



US LNG Exporters Taking Advantage of Improved Fundamentals

February 2, 2021

Author: Michael Laitkep

Summary

- In January, a polar vortex in Asia and Europe drove LNG prices to record highs as demand for heating and power generation jumped considerably.
- As prices have improved and demand has picked up, US exports have rebounded from a two-year low in July to a record high of 9.8 Bcf/d in December, as estimated by the US Energy Information Administration (EIA).
- An improvement in LNG fundamentals has resulted in some optimism for current US LNG exporters and those developing new projects.

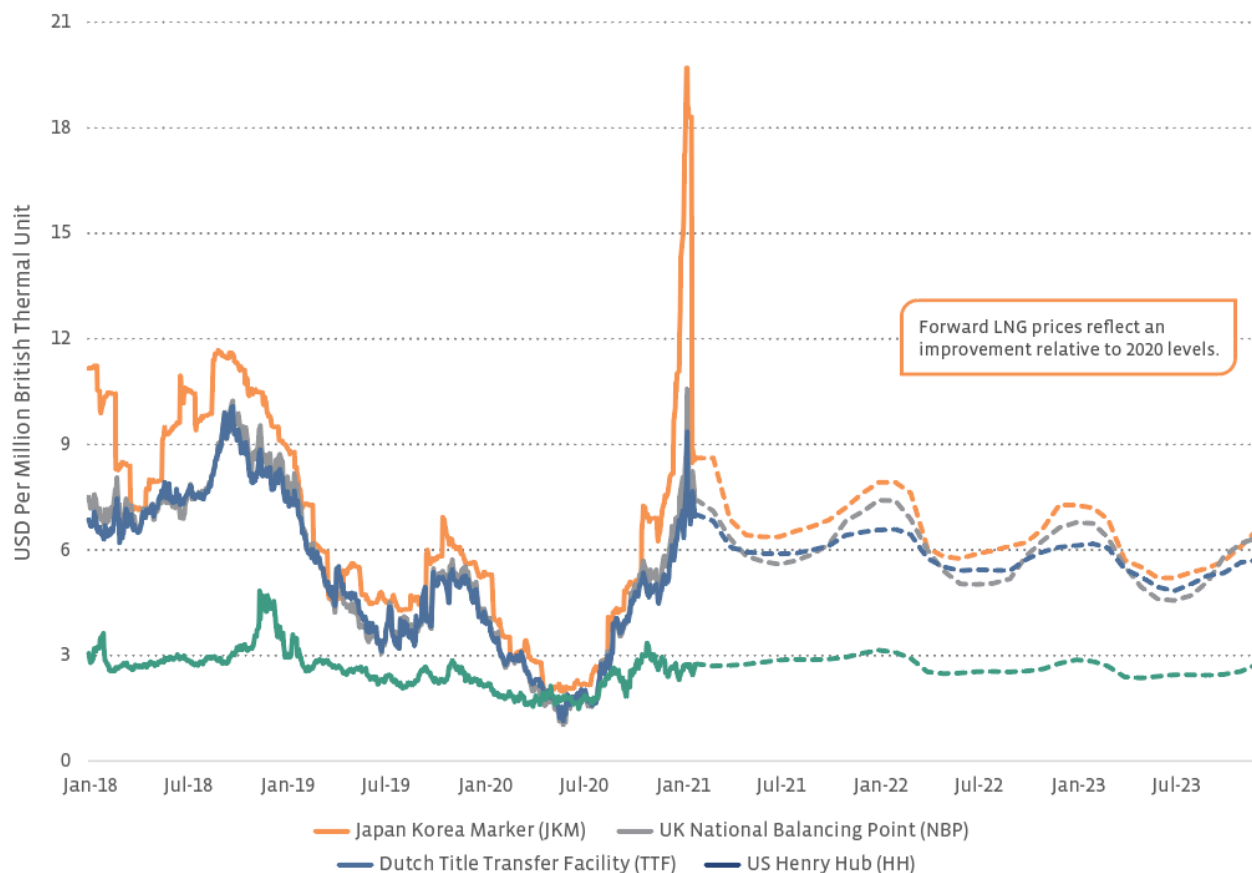
The market for liquefied natural gas (LNG) has improved dramatically in recent months with positive implications for US LNG exporters. Global LNG prices soared in response to a cold snap in Asia and Europe and supply outages that resulted in a tighter market for spot cargoes. Higher prices have contributed to record export levels from the US over the last few months, and would-be exporters are hopeful that recovering demand will benefit projects under development. This note provides a broad update on the macro environment for LNG and where US export projects stand in 2021.

LNG prices rally on supply interruptions and frigid weather in Asia and Europe.

The struggles for the LNG market entering 2020 continued for much of the year given significant macro headwinds. A general oversupply of natural gas globally and weak demand contributed to significantly lower prices, even after starting the year from a relatively low base as winter 2019-2020 proved mostly mild. The COVID-19 pandemic worsened the pain for US exporters as the prices of major benchmarks in Europe and Asia declined significantly and traded in a tight range with prices at Henry Hub in the US. During the spring and summer, Asian LNG benchmark Japan Korea Marker (JKM) and European benchmarks UK National Balancing Point (NBP) and Dutch Title Transfer Facility (TTF) declined to historic lows at or below \$2 per million British thermal unit (MMBtu), with the gas price at Henry Hub even briefly overtaking prices in Europe and Asia. In combination with other factors, many US shipments became uneconomic during the height of the pandemic.

In recent months, however, LNG prices have improved significantly and provided a boost for US exporters. From June through the end of 2020, European and Asian prices largely moved in lockstep upward as mobility restrictions began to ease with (temporarily) lower case levels of COVID-19. Higher LNG prices may also have been driven by supply interruptions in countries such as Malaysia at the Bintulu LNG facility, Australia due to longer-than-expected downtime at [Chevron's \(CVX\) Gorgon LNG](#) facility, and in the US due to a [busy hurricane season](#) on the Gulf Coast. These outages likely reduced the availability of contracted volumes relative to expectations. By October 23, JKM had risen to \$7.25/MMBtu, while TTF increased to \$5.35/MMBtu – the highest level for TTF since October 2019 and the highest price for JKM since February 2019. Prices in Europe and Asia continued to gain steam in November and December, but US prices at Henry Hub were largely rangebound with a brief increase above \$3/MMBtu in November. The increase in price spreads between US and international prices has helped to drive a recovery in US exports, which will be discussed more on the following pages.

LNG Prices Grind Higher in Recent Months, JKM Briefly Spikes on Cold Weather



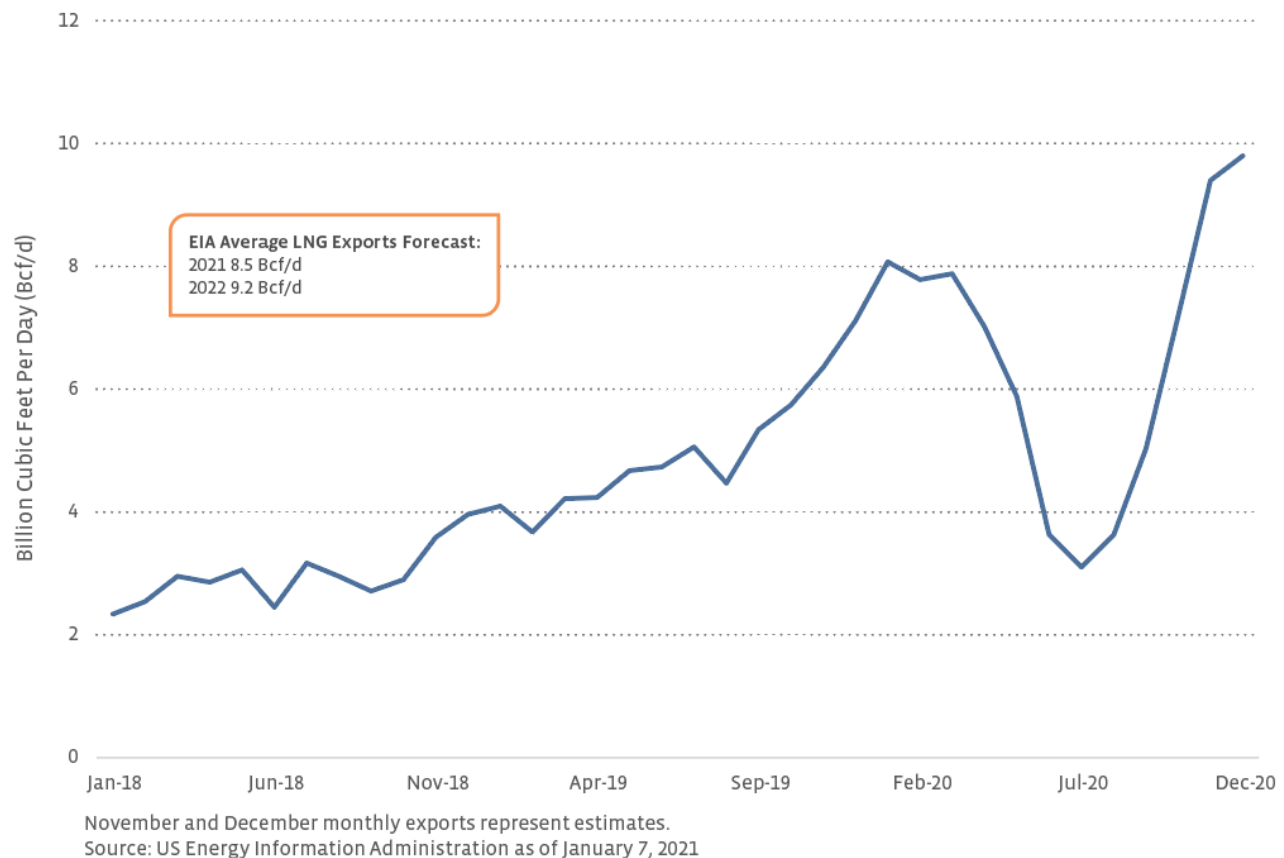
Source: Refinitiv Eikon as of January 27, 2021

In January, a [polar vortex](#) in Asia and Europe [drove](#) prices to record highs as demand for heating and power generation jumped considerably. The rapid increase in demand exacerbated existing supply issues and tightened the market for spot cargoes, contributing to temporarily high prices. Refinitiv Eikon reported a record high closing front month price for JKM of \$19.70/MMBtu on January 12, with TTF also rising substantially to \$9.35/MMBtu on the same day. As of January 27, JKM has averaged \$15.17/MMBtu in January following an average price of \$9.27/MMBtu in December, both the highest levels since 2018. Forward prices have come off the record highs seen earlier this month but indicate some support for improved pricing going forward relative to 2020, with expected price spreads likely to continue to benefit US exporters.

US LNG exports rise to record highs at the end of 2020.

While LNG markets were challenged for much of 2020, the strong recovery in the fourth quarter drove a significant rebound in US LNG exports. The chart on the following page plots monthly exports from January 2018 through December 2020. Keep in mind that LNG export capacity from the US [increased](#) by 3.3 Bcf/d in 2019 and by 2.7 Bcf/d in 2020, helping drive the steady increase up until 2020 ([read more](#)). In the wake of the pandemic, exports fell precipitously from 8.1 Bcf/d in January 2020 to 3.1 Bcf/d in July at the trough. Amid a depressed pricing environment, many buyers opted to cancel or defer dozens of US LNG cargoes over the summer, and LNG cargo cancellations [crested](#) in the summer at an estimated 45-50 in each month from June to August. Despite this wave of cancellations, some exporters, such as [Cheniere Energy](#) (LNG), were able to collect a fixed fee with the option to resell the canceled volumes in the market. Despite the difficulties facing US LNG exporters, contract protections have been on full display in steady guidance. [Cheniere](#) (LNG) has [held](#) its 2020 EBITDA guidance steady at \$3.95 billion and is guiding to 2.5% EBITDA growth in 2021. Meanwhile, [Cheniere Energy Partners](#) (CQP) [delivered](#) on its 2020 distribution expectations by declaring total distributions of \$2.59 per unit for 2020 and is guiding to 2.3% distribution per unit growth at the midpoint for 2021 year-over-year.

US LNG Exports Have Rebounded to Record Highs in Recent Months



As prices have improved and demand has picked up, US exports have rebounded from a two-year low in July to [set consecutive record highs](#) of 9.4 Bcf/d in November and 9.8 Bcf/d in December, as estimated by the US Energy Information Administration (EIA). Utilization of US LNG export capacity was elevated at an estimated 91% in December, with exporters [shipping](#) a record 89 cargoes. The EIA [projects](#) that exports will average a robust 8.5 Bcf/d in 2021 (including expectations for volumes to remain near record levels of 9.5 Bcf/d in 1Q21) and 9.2 Bcf/d in 2022. These projections are emblematic of a more constructive outlook for US exports moving forward as the global economy gradually recovers from COVID-19 and the long-term thesis for LNG demand abroad remains intact.

LNG projects continue to progress as macro headwinds have subsided somewhat.

With several major liquefaction projects in the works, midstream LNG companies have been focused on execution and development. In mid-December, Cheniere [shipped](#) its first commissioning cargo from Train 3 at its Corpus Christi LNG facility. The company expects to reach substantial completion on the project ahead of schedule in 1Q21 compared to its prior target of 1H21. Similarly, CEO Mike Sabel of private operator Venture Global [noted](#) in December that the company is running ahead of schedule on the construction of Calcasieu Pass LNG, with six of 18 production units expected in place by mid-February and commercial operations targeted for 2022. The first phase of Venture Global's second facility, Plaquemines LNG, is expected to be fully contracted by the end of June with a final investment decision (FID) still expected in 2021. [Tellurian](#) (TELL) CEO Charif Souki [said in January](#) that the company hopes to begin construction on Driftwood LNG this summer and noted customer interest had increased significantly over the prior month. Through January 28, TELL has risen by more than 120% year-to-date, with gains likely driven by optimism around improved LNG fundamentals and updates surrounding Driftwood. [NextDecade](#) (NEXT) is also [maintaining](#) its 2021 [target](#) for FID on Rio Grande LNG for a minimum of two trains with commercial discussions ongoing.

Bottom Line

An improvement in LNG fundamentals has resulted in optimism for current US LNG exporters and those developing projects, and management teams are seeking to take advantage of subsiding headwinds to move projects toward the finish line. With global natural gas demand [expected](#) to rise 30% by 2040 in one International Energy Agency projection from October 2020, US exporters are helping to connect domestic natural gas production with growing gas demand abroad.

// Disclaimers

This Document Is Impersonal and Not a Solicitation. In jurisdictions where Alerian, S-Network Global Indexes, or their affiliates do not have the necessary licenses, this document does not constitute an offering of any security, product, or service. Alerian and S-Network Global Indexes receive compensation in connection with licensing its indices to third parties. All information provided by Alerian and S-Network Global Indexes in this document is impersonal and not customized to the specific needs of any entity, person, or group of persons. Alerian, S-Network Global Indexes, and their affiliates do not endorse, manage, promote, sell, or sponsor any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return linked to or based on the returns of any Alerian or S-Network Global Indexes index.

No Advisory Relationship. Alerian and S-Network Global Indexes are not investment advisors, and Alerian, S-Network Global Indexes, and their affiliates make no representation regarding the advisability of investing in any investment fund or other vehicle. This document should not be construed to provide advice of any kind, including, but not limited to, tax and legal.

You Must Make Your Own Investment Decision. It is not possible to invest directly in an index. Index performance does not reflect the deduction of any fees or expenses. Past performance is not a guarantee of future returns. You should not make a decision to invest in any investment fund or other vehicle based on the statements set forth in this document, and are advised to make an investment in any investment fund or other vehicle only after carefully evaluating the risks associated with investment in the investment fund, as detailed in the offering memorandum or similar document prepared by or on behalf of the issuer. This document does not contain, and does not purport to contain, the level of detail necessary to give sufficient basis to an investment decision. The addition, removal, or inclusion of a security in any Alerian or S-Network Global Indexes index is not a recommendation to buy, sell, or hold that security, nor is it investment advice.

No Warranties. The accuracy and/or completeness of any Alerian or S-Network Global Indexes index, any data included therein, or any data from which it is based is not guaranteed by Alerian or S-Network Global Indexes, and it shall have no liability for any errors, omissions, or interruptions therein. Alerian and S-Network Global Indexes make no warranties, express or implied, as to results to be obtained from use of information provided by Alerian and S-Network Global Indexes and used in this service, and Alerian and S-Network Global Indexes expressly disclaim all warranties of suitability with respect thereto.

Limitation of Liability. While Alerian and S-Network Global Indexes believe that the information provided in this document is reliable, Alerian and S-Network Global Indexes shall not be liable for any claims or losses of any nature in connection with the use of the information in this document, including but not limited to, lost profits or punitive or consequential damages, even if Alerian and S-Network Global Indexes have been advised of the possibility of same.

Research May Not Be Current. This document has been prepared solely for informational purposes based on information generally available to the public from sources believed to be reliable. Alerian and S-Network Global Indexes make no representation as to the accuracy or completeness of this document, the content of which may change without notice. Alerian and S-Network Global Indexes expressly disclaim any obligation to update the contents of this document to reflect developments in the energy Master Limited Partnership sector. The methodology involves rebalancings and maintenance of indices that are made periodically throughout the year and may not, therefore, reflect real-time information.

Linked Products. Alerian and S-Network Global Indexes licenses its indexes to third parties for the creation of investment funds or other vehicles. Alerian and S-Network Global Indexes are not responsible for the information on these websites or for anything that they provide.

Policies and Procedures. Analytic services and products provided by Alerian and S-Network Global Indexes are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Alerian and S-Network Global Indexes have established policies and procedures to maintain the confidentiality of material non-public information received during each analytic process. Alerian, S-Network Global Indexes, and their affiliates provide a wide range of services to, or relating to, many organizations, and may receive fees or other economic benefits from these organizations.

Copyright. No Unauthorized Redistribution. Alerian and S-Network Global Indexes © 2021. All rights reserved. This document, in whole or in part, may not be redistributed, reproduced, and/or photocopied without prior written permission.

Alerian
alerman.com
info@alerman.com // 972.957.7700
3625 N. Hall St., Suite 1200, Dallas, TX 75219

S-Network Global Indexes
snetworkglobalindexes.com
info@snetworkinc.com // 646.467.7928
267 Fifth Avenue, Suite 508, New York, NY, 10016