in the first six months of 2023, US benchmark Henry Hub continues to be the preferred pricing index, a trend that was also seen last year. This is because HH-linked offers have been lower than those for Brentlinked supply despite a rise in pricing from US sellers as they respond to higher financing and construction costs.

Out of the 20 gas-linked contracts signed, only four were against benchmarks other than HH. Two were long-term deals of 20 years or more that are split into tranches, with the first tranche tied to JKM for the first few years and the second indexed to HH for the remaining contract duration. The other two were JKM-linked contracts with durations of five years and below, for smaller volumes.

In contrast, there were 10 oil linked deals signed in the first half of 2023, which are all indexed to Brent. Except for one Qatari contract with a duration of 27 years, the remaining nine deals ranged from three to 15 years. One deal was priced under a hybrid structure, against a combination of JKM and Brent.

The Brent-linked deals ranged from around mid-12% to as high as low-20%. For HH-related deals, pricing was between 115% to 123% of the US benchmark, with liquefaction constants ranging from around $2 for free-on board and high-$4s for delivered ex-ship.

2023 Volumes by Buyer Type



More activity expected

At present, long-term growth is concentrated in Asia, with key Northeast Asian and emerging markets still seeking term supply. European buyers remain reluctant to commit to long term contracts and may be exposed to price volatility as they turn to the spot market or mid-term contracts to replace Russian pipeline gas supply.

While European gas storage levels are healthy, a cold winter could deplete inventories quickly and may be unable to support heating requirements without Russian gas. As a result, global competition for LNG during this high-demand season remains a concern.

The US and Qatar are expected to remain the largest suppliers of LNG in the second half of 2023, as they seek to sign contracts for projects and expansions expected to come online in 2026/2027.

2023 Contract Pricing by Volume