News : US gas prices to be increasingly linked to international markets through LNG

By Killian Staines
Published on - Thu, 28 Mar 2024 14:33:09 EST | Modified on - Thu, 28 Mar 2024 16:58:02 EST

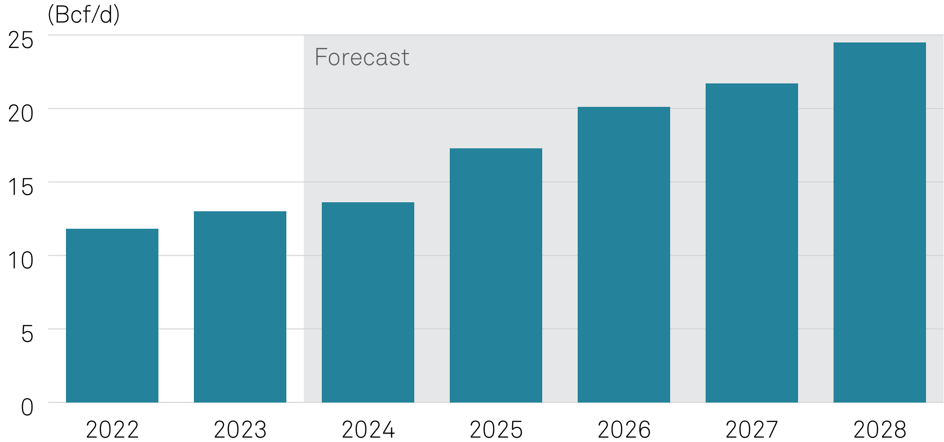
- US to be world's 'swing supplier' of LNG
- 'Staggering' amounts of gas storage needed

Rising LNG export capacity will make the US gas market increasingly sensitive to global gas prices if spreads tighten, but strong international demand should generally keep utilization rates high at US terminals, market analysts said March 27.

S&P Global analysts forecast US LNG feedgas demand will rise to almost 25 Bcf/d by 2028, up by about 90% from 2023 levels.

"Once these facilities ramp it will be 20% of US production going to exports," said Zack Van Everen, director for infrastructure research at investment bank Tudor Pickering Holt, at Hart Energy's DUG GAS+ Conference & Exhibition 2024. "We think we really are going to be really tied to the international market even with the 20% exposure just because there is a lot of flexibility with all the SPAs [sales and purchase agreements]."

US LNG feedgas demand



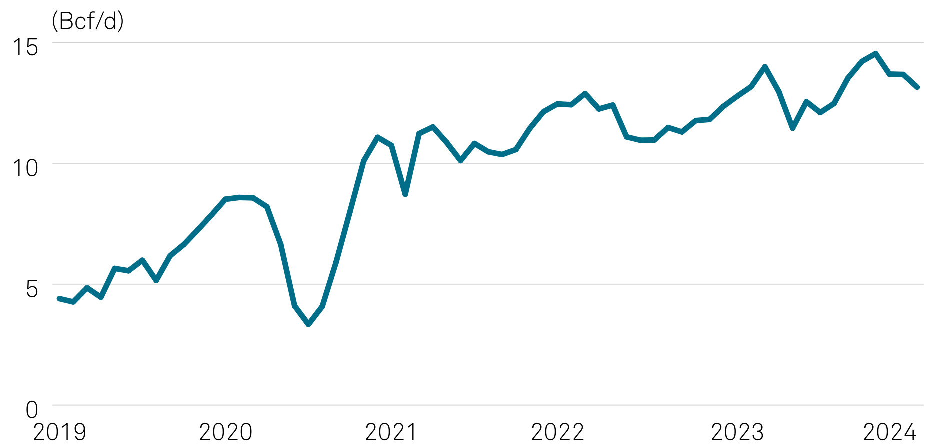
Source: S&P Global Commodity Insights

If the spread between Henry Hub and global markets tightens, cargoes can be cancelled and gas sold back to the US market, weighing on domestic prices, Van Everen said. "What will happen then is it will flood the market; Henry Hub will come back down, and the spread will widen back out."

Enkon Energy Advisors expects high utilization rates of US LNG facilities to continue thanks to "strength in the international market," founder Amol Wayangankar said at the same panel. "In our crystal ball, at least, the arbs stay open."

But if international prices do fall, the US has the unique ability to balance the global market thanks to its deep domestic market and flexible SPAs, Wayangankar said, noting the US was the only supplier that had a dip in exports during 2020, when the coronavirus pandemic caused global prices to crash.

US LNG feedgas demand



Source: S&P Global Commodity Insights

The 2020 experience "tells you that the US will act like a swing supplier when it's absolutely needed, especially at times of a global glut of LNG," Wayangankar said. "But most of the time, when that glut is not there, the gas can clear with a lot of margin to spare."

Gas storage needs

Rising LNG feedgas demand will contribute to price volatility as the limited amount of US gas storage added in the past decade catches up on the market, speakers at the conference said.

The US built very little storage in the past 12 years, but demand is increasing in recent years as power demand becomes increasingly variable, and as LNG capacity increases.

“I firmly believe that we’re going to continue to see volatility” because of insufficient storage capacity additions, said Mike Winsor, CEO of private producer Paloma Natural Gas, at a March 28 panel. “We’re seeing it today.”

“The numbers are staggering,” Wayangankar said. By 2028, “we need about 250 Bcf more storage… We are nowhere close to that. We have 100 Bcf that’s under development right now.”

LNG terminals are not “looking at the intrinsic and the extrinsic value on the forward curve,” Wayangankar said. “From their perspective, storage is more of an insurance policy” for when a train, or even an entire facility, goes offline and needs to quickly “find a home for that gas.”

Many midstream firms, including Enbridge, Kinder Morgan, Enlink and Enstor are focusing on brownfield storage expansions for now. But some greenfield projects are being developed, including the Trinity Gas Storage and FRESSH projects in Texas.