

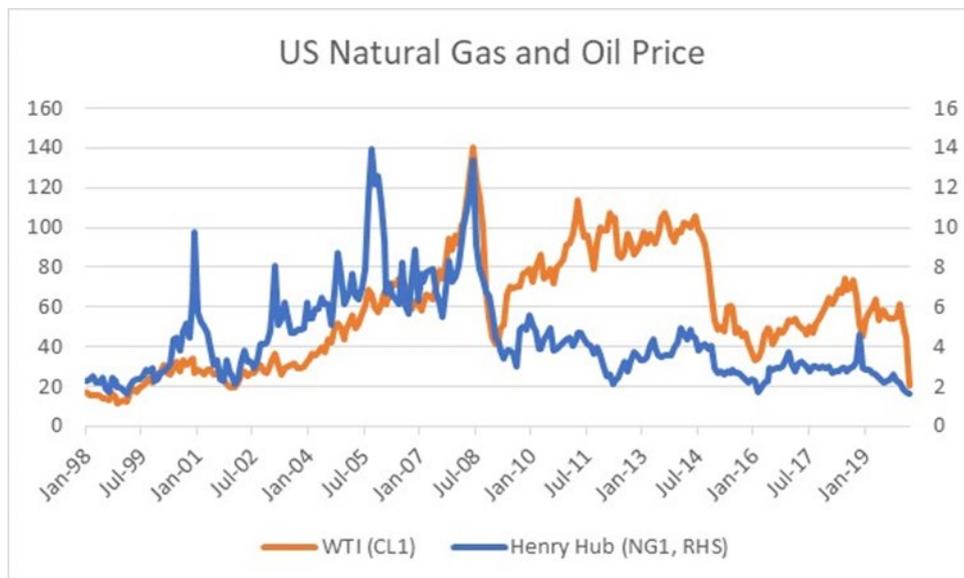
GAS PANIC?



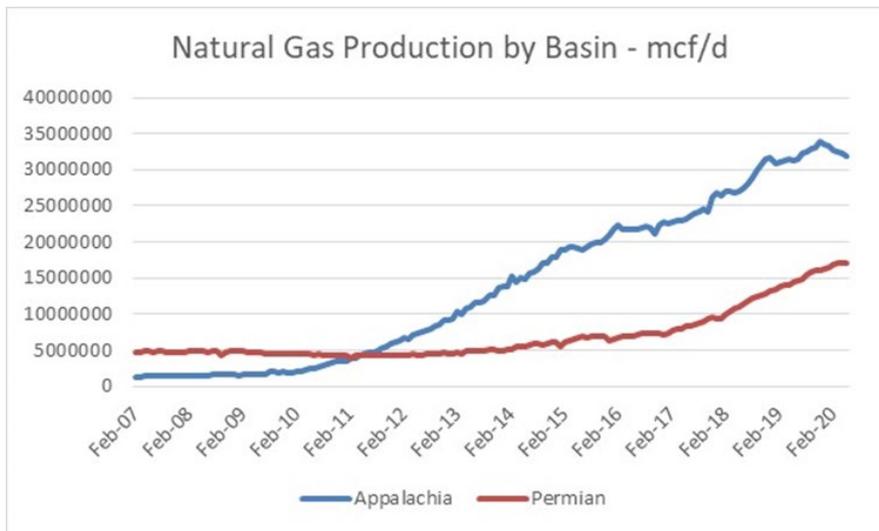
 Russell Clark's  
Market Views

“If I was a US LNG exporter, I would “get on yer knees and pray; panic is on the way.”

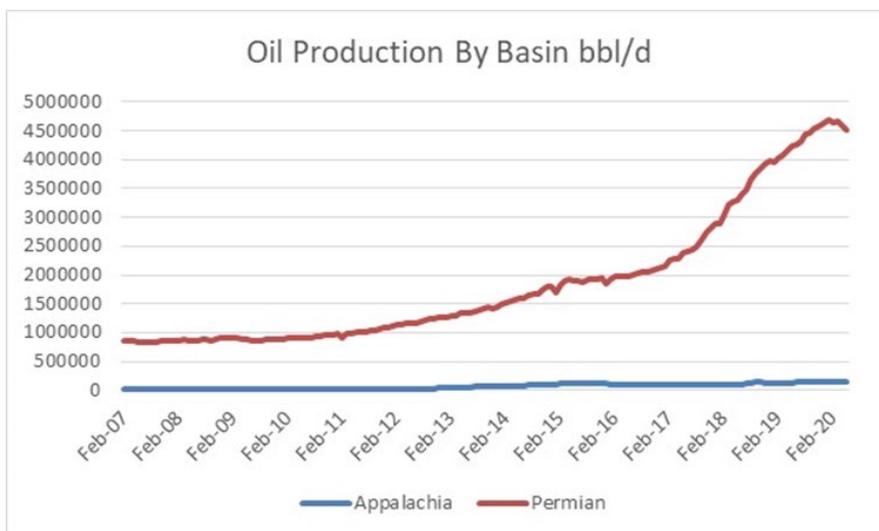
Until fracking appeared in the US, natural gas prices were much more volatile than oil prices. This was driven by huge variations in seasonal demand, as well as a much smaller tradable market. The price of natural gas spiking in 2001 was a foretaste of higher oil prices a few years later. Likewise, the collapse of natural gas prices has seemingly foreshadowed the current low oil prices.



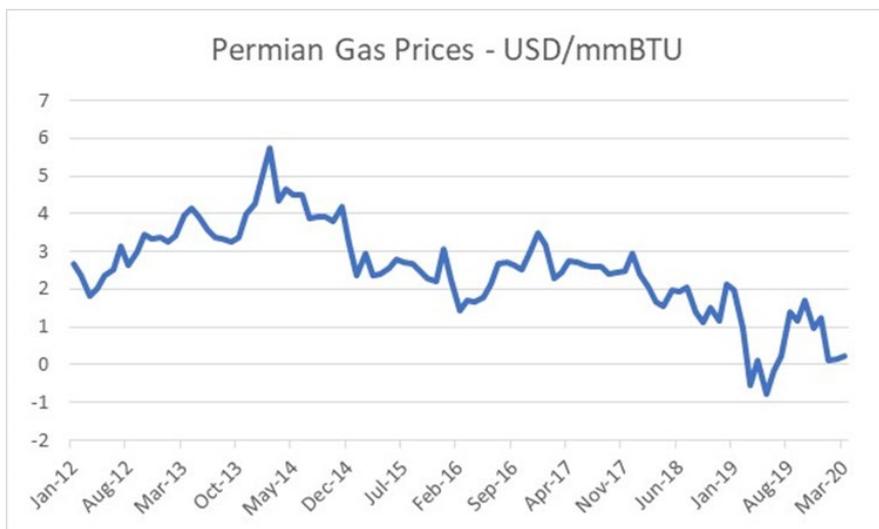
The US natural gas market was originally upended by large supply increases from the Appalachia basin, in the North East of the US. But Since 2016, the Permian has grown as much as Appalachia.



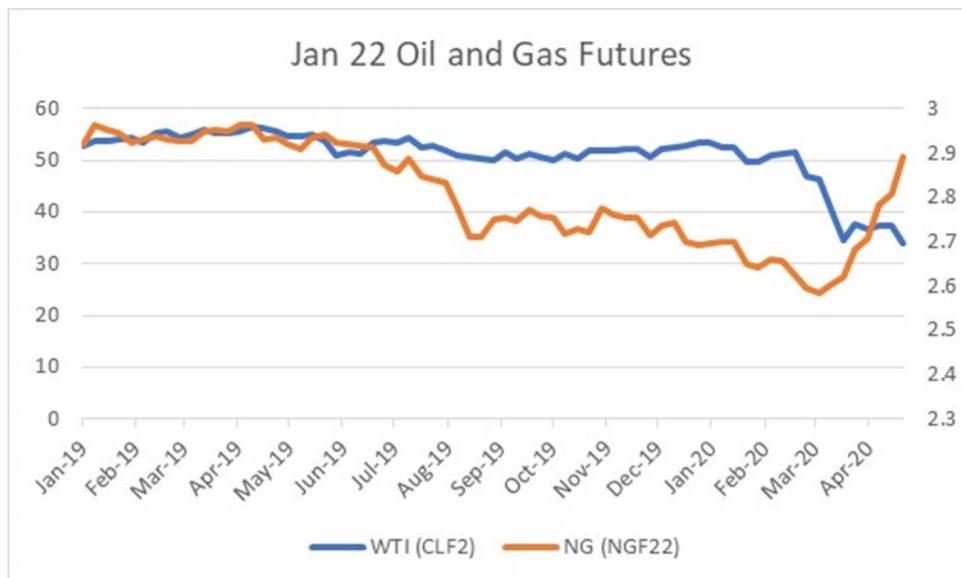
Permian natural gas production differs from the Appalachia natural gas production. Firstly, the Permian is mainly an oil basin, and natural gas just happened to be also extracted. Secondly, it's the biggest oil producing basin in the US, while the Appalachia is one of the smallest.



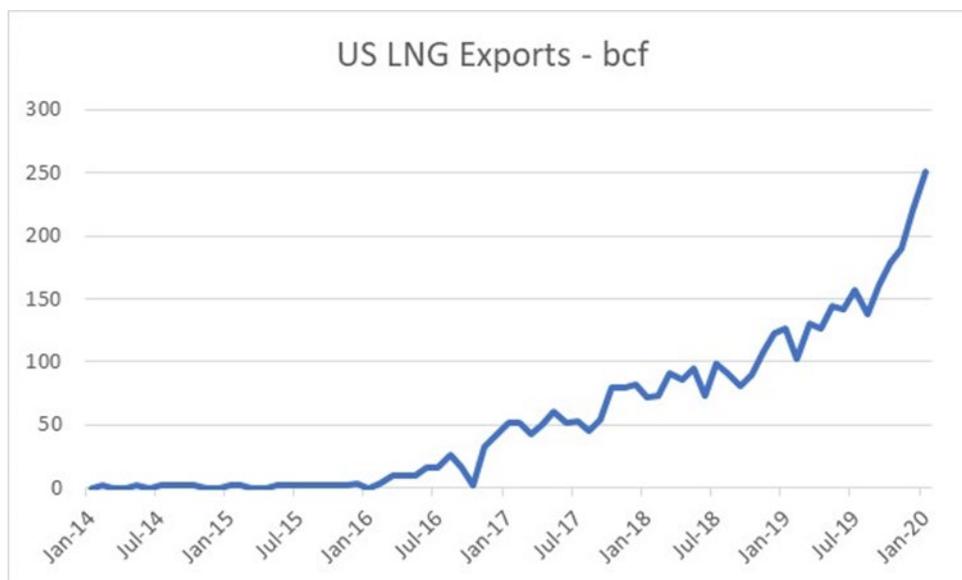
There are a range of products that sit between gas and oil, that complicate things a little bit, but to simplify, Permian producers care much more about oil production, and gas was a by-product. This led natural gas prices in the Permian to trade below zero in 2019, again foreshadowing the weak oil prices we have seen so far in 2020.



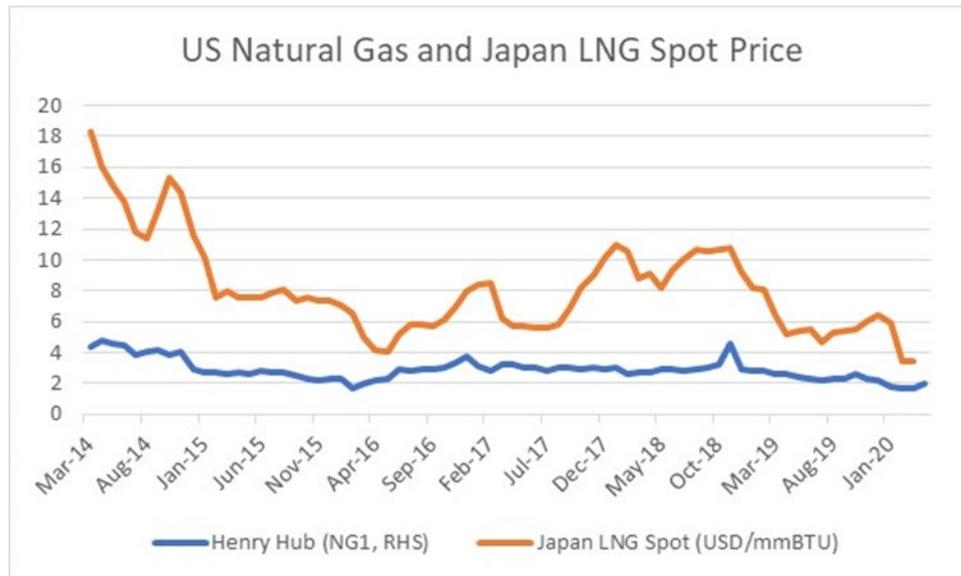
As long as Permian oil production was likely to grow, US natural gas prices were likely to remain low. However, the advent of negative prices for the oil price benchmark, West Texas Intermediate (WTI), is likely to restrain further growth and investment in the Permian. Perhaps the clearest sign of oil production restraint also causing natural gas production to fall comes from the futures market. January 2022 the WTI oil price declined from USD 50 to low USD 30, while natural gas prices have rallied from USD 2.6 to 2.9 over the last few weeks.



One of the great changes brought about by the shale revolution was that it turned the US into an energy exporter, most dramatically in liquefied natural gas (LNG).



This move to exports was driven by the huge gap in US natural gas prices to ASEAN LNG prices, which closely follow Brent oil prices. With the collapse in Brent prices, this gap has been closed, and if future natural gas prices are correct, will not likely return.



With January 21 Natural Gas Future prices at 3 USD, and transportation costs of LNG about 3 USD a unit, unless Asian LNG prices rise substantially then US exports of LNG are likely to fall, and potentially precipitously. Currently LNG exports are around 7% of US production, so the implication of rising future natural gas prices is a market expectation of huge fall in US natural gas production. Or if I was a US LNG exporter, I would listen to the Noel Gallagher song Gas Panic and “Yer better get on yer knees and pray, Panic is on the way”.

## INFORMATION

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