

LNG

Bull v Bear

7th June 2024

Onyx Capital Advisory

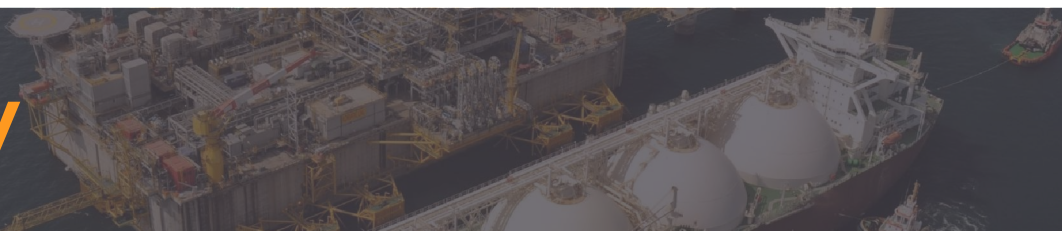




Summary & News

- Freeport LNG has sued contractors Zachry Industrial, Chiyoda International, and CB&I over defects in electric motors at its Texas plant, which have led to **significant outages and costly repairs, with damages exceeding \$1 million.**
- The startup of **Golden Pass LNG, a \$11 billion joint venture between QatarEnergy and Exxon Mobil in Texas, has been delayed by at least six months** due to construction issues, exacerbated by the bankruptcy of lead contractor Zachry Holdings, analysts reported Jun 06. Despite Zachry Holdings filing for bankruptcy in May, QatarEnergy and ExxonMobil's Golden Pass LNG project in Texas will proceed under a preliminary agreement allowing CB&I and Chiyoda to continue work without Zachry, as per a recent court filing.
- **TotalEnergies has signed new contracts with Indian Oil Corporation and Korea South-East Power to deliver up to 800kmt of LNG annually to India** for ten years starting in 2026, and up to 500kmt annually to South Korea for five years starting in 2027, boosting its presence in Asian LNG markets.
- **Taiwan's CPC Corporation has joined QatarEnergy's North Field East (NFE) LNG expansion project.** CPC will receive 4mtpa of LNG for 27 years and gain a 5% interest in one of NFE's liquefaction trains. Financial terms were not disclosed.
- **Saudi Aramco is in discussions with U.S. LNG developers to invest in a planned project and secure a long-term offtake deal from another proposed export facility.** This move follows Aramco's recent entry into the global LNG market, marked by its acquisition of a minority stake in MidOcean Energy, which is involved in four Australian LNG projects. Aramco aims to expand its presence in the LNG market while boosting its natural gas production and trading business.
- Singapore's Energy Market Authority (EMA) and Korea Gas Corporation (KOGAS) have signed a memorandum of understanding to enhance cooperation in LNG procurement and supply chain management.
- **Egypt, now a net importer of natural gas, plans to issue a buy tender for 15-20 LNG cargoes in late June or early July to meet high summer demand,** which has caused rolling blackouts and temporary shutdowns of chemical and fertiliser plants, according to industry sources.

View



Contract	Forecast	Logic
TTF Flat Price	Small Bull	While Europe's TTF prices have simmered off recently amid comfortable storage levels in the continent, rising demand from Egypt as well as a possible shift towards natural gas due to sluggish oil markets may provide some support to TTF.
Basis	Bullish	We expect Asian LNG to maintain its strength relative to Europe's TTF despite both flat prices easing off over the past week. This view also stems from European storage continuing to sit at comfortable levels, power generation demand in Asia, along with supply-side issues with Chevron's Gorgon LNG plant in Australia.

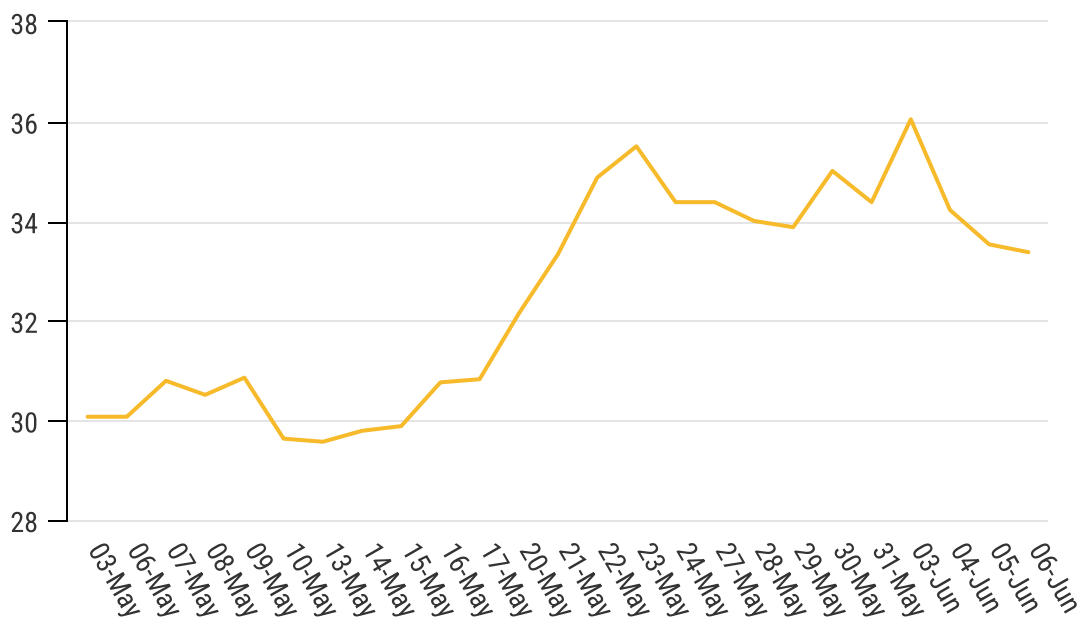
Bearish Factor

1

European demand

- Traders were seeing much of the bullishness in Asia being driven by the supply-side shocks in Europe and suggested that apart from the ongoing geopolitical and supply-side risks, the European market remains fundamentally bearish.
- Despite limited buying activity and only modest injections witnessed thus far, the market is not concerned about meeting the EU-mandated target of 90% storage fill by November 01, with current EU gas inventories standing at 70.73% full as of June 04, up 0.12% day on day and up 3.5% on the figure from May 19. With stocks well filled, it could lead to less pull on the UK for gas supply to continental Europe.
- EU gas consumption in Q4 2023 rose 0.6% y-o-y to 96 Bcm according to the European Commission on June 06, meaning that over the entirety of 2023, EU gas consumption dropped 7% to 330 Bcm, with Portugal, France and Austria recording decreases in annual consumption of -24%, -9% and -7%, respectively.
- Italian LNG imports stood at 1.2 Bcm in May, down from the 1.48Bcm seen in April, with this figure also below the 1.22Bcm and 1.4Bcm that Italy imported in May of 2022 and 2023.

Jul TTF (€/MWh)

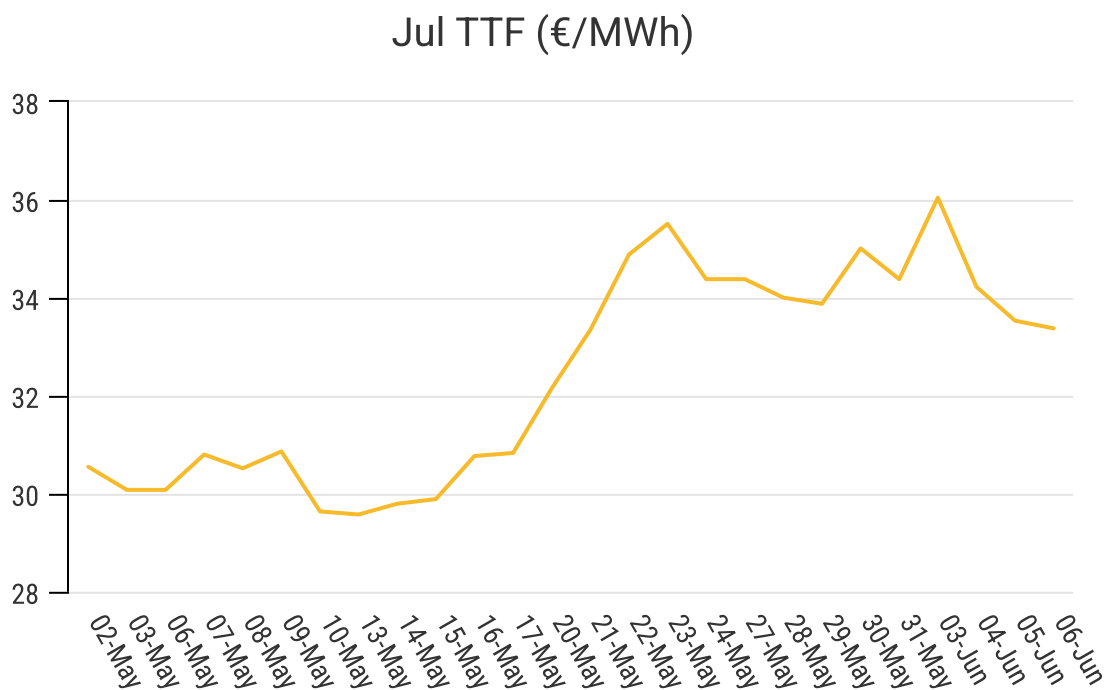


Bullish Factor

2

Egypt buys prompt cargoes

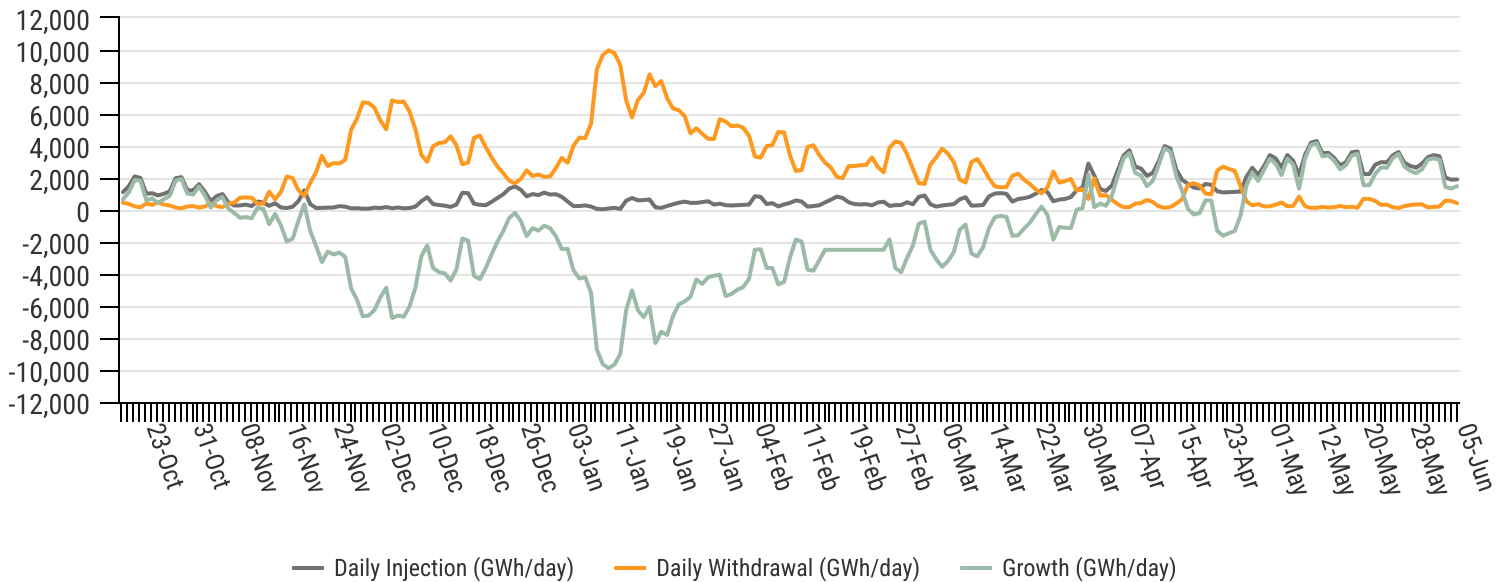
- Following Egypt's recent retacement to becoming a net importer of natural gas, the nation has announced plans to issue a buy tender for 15-20 cargoes of LNG in preparation for adequate summertime cooling supplies.
- As per a report by Reuters, the requirement for additional LNG emanates from heavy summer demand noted in Egypt because of which it has seen various blackouts and temporary closures of chemical and fertiliser plants.
- The tender is expected to arrive in H2'Jun or early July this year, with the prompt delivery likely indicating that Egypt had to pay a high premium on the cargoes and flagging the urgency of the demand for the gas.
- Egypt's LNG usage is likely tied to the European TTF benchmark, which rose to €36/MWh at the start of June but found pressure at this level, dissipating below €34/MWh by Jun 06.
- It will be interesting to continue to monitor how Egyptian LNG demand shifts into the summer and how this is priced by traders.



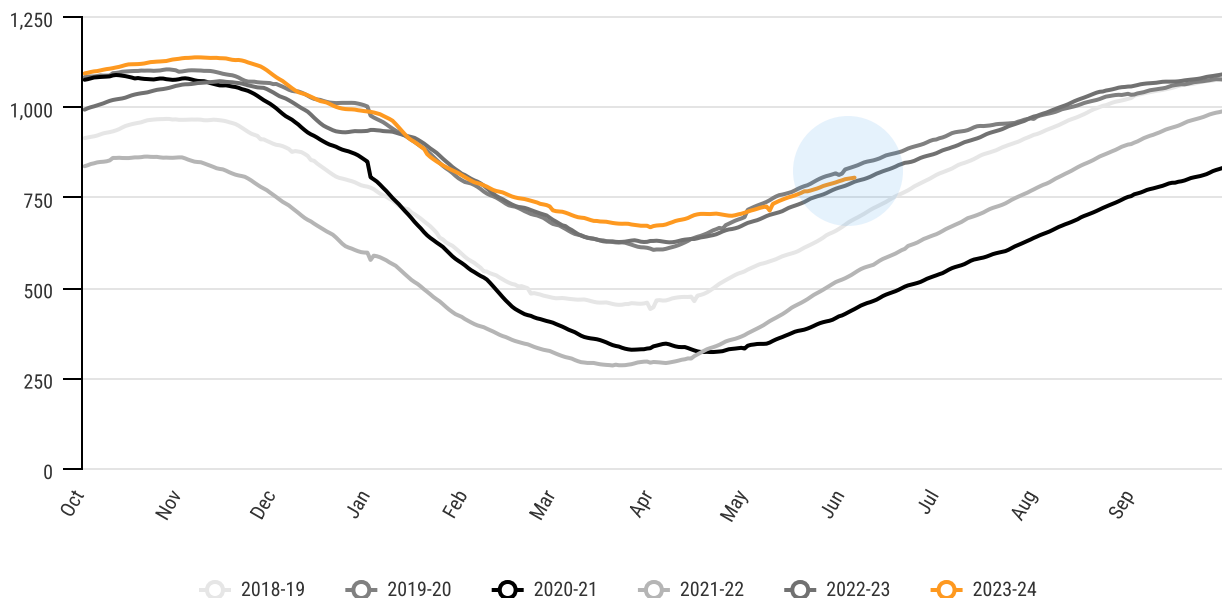
Source: Onyx Capital Advisory (2024)

European Storage Levels

European Gas Storage



EU Gas Storage (TWh)



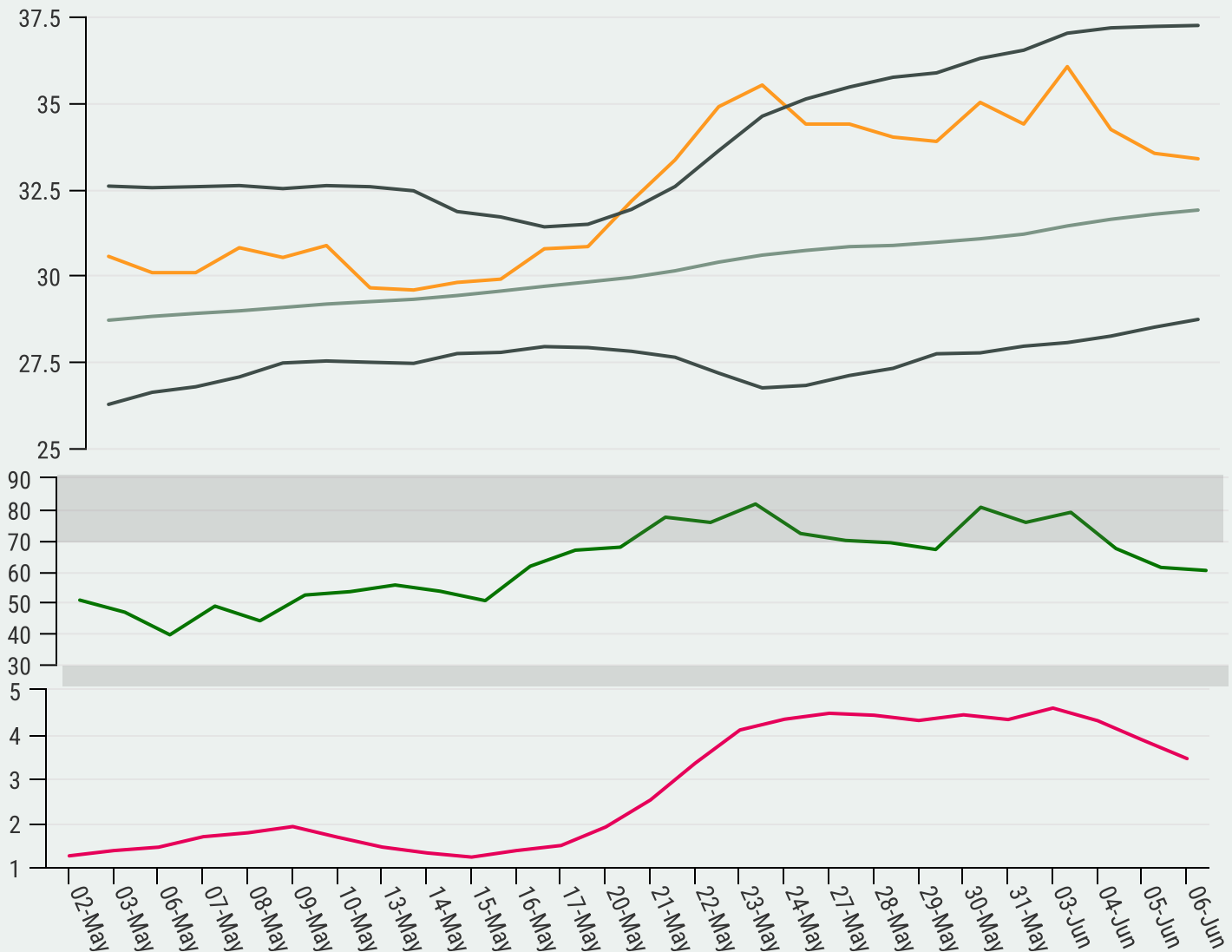
Source: Gas Infrastructure Europe

Over the past fortnight, European gas in storage has climbed, rising by an average of 0.32% each day from May. Levels have reached 70.86% full on June 05, from 67.53% on May 20. These levels are very strong, and while this is trending higher at an accelerating rate, the level is marginally below the 2019-20 level. However, this large level in 2019-20 can likely be attributed to COVID-19.

Source: Onyx Capital Advisory (2024)

Technical Analysis

Jul TTF (€/MWh)



- The Jul TTF flat price has maintained its strength well following the scare as the Norwegian LNG flow was reduced. The duration of an unplanned outage at Norway's Nyhamna gas processing plant is uncertain. The July TTF has slumped a little from the high of €36/MWh on Jun 3 to below €33.50/MWh on Jun 6.
- European stocks continue to be strong but the supply issues were a reminder of Europe's foreign dependency.
- At these levels, prices have fallen out of the overbought RSI territory and are comfortably between the Bollinger bands. The Bollinger bands have remained fairly wide following the rally in late May in the higher volatility.

Price (€/MWh)

Bollinger Bands

20-Day Moving Average

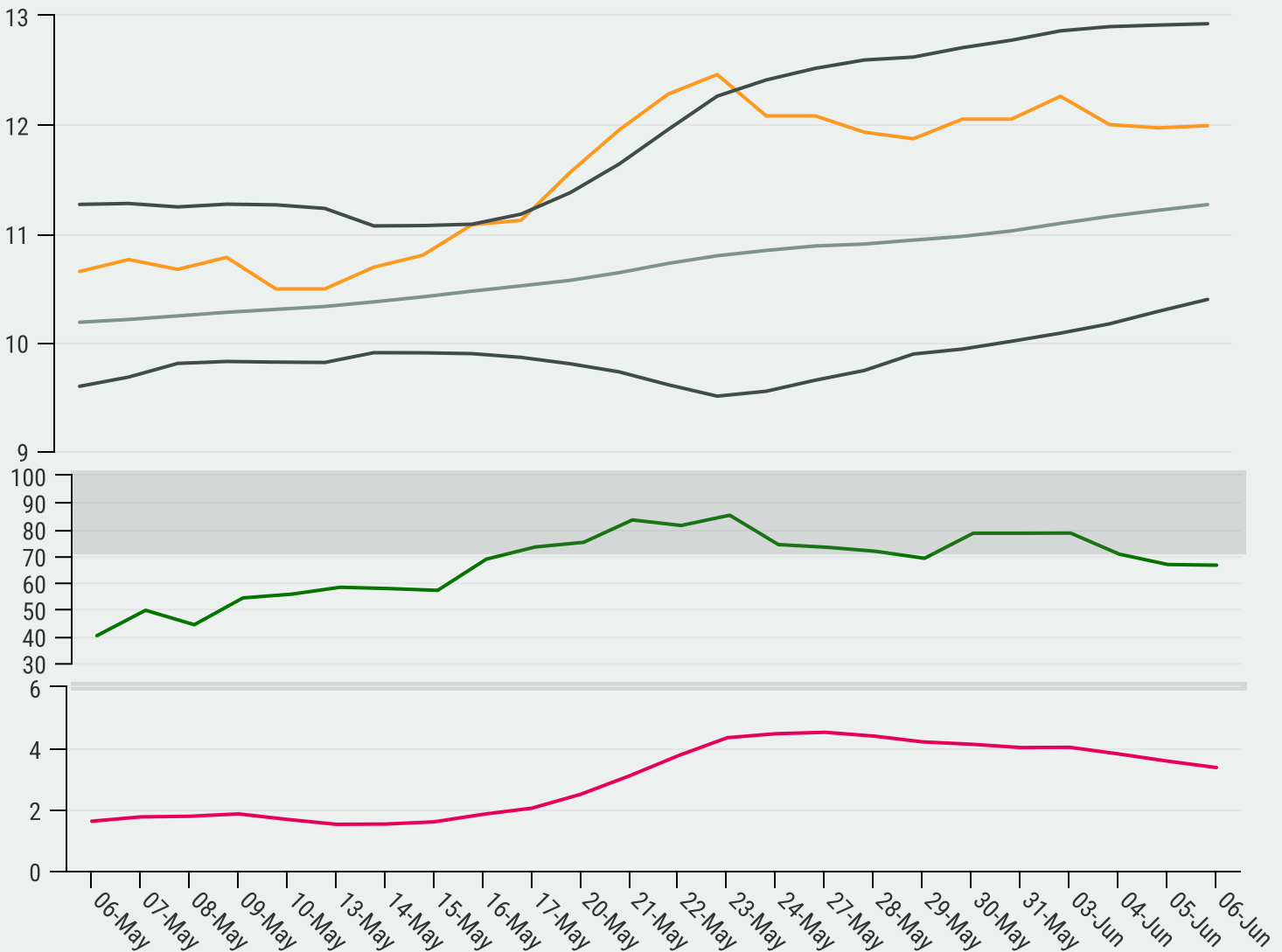
Relative Strength Index

PPO

Source: Onyx Capital Advisory (2024)

Technical Analysis

Jul JKM (\$/MMBtu)



- Following the sustained rally in Jul JKM up to \$12.40/MMBtu on May 23 we saw the contract drop off slightly and hold in a range between \$11.85/MMBtu and \$12.00/MMBtu.
- Given the downturn of prices into a steadier level the RSI came below the overbought or overvalued territory. While the RSI remains at an elevated level of 66 as of June 06, the upper Bollinger band has overtaken the flat price to indicate prices are more closely aligned with fair value.
- While this stellar run is likely to have originated from Asian players buying in order to fuel summer demand, it is unlikely that this will fall much lower. Given rising global temperatures and a shift toward using LNG, as a greener alternative to coal-powered energy generation, this strength is predicted to persist.

Price (\$/MMBtu)

Bollinger Bands

20-Day Moving Average

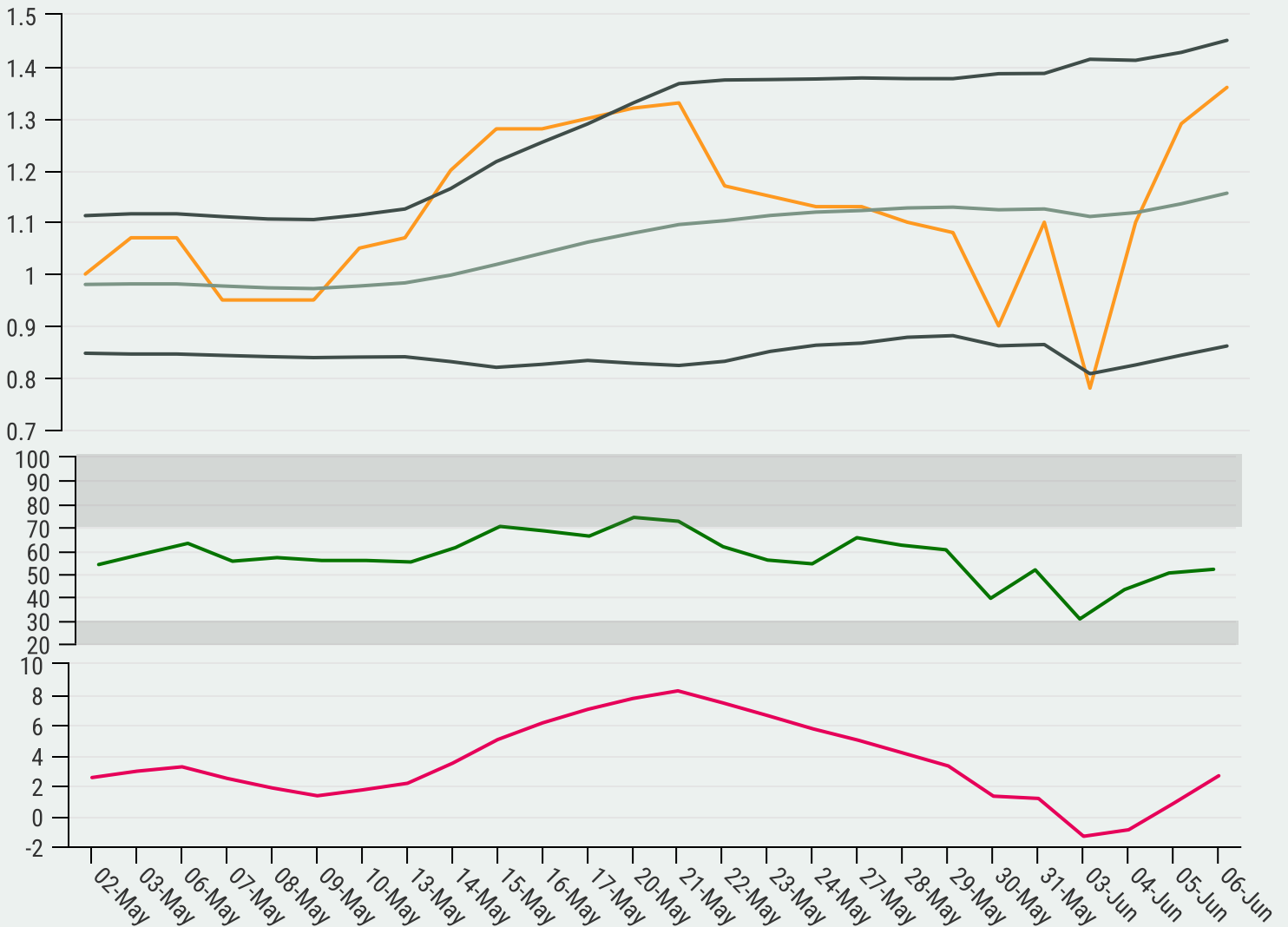
Relative Strength Index

PPO

Source: Onyx Capital Advisory (2024)

Technical Analysis

Jul Basis (\$/MMBtu)



- The difference between Asia's JKM and Europe's TTF (Basis) in the July tenor rallied into the new month, moving from \$0.90/MMBtu on May 31 to \$1.35/MMBtu on Jun 06. This strength emanated from a stronger Asian LNG complex despite JKM's eventual easing on Jun 05.
- Price action is well within the bounds of neutrality despite edging closer to the upper Bollinger bands, an indicator of overbought conditions. However, with prices still below this mark and with the RSI still within neutral territory, we see room for further bullish price movements.
- This sentiment is corroborated by the PPO reading, which has been on a steady uptrend in June - highlighting the bullish momentum in price action.

Price (\$/MMBtu)

Bollinger Bands

20-Day Moving Average

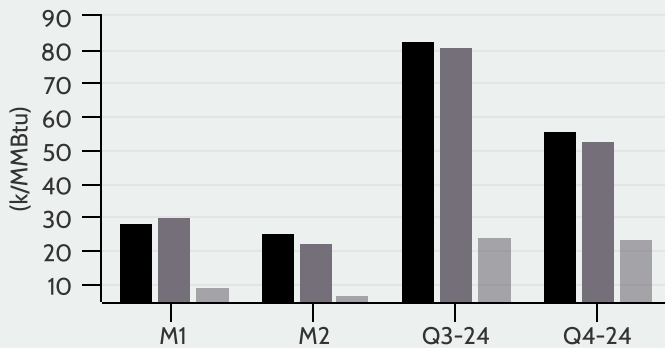
Relative Strength Index

PPO

Source: Onyx Capital Advisory (2024)

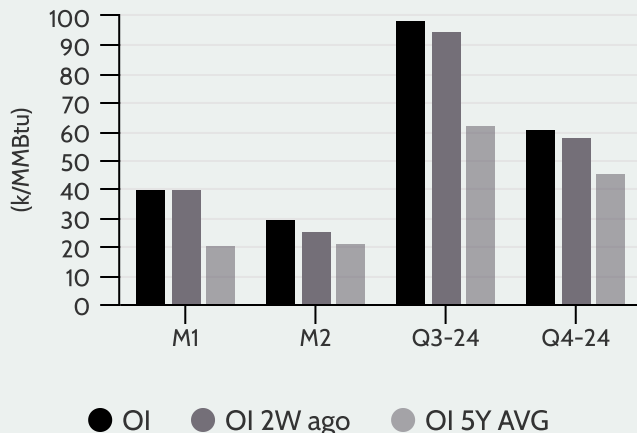
Open Interest

TTF Open Interest



Open interest (OI) in the TTF contract continues to be centred around the Q3 contract with an OI of 82mbbls. However, as we edge closer to Q4'24, the Q3 OI is slowing comparatively to the later contract with a meagre 0.7% weekly growth in OI in the Q3 and a more positive 2.1% for the Q4 tenor. Current levels in the M1 and M2 contracts are 211% and 275% above their 5-year averages respectively.

JKM Open Interest



Similarly, the JKM complex displayed Q3 as the most concentrated quarter, with 4.2% growth in the last fortnight (57% above its 5-year average). Both the prompt and the M2 contracts are also significantly above their 5-year averages, with the prompt at +95% and the M2 at +38%.

Source: Onyx Capital Advisory (2024)

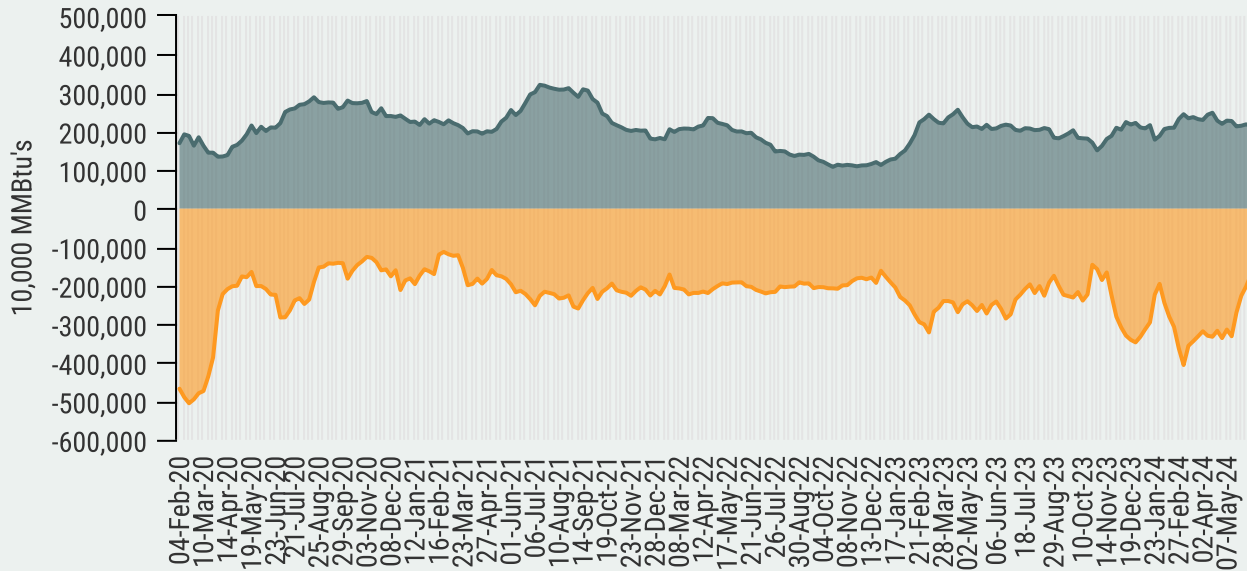
Technical Indicators Analysis:

TTF and JKM demonstrated very similar technical indicators, with both holding strength well from their respective recent rallies due to the Norway gas disruption and the Asian heatwaves respectively. They have both seen sideways price action, with TTF weakening to a larger extent, falling out of overbought RSI and towards the 20-day SMA.

In Basis, price action remains neutral, despite approaching the upper Bollinger bands, which suggest overbought conditions. However, as prices remain below this level and the RSI is still in neutral territory, there is potential for further bullish movements.

CFTC - NAT GAS NYMEX

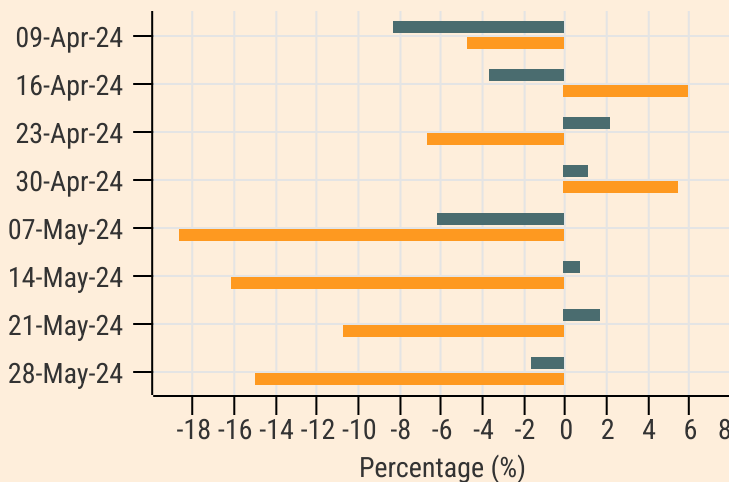
Managed by Money Long and Short Positions in Nat Gas from 2020



Source: Onyx Capital Advisory (2024)

● Long ● Short

Percentage change in long and short positions over the past eight weeks



● Longs Weekly Change ● Shorts Weekly Change

Source: Onyx Capital Advisory (2024)

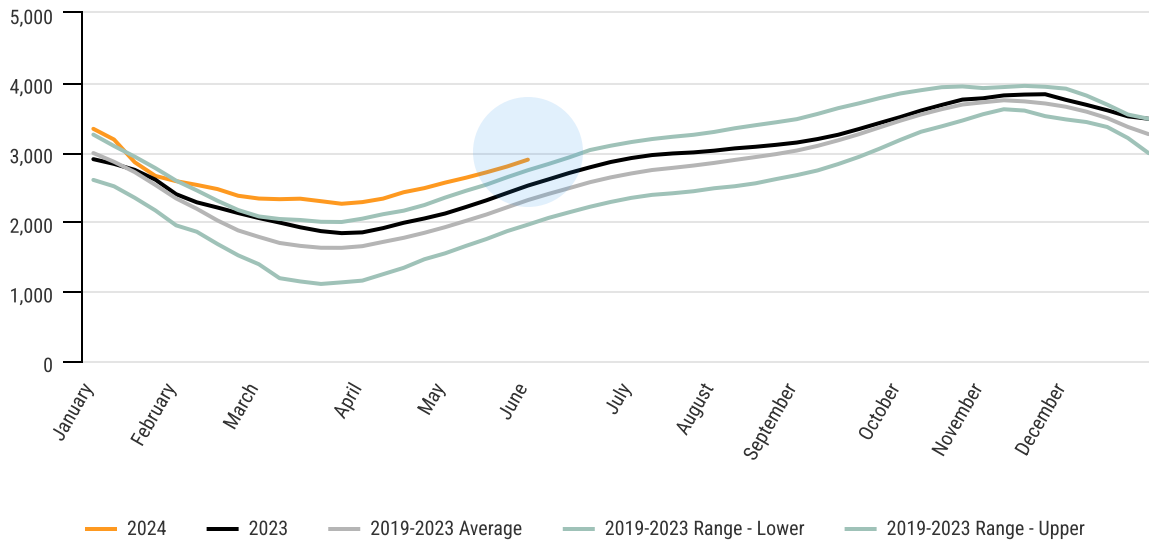
In the week to May 21, speculative players retained their bullish approach, adding 3.6mbbls to their long positions and removing 24mbbls from their short positions.

Subsequently, in the week to May 28, short positions continued this negative trend, which has now been present for 4 weeks, removing another 30.2mbbls of length (-14.9%). However, long-positioned money managers flipped their position, reducing length by 3.5mbbls (-1.6%), to result in the week being fairly risk-off.

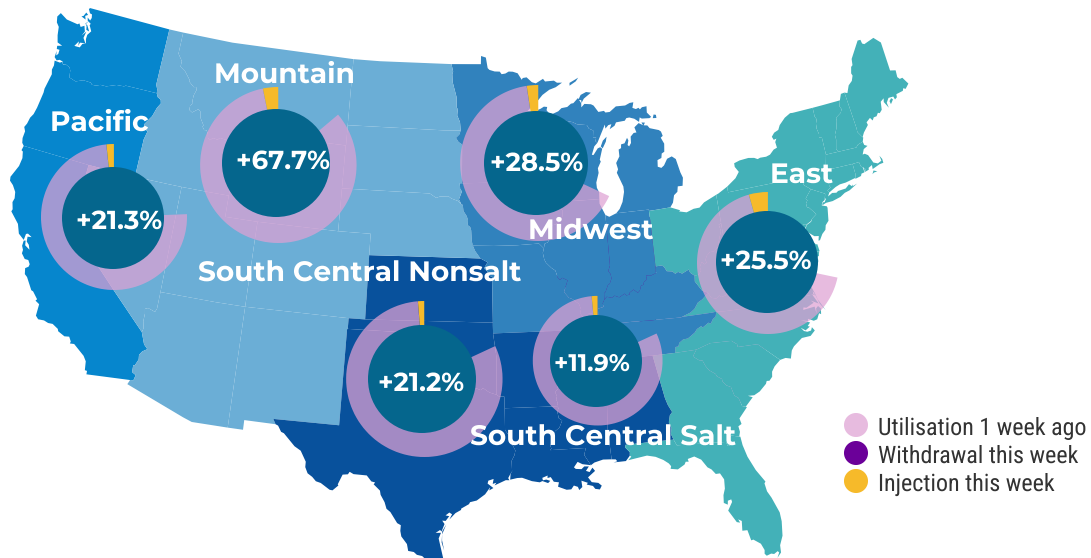
Looking at prod/merc positions, we saw these players display strong bearish sentiment in the week to May 21, removing 14.2mmbls of long risk whilst increasing their short risk by 18.6mmbls. The week to May 28 instead saw a much more risk-off sentiment, with the largest decline in long positions since the week to Jun 23 of 2023 and the largest decline in shorts since mid-February.

US Storage Levels

US Lower 48 Weekly Working Gas Storage (Bcf)



Underground Natural Gas Storage compared to 5-year average



As of May 31 2024, the EIA estimates working gas in storage at 2,893 Bcf, showing a net increase of 98Bcf from the previous week, with stocks exceeding both last year's levels by 373 Bcf and the five-year average by 581 Bcf, placing total working gas above the historical range.

Source: US Energy Information Administration, Onyx Capital Advisory (2024)

Natural Gas ETFs

ETFs	5-day Sentiment	Flows	Call OI Chg	Put OI Chg	P/C Ratio Chg
UNG	Bearish	The UNG ETF saw flows shrink further in the past fortnight, with the vast majority of days seeing negative net option delta (NOD) volumes. In fact, only May 28 and May 31 saw delta increases, albeit in very small volumes at 47.5k and 21.1k, respectively. On the other hand, far more significant decreases in NOD were seen, with three separate days witnessing reductions of over 100k and the largest decline seen being -173.7k on Jun 06. Open interest rose 1.6% in the past week in UNG, with fairly equivalent rises of 1.5% and 1.8% seen in call OI and put OI, respectively.	-0.4%	-6.2%	-5.8%
BOIL	Bearish	Flows in BOIL flipped from predominantly bullish over the first week of the fortnight to mainly bearish in the latter half. NOD-wise, the largest increase in delta over the period came on May 24, which saw an increase of just under 125k in volumes, whilst the largest decreases being seen on Jun 05-06, which saw volumes decline by 66kbbbs and 91kbbbs, respectively. Open interest in BOIL has increased by 1.7% in the past week, spurred on by the respective 1.8% and 1.4% rises in call and put OI.	+1.8%	-4.3%	-6.0%
KOLD	Bullish	Following a fortnight of overwhelmingly positive changes to NOD, the past fortnight has been a far more mixed period for the ultrashort ETF, whose price has ticked up to its current levels just above \$42.50. Flows have been varied, with the only sizeable change being the large decrease in NOD on May 24, which saw a volume reduction of 116k, whilst just two other days saw NOD changes of more than 30k in either direction. Open interest in KOLD has increased by a marginal 2.5% in the past week, with call OI and put OI also both increasing by 3.2% and 1%, respectively.	+3.4%	-2.1%	-5.4%

*Sentiment and Open interest changes refer to the changes in open interest and overall sentiment in the ETF in the last 5-days.

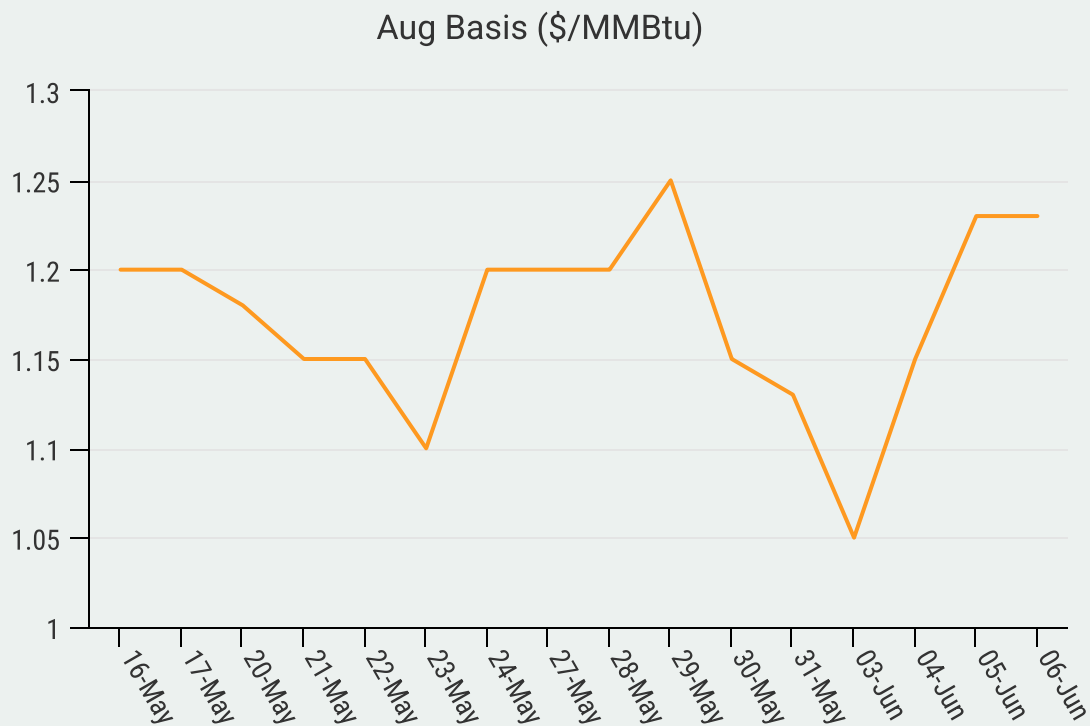
Summary:

We see bearishness remain in the natural gas complex amid selling noted in UNG and BOIL. The ultrashort KOLD recorded net bullish flow, which can predominantly be attributed to a relatively strong increase in new calls. The put/call OI ratios of all three ETFs moved in near-unison, with their 5-day changes falling between -5.4% and -6%.

Suggested Trade

Long Aug Basis (\$/MMBtu)

The difference between the Asian JKM and European TTF contracts (Basis) in the August tenor saw a splendid rally into June, sending prices over \$1.20/MMBtu by Jun 06. We expect the contract to retain this strength in the short term due to Asian LNG continuing to be stronger than its European counterpart. A technical analysis of the contract further confirms our view by indicating that prices remain within the bounds of neutrality based on both the Bollinger bands and the RSI. Coupling this with the MACD line (the difference between the 12-day and 26-day moving averages) rising above its 9-day exponential moving average (Signal Line), we see signs of bullish short-term momentum in the Aug Basis.

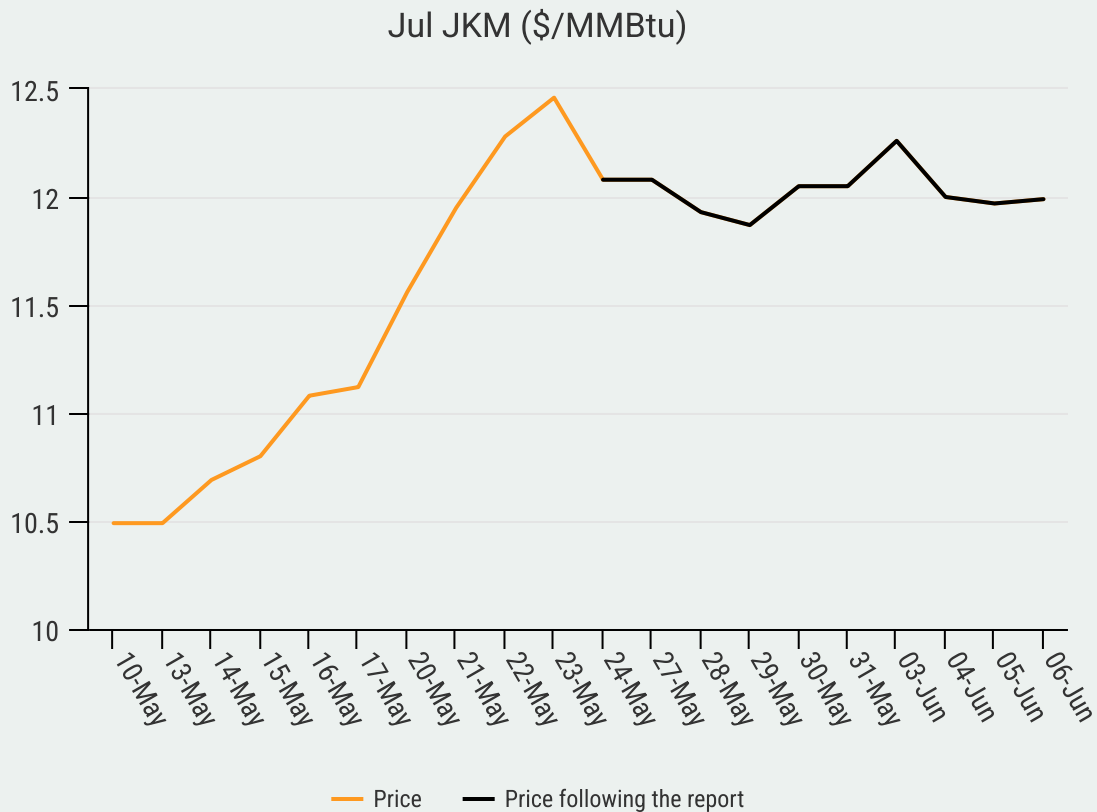


Source: Onyx Capital Advisory (2024)

Trade Review

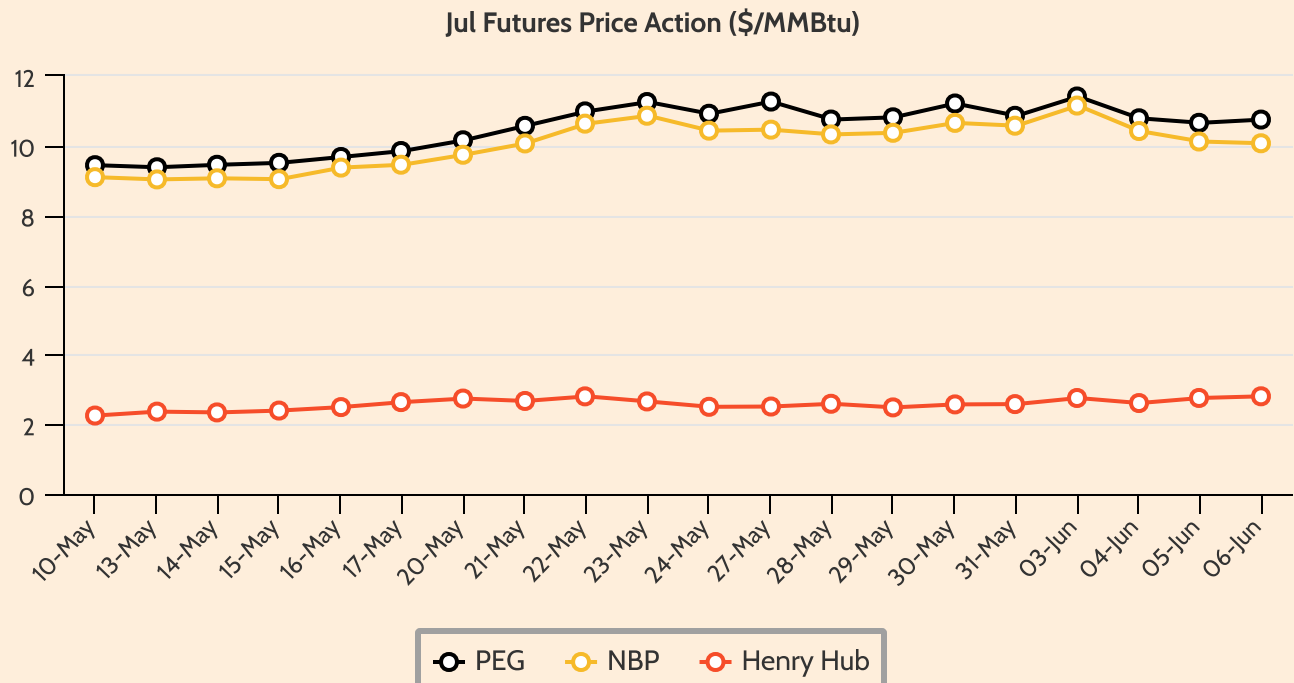
Short Jul JKM (\$/MMBtu)

We expected Asian LNG prices to simmer off due to a loosening of fundamentals over increased coal usage alongside a rise in US supply with the Asian market looking more attractive relative to the European one. In line with this view, prices did simmer off from \$12.10/MMBtu at the time of suggesting the trade idea to below \$11.90/MMBtu on May 29. While the contract rallied following this decline, prices remain below \$12/MMBtu - highlighting a successful trade.



Source: Onyx Capital Advisory (2024)

Futures Benchmarks



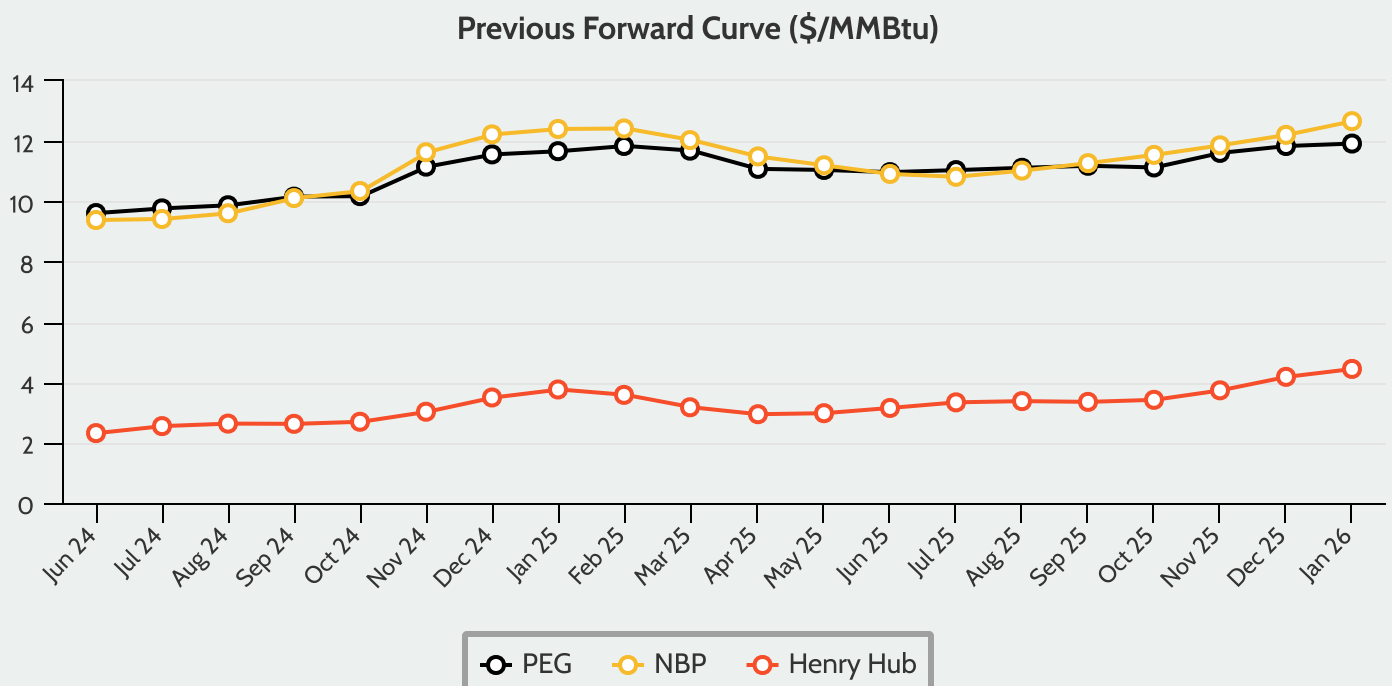
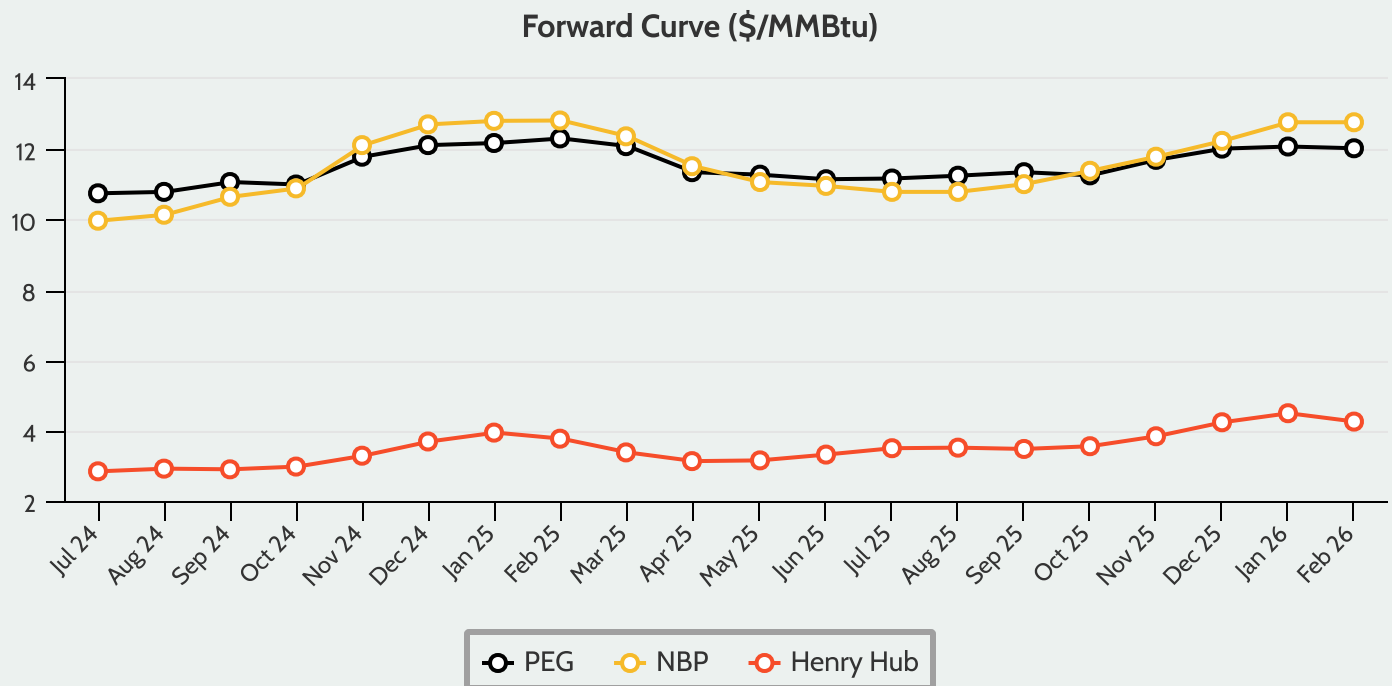
Source: Onyx Capital Advisory (2024)

Global Benchmark Spreads (\$/MMBtu)

	TTF/Henry Hub	TTF/NBP	NBP/Henry Hub
Jul	7.66	0.46	7.20
Aug	7.67	0.40	7.27
Sep	7.92	0.13	7.79

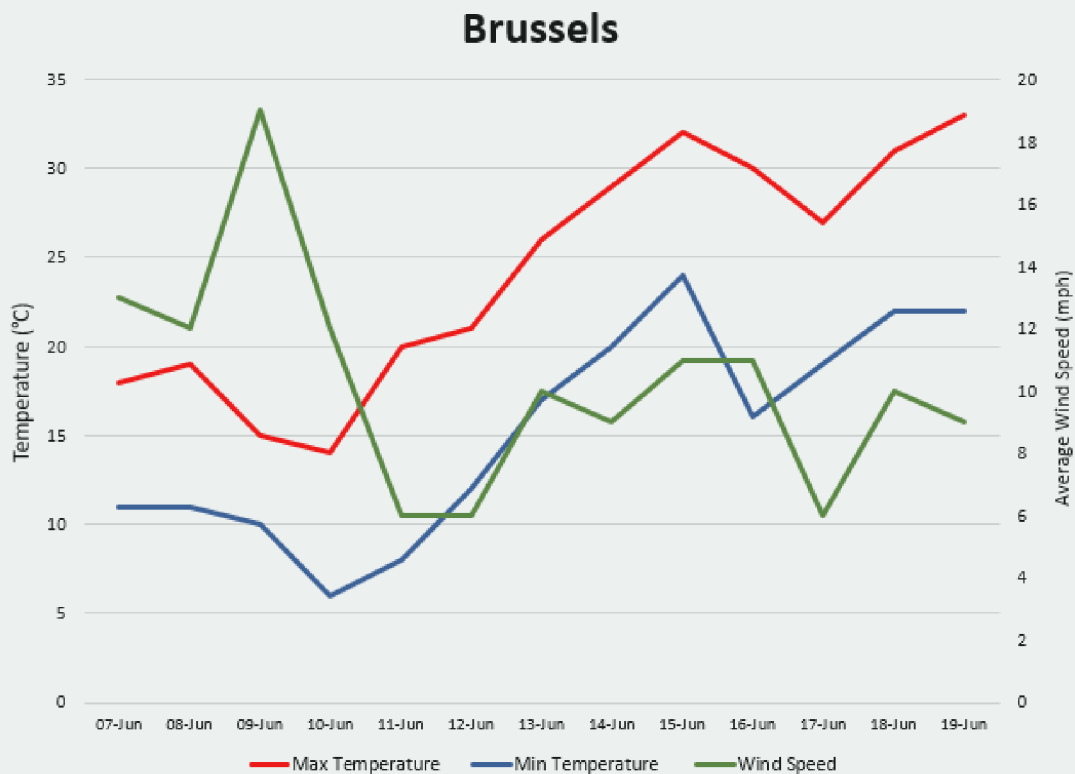
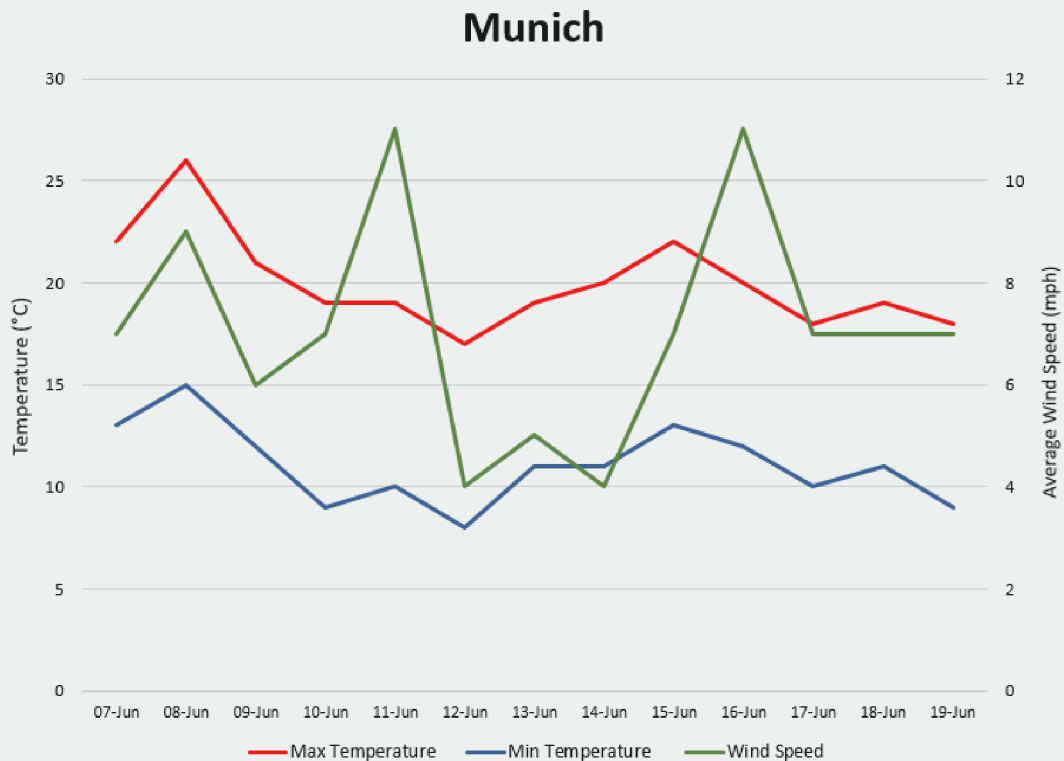
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Futures Benchmarks



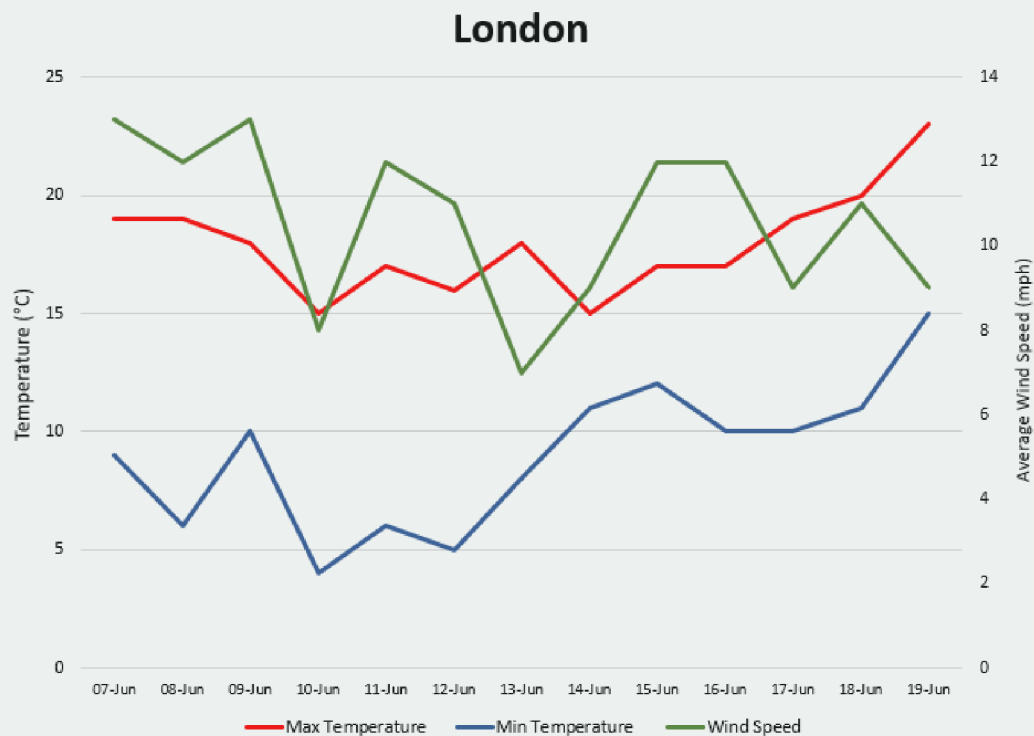
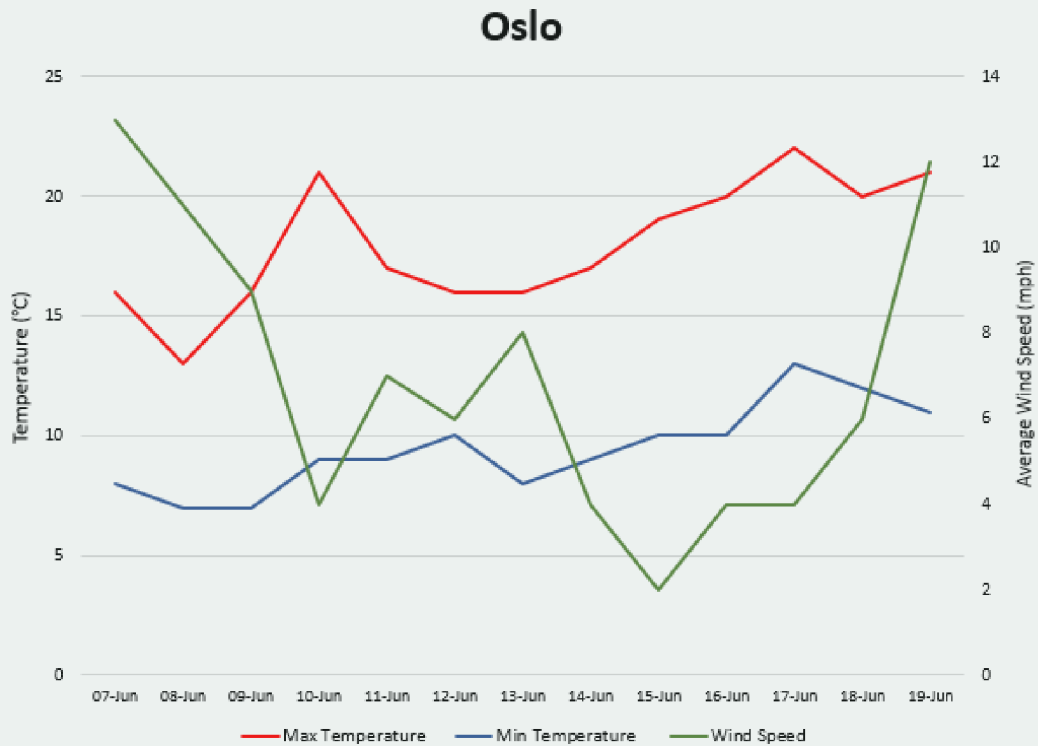
Source: Onyx Capital Advisory (2024)

Weather Forecast



Source: Onyx Capital Advisory (2024)

Weather Forecast



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