A recent surge in LNG send-out into gas grids from European terminals has coincided with the greatest level of convergence among key global gas prices for at least six years, ICIS analysis shows.

ICIS has measured global gas price convergence based on the coefficient of variation of ICIS’ US dollar front-month price assessments of the Dutch TTF, the Japanese delivered ex-ship (DES) LNG price, the Brazil DES LNG price and NYMEX Henry Hub futures settlements.

The results show that these four global gas prices have increasingly converged since 2012, with the level of price variance sinking to as low as 19% in mid-May and an average of 22% across the whole month. Global prices have not been assessed in such a narrow range since before the Fukushima nuclear disaster in 2011.

The current strong convergence of global gas prices is largely due to a tightening spread to the US Henry Hub, as key Asian and South American LNG prices have often aligned closely with European hubs for brief periods of time in the past three years.

The narrowing spread between global gas prices and the Henry Hub is a reflection of the new reality of US LNG exports. The first project to come online – Sabine Pass in Louisiana – reached final investment decision (FID) in July 2012 and exported its first commissioning cargo in February 2016. US cargoes have since been exported to 23 different countries.

This has been a key driver of global gas price convergence in the past five years and the spread may yet shrink further as US export capacity continues to build in the coming years.

The spread between the NYMEX Henry Hub front month and ICIS US dollar TTF assessment has fallen by 8% since the first Sabine Pass commissioning cargo and has the potential to sink further, in line with the variable cost of shipping US LNG to Europe.

Companies who have contracted the right to lift LNG cargoes out of the US will have to pay a fixed tolling fee on top of feedgas and transportation costs. The spread between global gas prices and the Henry Hub could fall below this full cost however – without shutting US LNG in – if the fixed tolling element is considered a sunk cost.

LNG send-out
Particularly high price convergence since March 2017 has coincided with strong send-out of regasified LNG from European terminals.

Europe can provide the global LNG market with flexible supply options via re-exported LNG, but with prices tightly converged, reloads have been few and far between in recent months and send-out from terminals to the European network has been close to a five-year high.

According to LNG Edge data, just one European reload was lifted between March-May 2017, down from six in January, two in February and 10 between March-May 2016.

Aggregate send-out rose by 47% month on month to 4.3 billion cubic metres (bcm) in March 2017 before edging higher again in April and May. Since March, send-out from European terminals has been around 2bcm/month greater than the same months of 2016.

Global gas price convergence has eased since mid-May however, due to a modest recovery in Asian and South American LNG prices and continued bearishness at the TTF and Henry Hub.

This could support a recovery in European reload activity if the trend continues. France’s Montoir terminal performed Europe’s first reload for two months on 26 June, according to LNG Edge, and a laden vessel is due to depart Gate in the Netherlands imminently.

**LNG in Europe’s supply mix**

The recent dearth of reload options has seen LNG send-out account for around 11% of the European supply mix since March, up from an average of 9% this time last year and through 2016 as a whole.

Pipeline imports have accounted for nearly two thirds of European supply since March, up one percentage point on the same three month of 2016. Domestic production across Europe has accounted for just over 23% of the mix, down from nearly 26% last year.

Aggregate supply from production, pipeline imports and LNG send-out totalled 347bcm between March-May 2017, up from 335bcm in the same months of 2016.

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