

LNG

Bull v Bear

21st June 2024

Onyx Capital Advisory





Summary & News

- The European Union has agreed on the contents of a **14th sanctions package against Russia**, aiming at the latter's LNG sector for the first time. The restrictions reportedly include re-exports of Russian LNG landing at EU ports and sanctions against Russian LNG projects that are currently under development.
- **Japan reduced its imports of Russian LNG** by 40.5% y/y to approximately 363,000 metric tons in May, the lowest level in four years, according to preliminary data released on June 19 by Japan's Ministry of Finance.
- The European Commission announced on June 19 that the **EU and China** have agreed to enhance cooperation on emissions trading to strengthen carbon pricing's global role.
- **Adriatic LNG's** 9.6 Bcm/year terminal in Italy has reportedly launched its latest binding phase for available capacity at the terminal beginning in 2029. All interested parties have been invited to accredit themselves by July 12, 2024.
- Australia's **Wheatstone LNG** has resumed production following a shutdown on June 10. Train 1 reached full production by June 19, whereas Train 2 of the plant is set to hit full output by June 21.
- **Malaysia's Genting Berhad** is moving ahead with plans for a floating LNG plant in West Papua, Indonesia, under a contract for engineering, procurement, construction, installation, and commissioning valued at over \$1 billion with China's Wison New Energies.
- **Golden Pass LNG**, owned by QatarEnergy and Exxon Mobil Corp., has reported potential cost increases and delays due to their contracts with **Zachry Industrial**, which filed for bankruptcy less than a month ago. The company is now petitioning a federal bankruptcy court to terminate its contracts with Zachry Industrial. In response, Zachry Industrial has asserted that it has never abandoned a project in its history and does not intend to do so with this project.
- According to the UK-based Energy Institute, **fossil fuel usage skyrocketed to a record high** in 2023 on the back of a post-COVID rebound of oil and coal consumption in China. Global primary energy consumption climbed 2% y/y, and global oil consumption grew by over 2.5 mb/d to 100.2 mb/d in 2023. Combining oil with the use of gas and coal, fossil fuels comprised 81.5% of the global energy mix.

View

Contract	Forecast	Logic
TTF Flat Price	Small Bear	Europe's TTF prices have been fairly rangebound in recent weeks amid comfortable storage levels in the continent. The new imposition of EU sanctions on Russian LNG may keep LNG stuck in Asia due to possible bans on transshipments. With little else in support of TTF, we take a slightly bearish view on the prompt flat price.
Basis	Cautiously Bullish	We expect Asian LNG to maintain and potentially enhance its strength relative to Europe's TTF, continuing the trend seen in the last two weeks. This view stems from supply tightness in the front in JKM, as well as the potential for high power generation demand in Asia, whilst we do not expect to see any major moves in TTF.

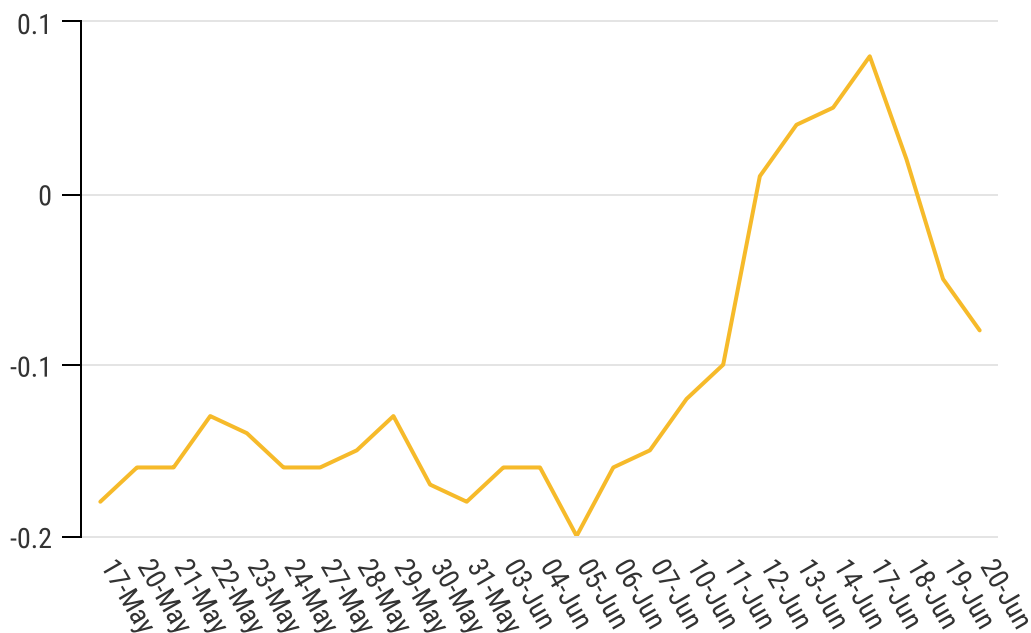
Bearish Factor

1

Wheatstone LNG Resumes Production

- Australia's Wheatstone LNG project has resumed production after a shutdown on June 10. The project initially suspended operations following repair works announced by Chevron Australia.
- As per a report by Platts, Train 1 of the project reached full output on June 19, and Train 2 is expected to reach full production by June 21.
- This outage was among factors that supported Asian LNG prices, with the Aug JKM swap rallying from \$11.80/MMBtu on June 07 to \$12.20/MMBtu the following day, ultimately hitting \$12.85/MMBtu on June 13. Since then, however, this bullishness appears to have run out of steam, with the Aug swap oscillating between \$12.60/MMBtu and \$12.70/MMBtu.
- **This said we recommend keeping an eye out for the EU's latest sanctions on Russia, including restrictions on re-exports of Russian LNG landed at EU ports. Should this restriction limit products from entering Asia from Europe, we may see sentiment retain bullishness despite the rising output out of Australia.**

Aug/Sep JKM (\$/MMBtu)



Source: Onyx Capital Advisory

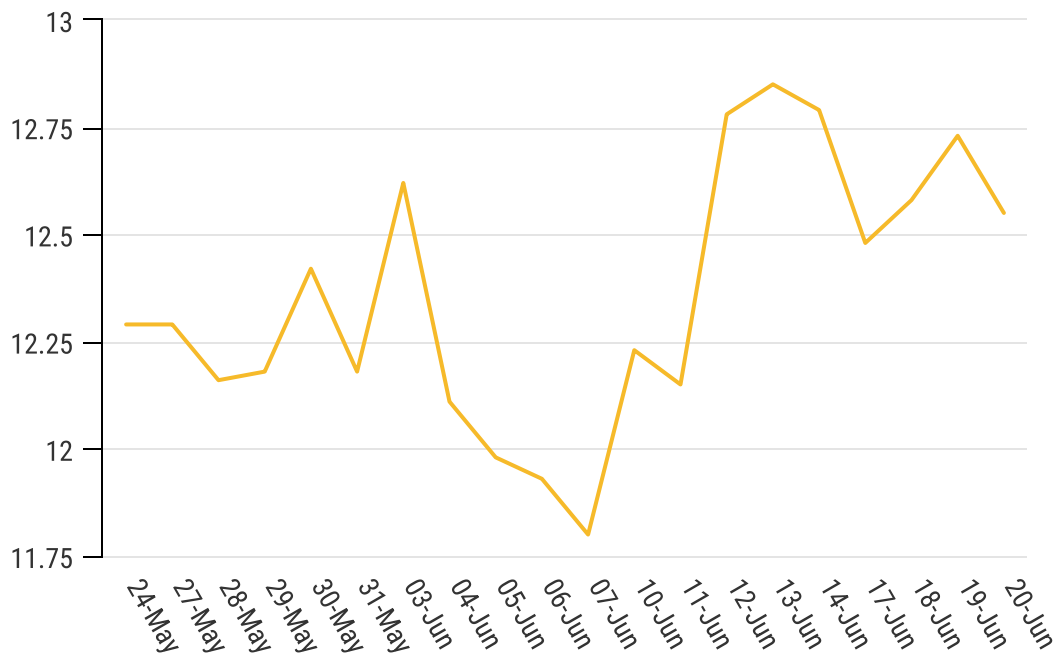
Bullish Factor

2

Asian Supply and Demand

- Asian LNG prices rose on June 20 as demand for prompt cargo deliveries remained strong, with backwardation for August strengthening.
- Shipping availability has been tighter for July, which could push freight rates higher, leading to the spread between Europe and Asian LNG prices (Basis) to remain at currently high levels or widen further still.
- South Korean summer power demand is forecast to hit a record of 97.2GW, over the previous high of 93.6GW from 2023, due to extreme weather conditions, particularly strong summer heat waves, amid concerns about lingering inflationary pressures.
- The South Korean Ministry of Trade, Industry and Energy vowed to take all possible measures to meet power demand, such as through higher operation rates of LNG-fired power plants. Finally, the EU's latest sanctions on Russian LNG may intensify the need to re-stock LNG due to fears of shortages going forward.

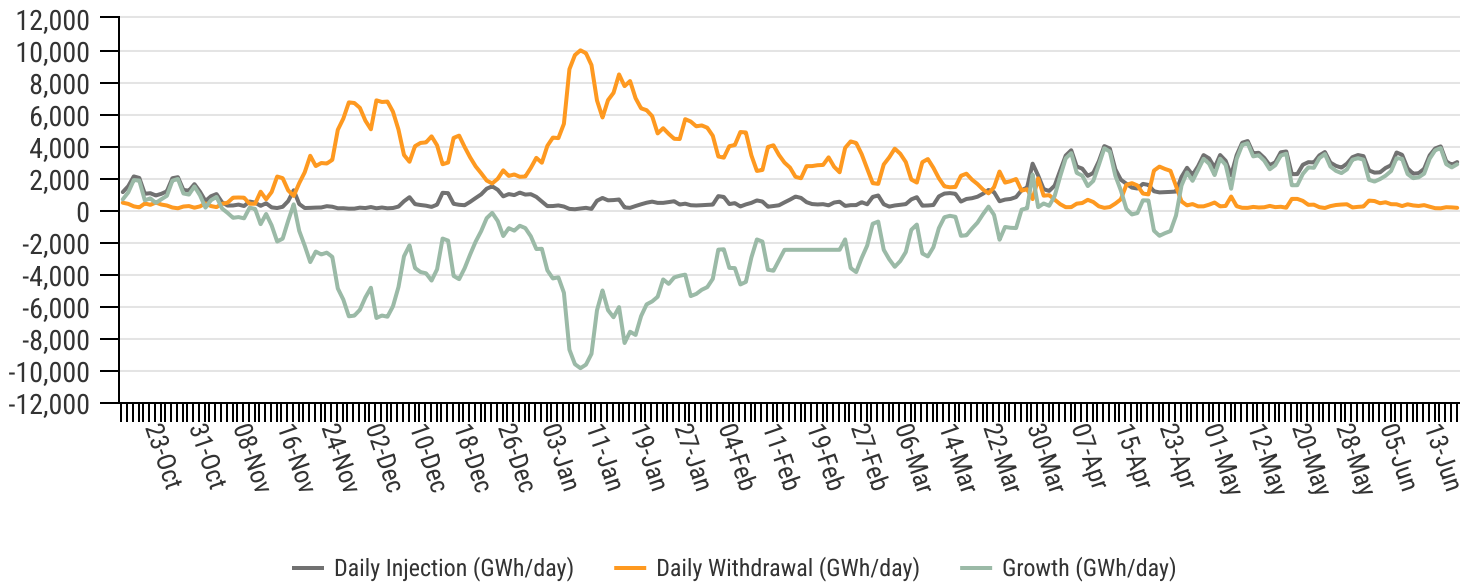
Aug JKM (\$/MMBtu)



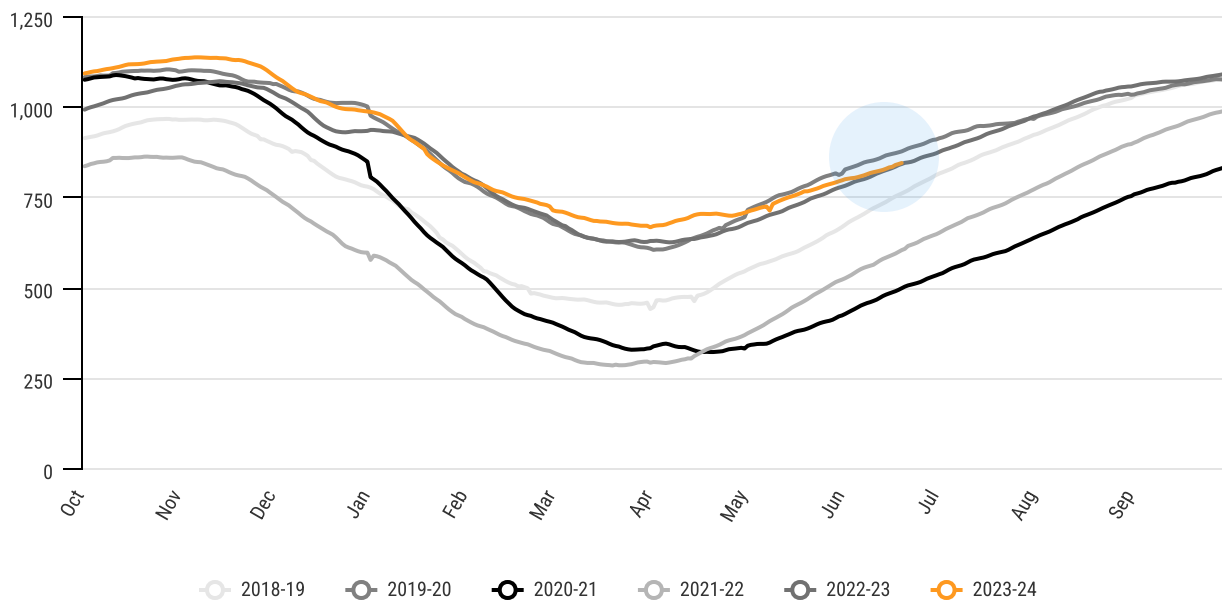
Source: Onyx Capital Advisory

European Storage Levels

European Gas Storage



EU Gas Storage (TWh)



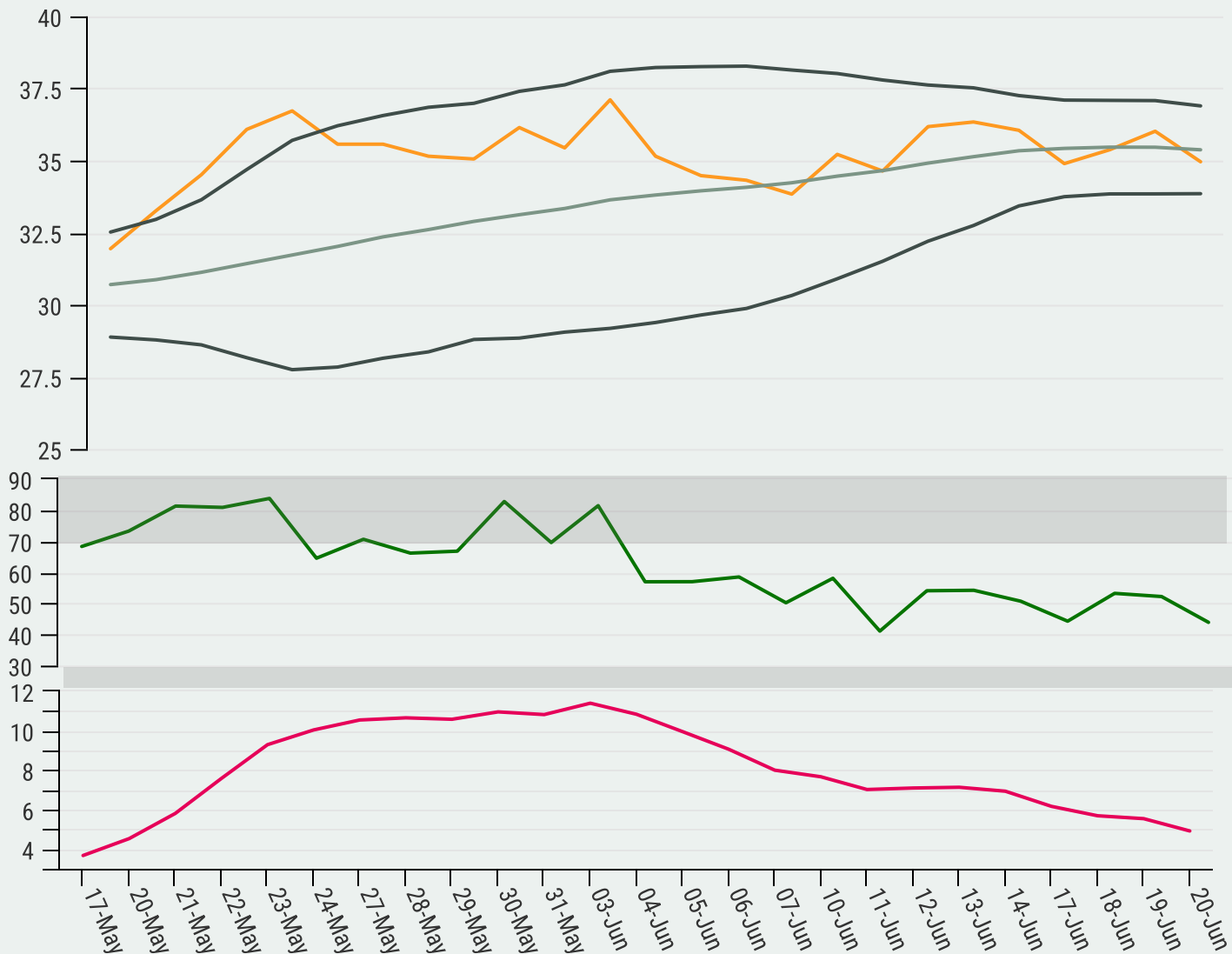
Source: Gas Infrastructure Europe

Over the past fortnight, European gas in storage has climbed, rising by an average of 0.23% each day in June. Levels have reached 74.34% full on June 19, from 70.89% on May 05. These levels are very strong, and while this is trending higher at an accelerating rate, it remains lower levels noted in 2019-20 and are inline with levels observed this time last year.

Source: Onyx Capital Advisory

Technical Analysis

Aug TTF (€/MWh)



- The Aug TTF flat price has experienced generally flat price action over the past two weeks, trading in a narrow range between €34.60/MWh and €36.10/MWh.
- The EU's 14th sanctions package against Russia, which for the first time targets Russia's LNG sector, including potential sanctions against re-exporting Russian LNG landing at EU ports and the country's LNG projects, has done little to support LNG prices in Europe with storage at healthy levels. In addition, it may exacerbate the weakness if a product otherwise en route to Asia remains stuck in Europe.
- These prices have seen the RSI remain firmly in neutral territory, while the PPO has continued its decline that has been present since June 03.

Price (€/MWh)

Bollinger Bands

20-Day Moving Average

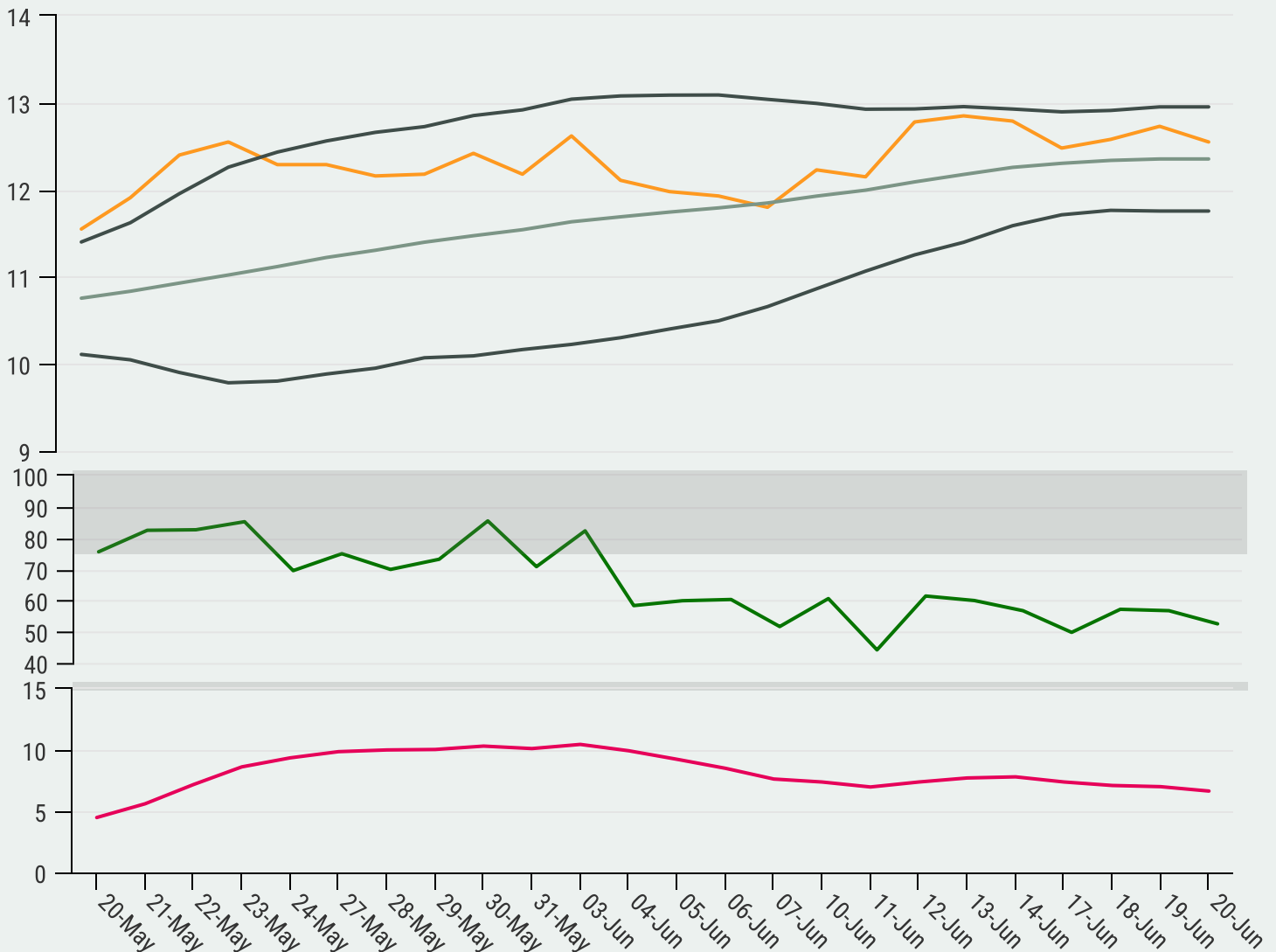
Relative Strength Index

PPO

Source: Onyx Capital Advisory

Technical Analysis

Aug JKM (\$/MMBtu)



- The prompt Asian JKM swaps contract rallied from \$11.80/MMBtu on June 07 to \$12.85/MMBtu on June 13. Following this, prices oscillated around a range of \$12.60/MMBtu and \$12.70/MMBtu.
- Technically, analysing this contract, prices remain above the 20-day moving average, highlighting support. However, both the Bollinger bands and the RSI sit well within neutral territory, although the latter can now be seen declining. The PPO has fallen below 7 for the first time since June 12, signalling that the short-term gains may now be losing steam.
- Fundamentally, we see bearishness from Wheatstone LNG coming to full capacity although the uncertainty regarding Russian LNG trade may keep sentiment supported.

Price (\$/MMBtu)

Bollinger Bands

20-Day Moving Average

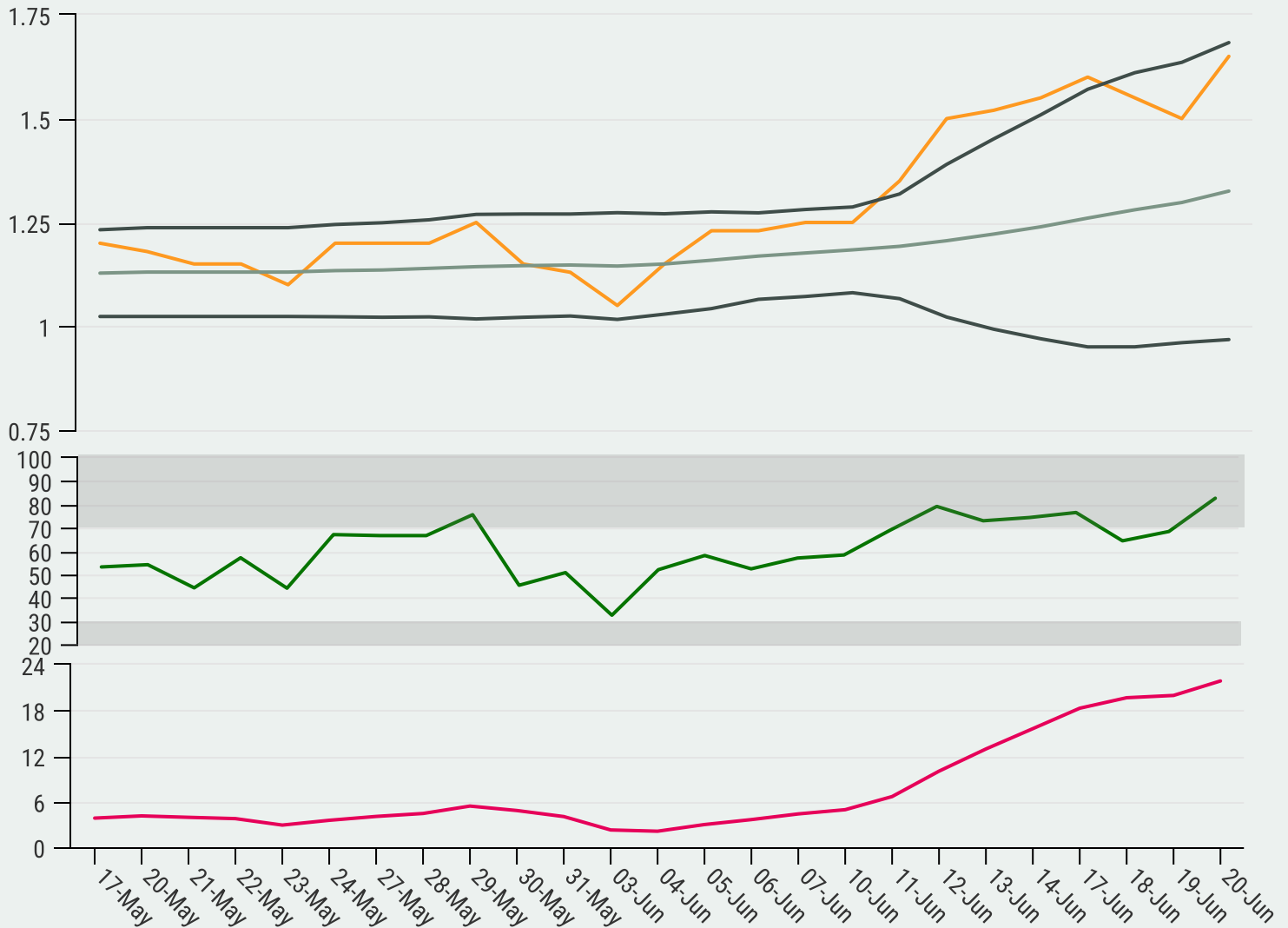
Relative Strength Index

PPO

Source: Onyx Capital Advisory

Technical Analysis

Aug Basis (\$/MMBtu)



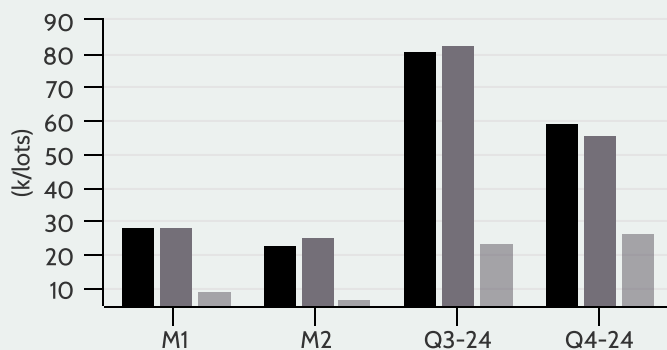
- The difference between Asia's JKM and Europe's TTF (Basis) in the August tenor has rallied in the past fortnight, moving from \$1.25/MMBtu on June 10 to \$1.65/MMBtu on June 20. This strength was likely derived from a stronger Asian LNG complex.
- Rallying price action has now definitively departed from neutrality and has sailed beyond the upper Bollinger band on multiple occasions, an indicator of overbought conditions. Compounding this, the RSI has ventured deep into overbought territory at 82.7 on June 20.
- This bullish sentiment is supported by the PPO, which has rallied far more intensely in the past fortnight; whilst it rose from 2.1 to 4.9 from June 04-07, it has now skyrocketed to 21.9 as of June 20.

Price (\$/MMBtu)
Bollinger Bands
20-Day Moving Average
Relative Strength Index
PPO

Source: Onyx Capital Advisory

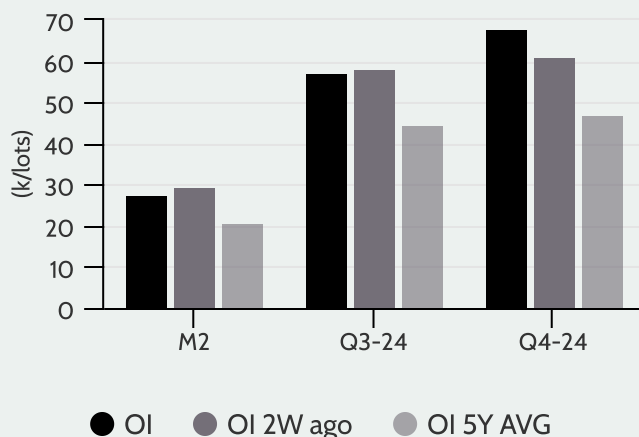
Open Interest

TTF Open Interest



Open interest (OI) in the M1 TTF contract was unchanged from two weeks ago at 28.7k/lots. On the other hand, the M2 and Q3'24 recorded fortnightly declines of 10% and 2%, respectively, to 23k/lots and 81k/lots. OI in Q4'24 climbed 6% over the past two weeks to just shy of 60k/lots, 21% above the 5-year average. Finally, interest was most concentrated in Q3'24, which stands 140% above its 5-year average.

JKM Open Interest



The prompt Aug represented as M2, and the Q3'24 JKM contracts witnessed a fortnightly decline in OI by 7% and 2%, respectively, to 27.5 k/lots and 57.8 k/lots. OI remains most concentrated in Q4'24, which recorded a two-week rise of 11% in OI to over 68 k/lots. All three Cal'24 tenors currently find OI saturated at levels higher than their respective 5-year averages, with the Q4'24 OI currently 43% above this average.

Source: Onyx Capital Advisory

Technical Indicators Analysis:

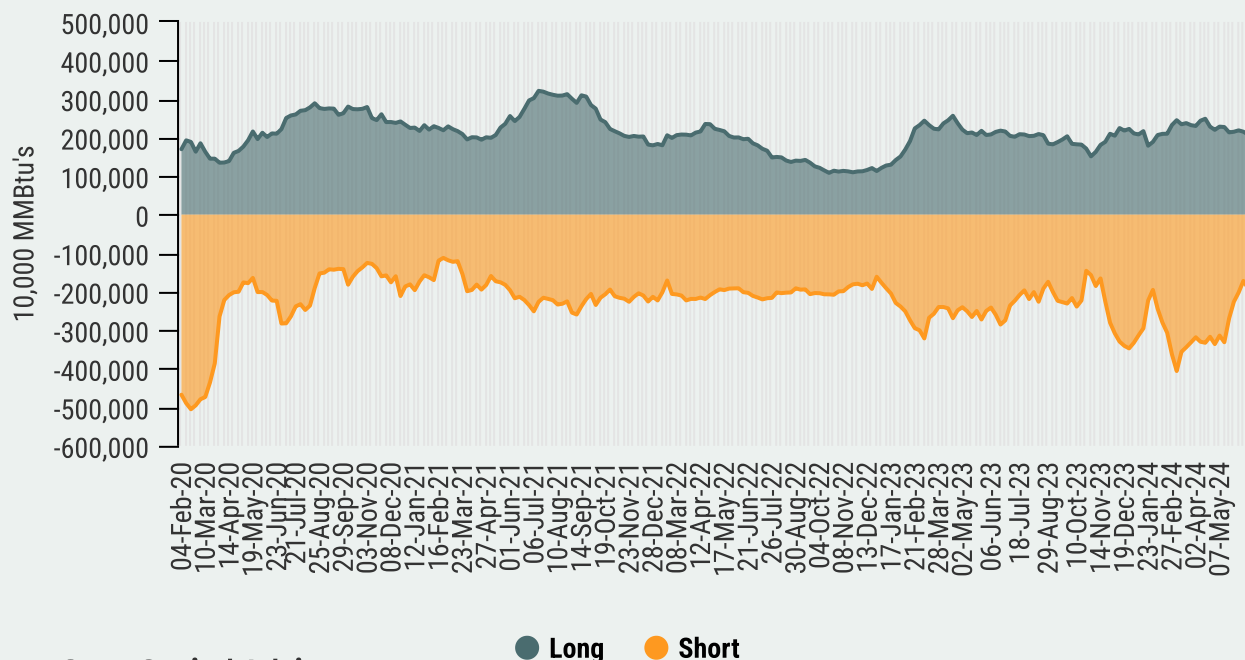
The August TTF price has remained stable between €34.60/MWh and €36.10/MWh, with restrictions on re-exports of Russian LNG landing at EU ports dampening sentiment. European storage levels remain healthy, keeping the RSI neutral and continuing the PPO's decline since June 03.

JKM prices shot up to \$12.85/MMBtu on June 13, following which they took a more rangebound nature in the remainder of the weak. Coupling this momentum with a declining PPO, we may be seeing indications that short-term bullishness may be slowing down if not reverting. That said, prices remain within the bounds of both Bollinger bands.

The August Basis surged from \$1.25/MMBtu to \$1.65/MMBtu from June 10 to June 20 due to the strength of the Asian LNG complex. The rally broke the upper Bollinger band and saw the RSI rise to 82.7 as of June 20, indicating overbought conditions. The PPO also skyrocketed from 2.1 to 21.9, showing strong bullish sentiment.

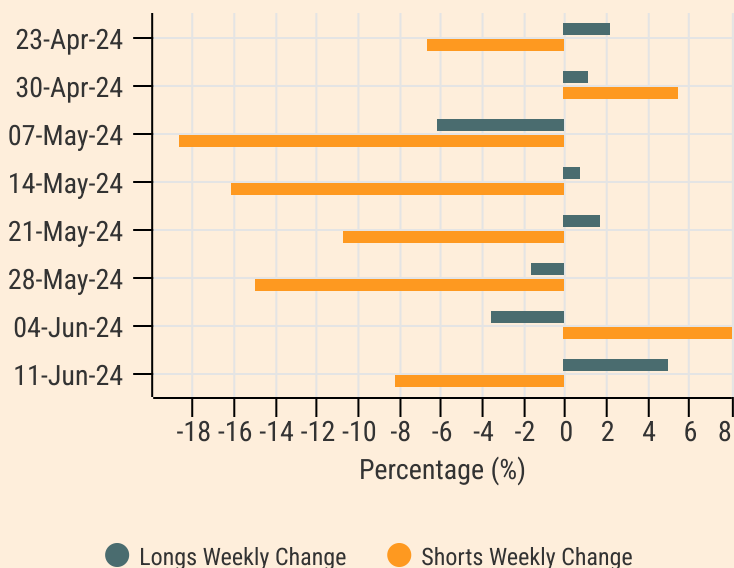
CFTC - NAT GAS NYMEX

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



Source: Onyx Capital Advisory

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



In the week to June 04, speculative players displayed a strong bearish sentiment, removing 7.5k/lots of long positions and adding 19.4k/lots to their short positions.

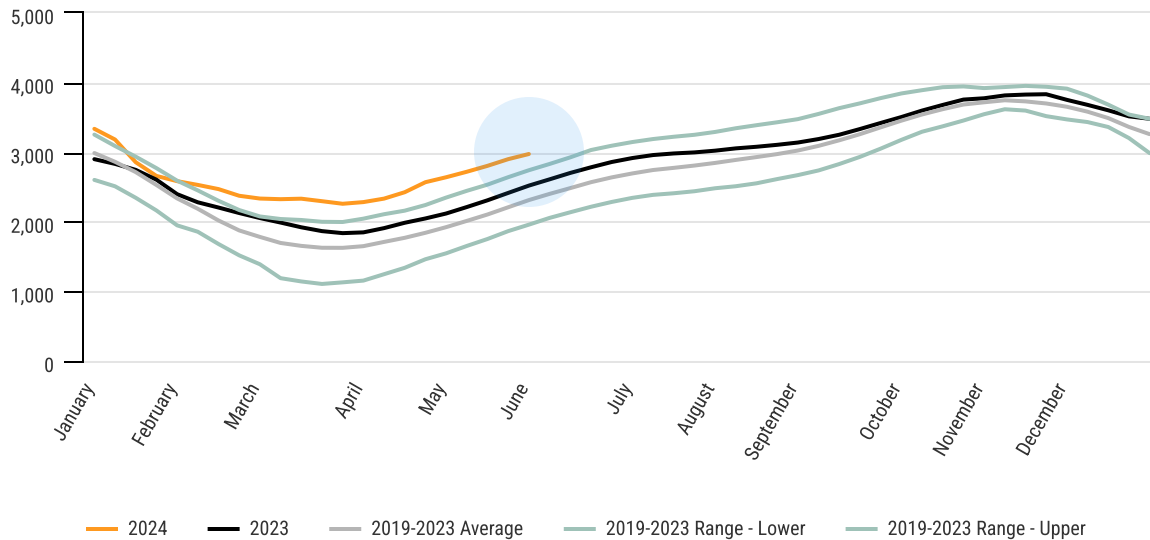
Subsequently, in the week ending June 11, this completely reversed, with money managers promptly adding 10.5k/MMBtu to their long positions and removing 15.6k/MMBtu from their short positions. Over the fortnight, their net position only declined from 43.2k/lots to 42.4k/lots (-1.9%) despite falling to 16.3k/MMBtu in the week to June 04.

Prod/merc positions told a different story, one of risk-off sentiment and bullishness. Both weeks saw sizeable reductions in both long and short positions, although these reductions were more pronounced in short positions. Total long positions fell from 213k/lots to 199k/lots (-6.5%), whilst total short positions fell from 347k/lots to 283k/lots (-18.5%).

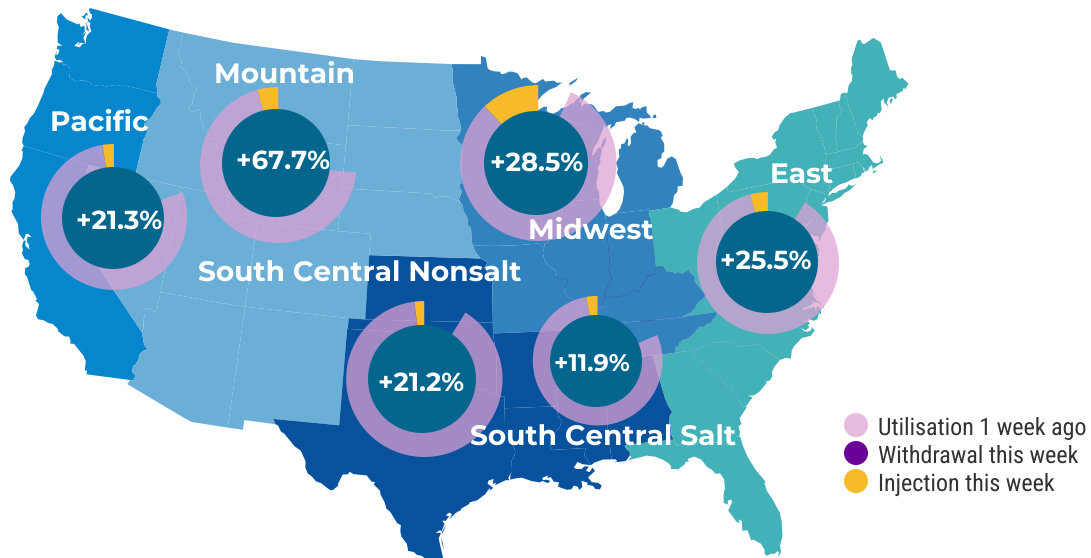
Source: Onyx Capital Advisory

US Storage Levels

US Lower 48 Weekly Working Gas Storage (Bcf)



Underground Natural Gas Storage compared to 5-year average



As of June 07, 2024, the EIA estimates working gas in storage at 2,974 Bcf, a net increase of 74Bcf from the previous week. Stocks exceeded both last year's levels by 364 Bcf and the five-year average by 573 Bcf, placing total working gas above the 5-year historical range.

Source: US Energy Information Administration, Onyx Capital Advisory

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 characterised by major bearishness as only June 11 saw a positive shift in net option delta (NOD) volumes. Even this sole positive shift was small at only 9k, making it the smallest flow seen in the past two weeks. Furthermore, numerous sizeable decreases in delta were seen, particularly on June 10 and June 13, which saw volumes decline by 166k and 172.9k, respectively. Total open interest in the past week grew by 0.3%, with equivalent rises of 0.3% seen in both calls and puts, perhaps reflecting sentiment shifting from bearishness to neutrality.	-2.8%	-4.1%	-1.4%
BOIL	Bullish	Flows in BOIL were overwhelmingly bearish in the early stages of the fortnight; from June 07-14, the only positive delta shift was minuscule, with volume increasing by just 1.8k. In this period, except for the 10k decrease in delta on June 10, sizeable volume removals were seen between 57k and 111k. However, following June 14, the ETF has seen flows finally grow, with 88.9k added on June 17 and 44.7k added on June 20. Total open interest in the past week has risen by 3.7%, with call OI and put OI increasing by 5.5% and 0.8%, respectively, reflecting a bullish sentiment.	-2.6%	+3.4%	+6.2%
KOLD	Bullish	The ultrashort KOLD ETF had a fairly bullish fortnight, with this most pronounced from June 07-11, which all saw positive delta shifts of between 42k and 44k. However, this shifted following June 11 to a much more mixed sentiment, with 6 consecutive days seeing flips between increases and decreases in NOD volumes. In particular, the 40.9k decrease in volumes seen on June 18, the largest since May 30, helped to ensure the ETF's price continued lingering around \$42. Open interest in KOLD has fallen by 0.5% in the past week, with put OI falling by 4% but call OI increasing by 1.1% in the past week.	-5.3%	-15.5%	-10.8%

*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; however, this has been replaced by mixed sentiment in the past few days. The ultrashort KOLD recorded net bullish flow, which can predominantly be explained by the relatively strong increase in new calls. The put/call OI ratios shifted very differently between the ETFs, ranging between -10.8% and 6.2%, a stark difference from the prior fortnight.

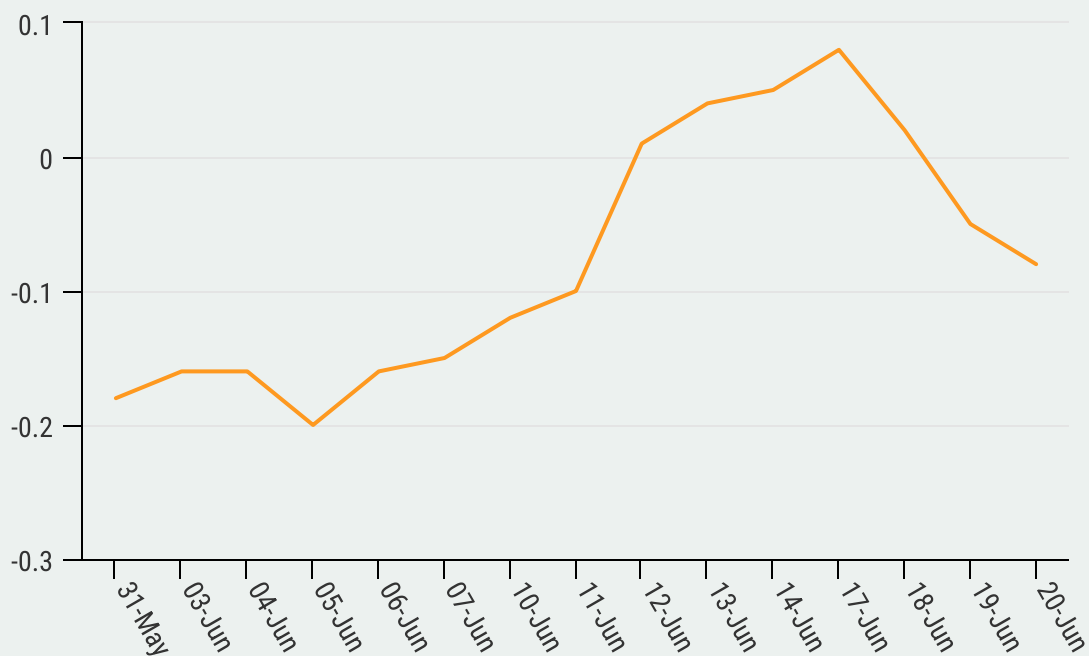
Source: Market Chameleon, Onyx Capital Advisory

Suggested Trade

Long Aug/Sep JKM (\$/MMBtu)

The spread between the prompt Aug and Sep JKM swaps has taken a nosedive recently, falling into contango at $-\$0.05/\text{MMBtu}$ on June 19 and plummeting 3c further the following day. This bearishness may have stemmed from news on Chevron's Wheatstone plant in Australia coming to full capacity this week. Despite this, we anticipate bullish tides in the prompt JKM spread closer to the spread's expiry. This sentiment is fuelled by hotter-than-expected temperatures in Asia, with power demand in South Korea hitting a record high. In addition, the EU's latest sanctions on Russian LNG may make it difficult to purchase Russian LNG due to plausible bans on transshipment, which could bring about a shortage in Asia amid the sweltering conditions.

Aug/Sep JKM (\$/MMBtu)



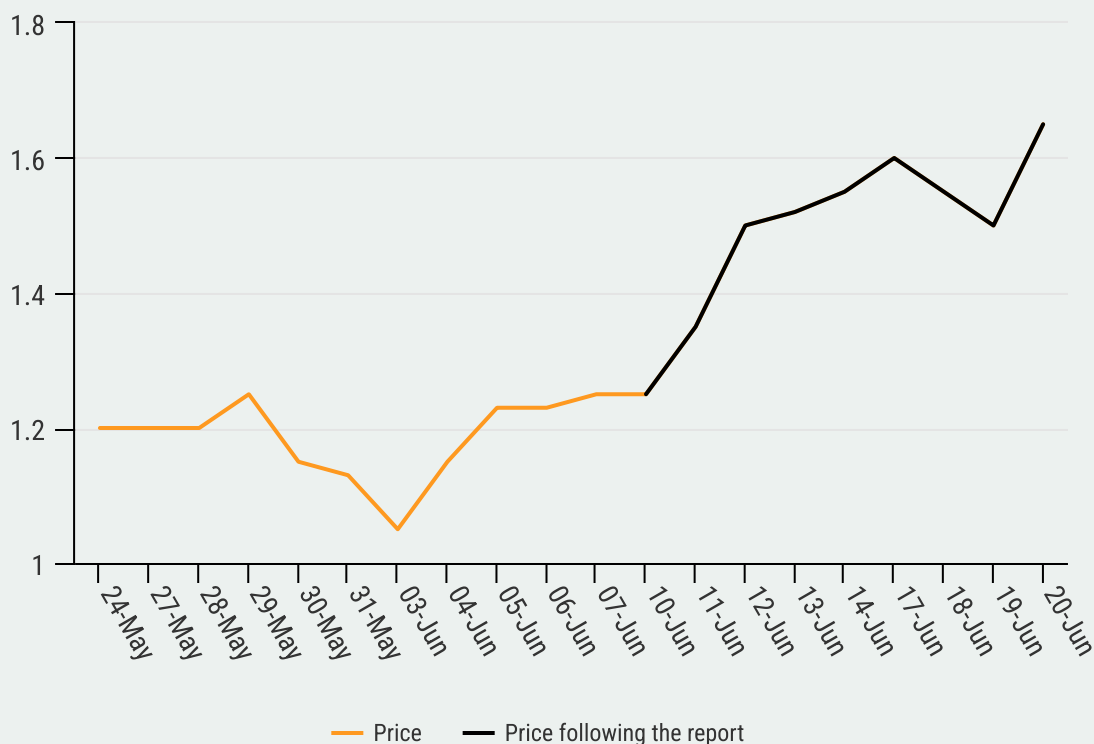
Source: Onyx Capital Advisory

Trade Review

Long Aug Basis (\$/MMBtu)

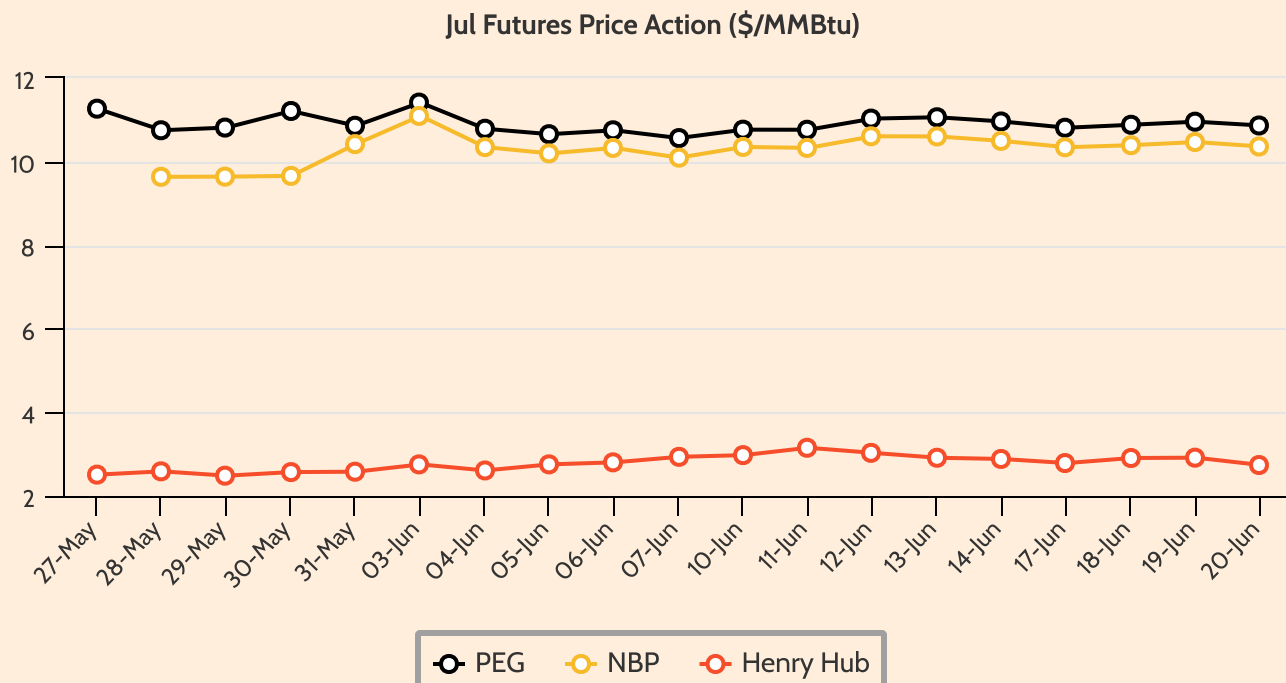
We expected the difference between the Asian JKM and European TTF contracts (Basis) in the August tenor to continue its rally into mid-June, given the relative strength of Asian LNG to its European counterparty. This was in part based on the fact that prices were still well within neutral territory, displayed with both Bollinger bands and RSI. Our view turned out to be thoroughly justified as Basis rallied aggressively in the past fortnight, soaring from \$1.25/MMBtu on June 07 to \$1.65/MMBtu on June 21, meaning our trade suggestion was a highly successful one.

Aug JKM vs TTF Swaps (Basis) (\$/MMBtu)



Source: Onyx Capital Advisory

Futures Benchmarks



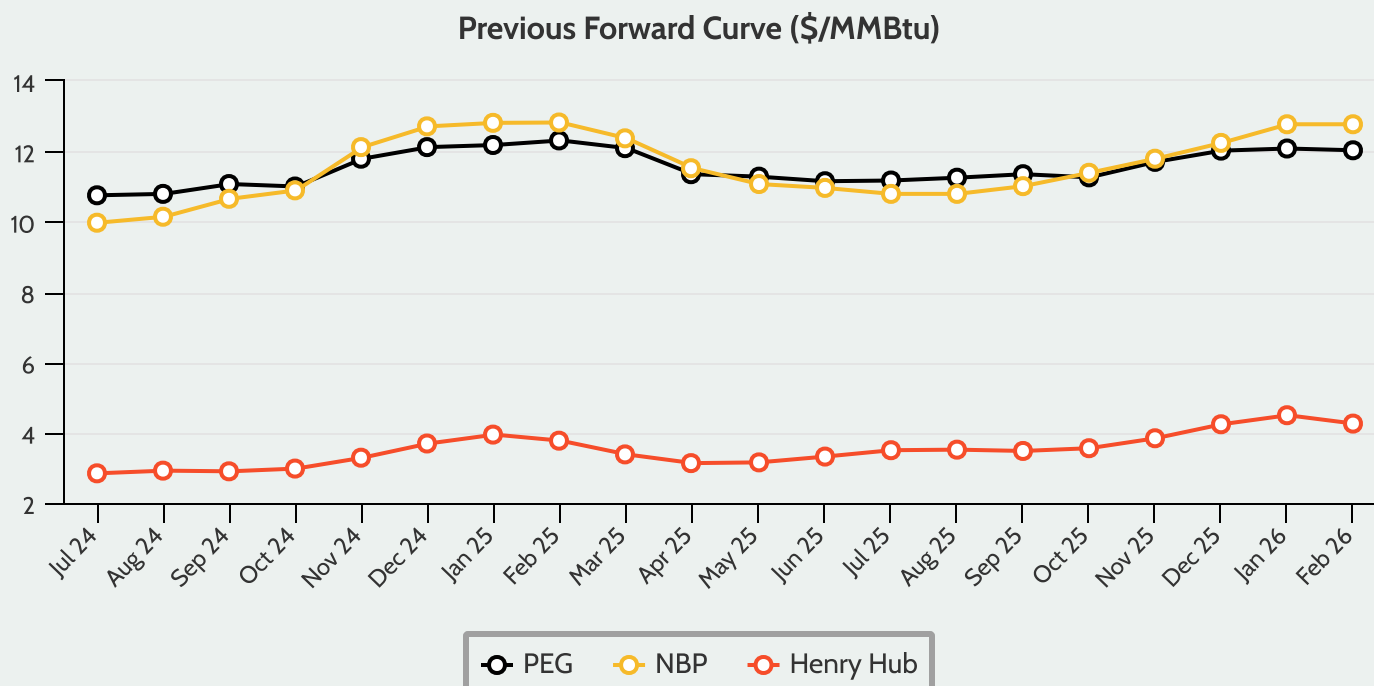
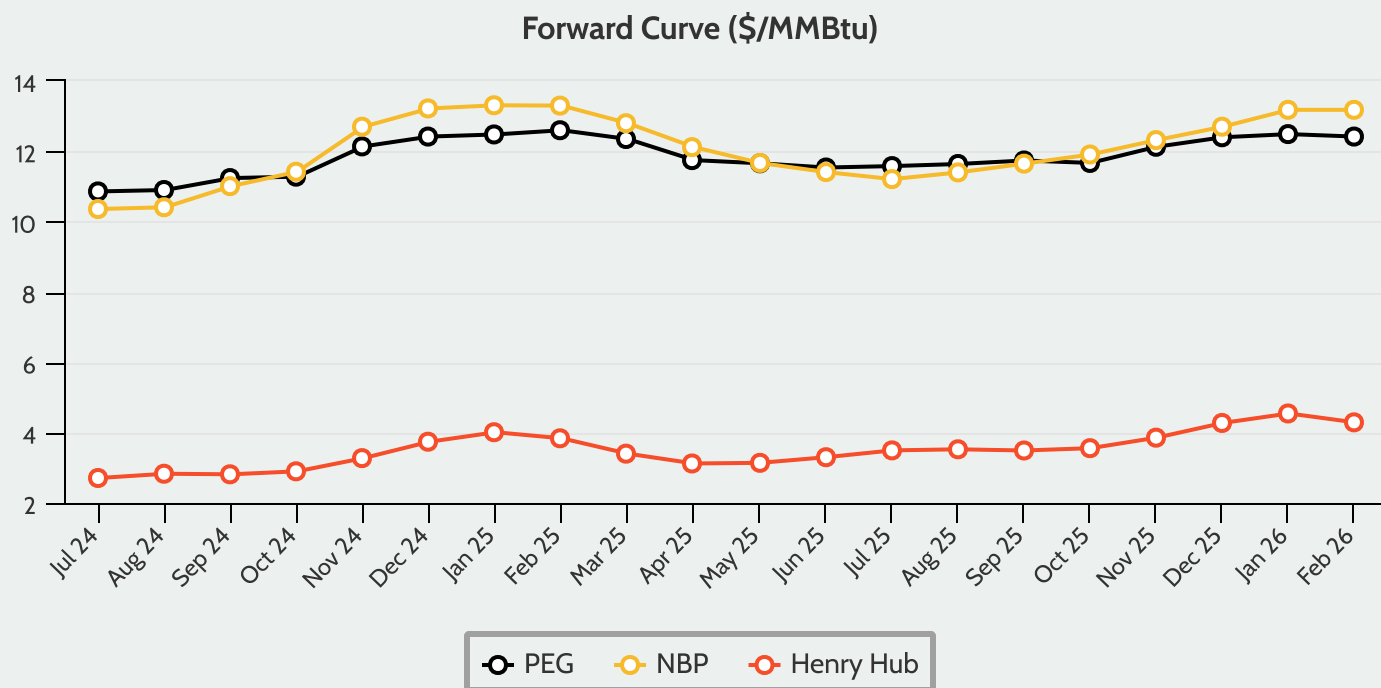
Source: Bloomberg, Onyx Capital Advisory

Global Benchmark Spreads (\$/MMBtu)

	TTF/Henry Hub	TTF/NBP	NBP/Henry Hub
Jul	8.01	0.65	7.36
Aug	8.06	0.56	7.50
Sep	8.36	0.32	8.05

Source: Bloomberg, Onyx Capital Advisory

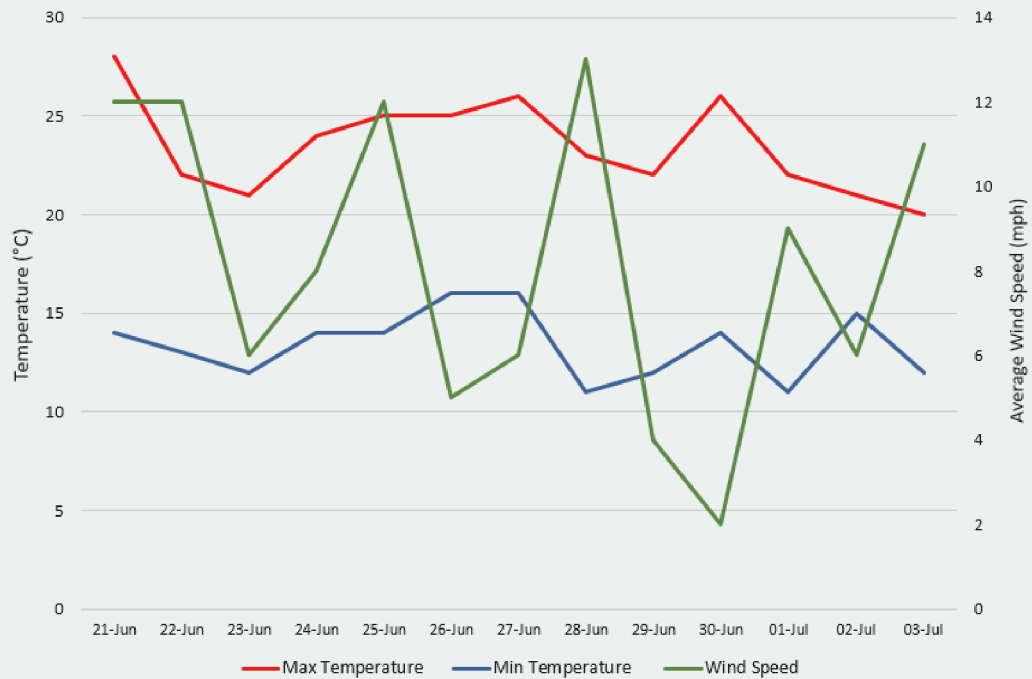
Futures Benchmarks



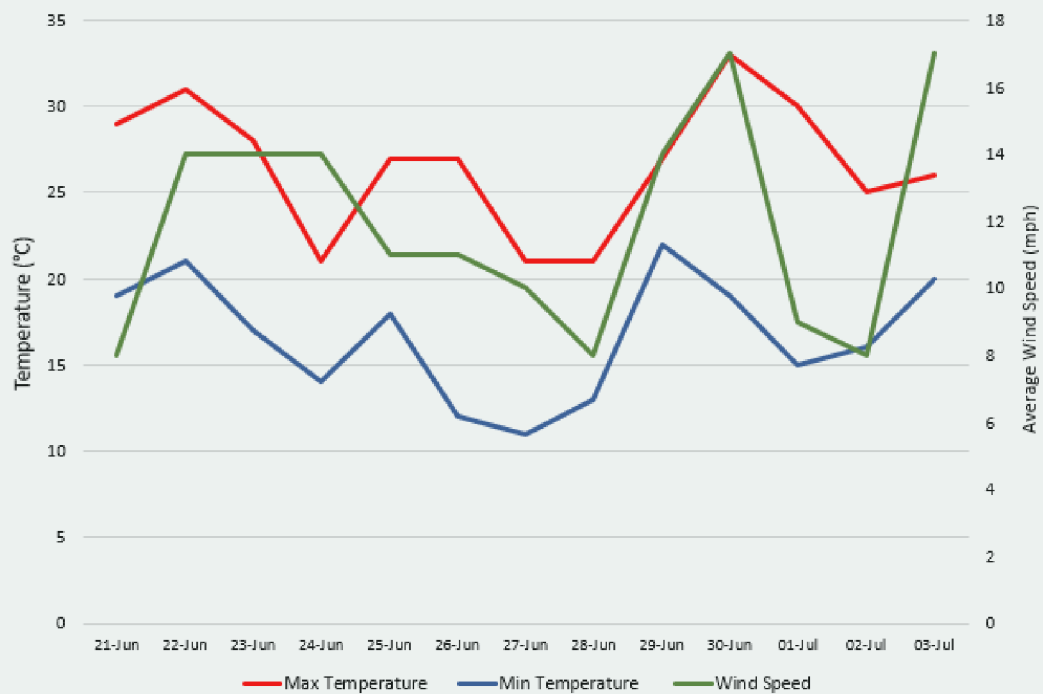
Source: Onyx Capital Advisory

Weather Forecast

Munich

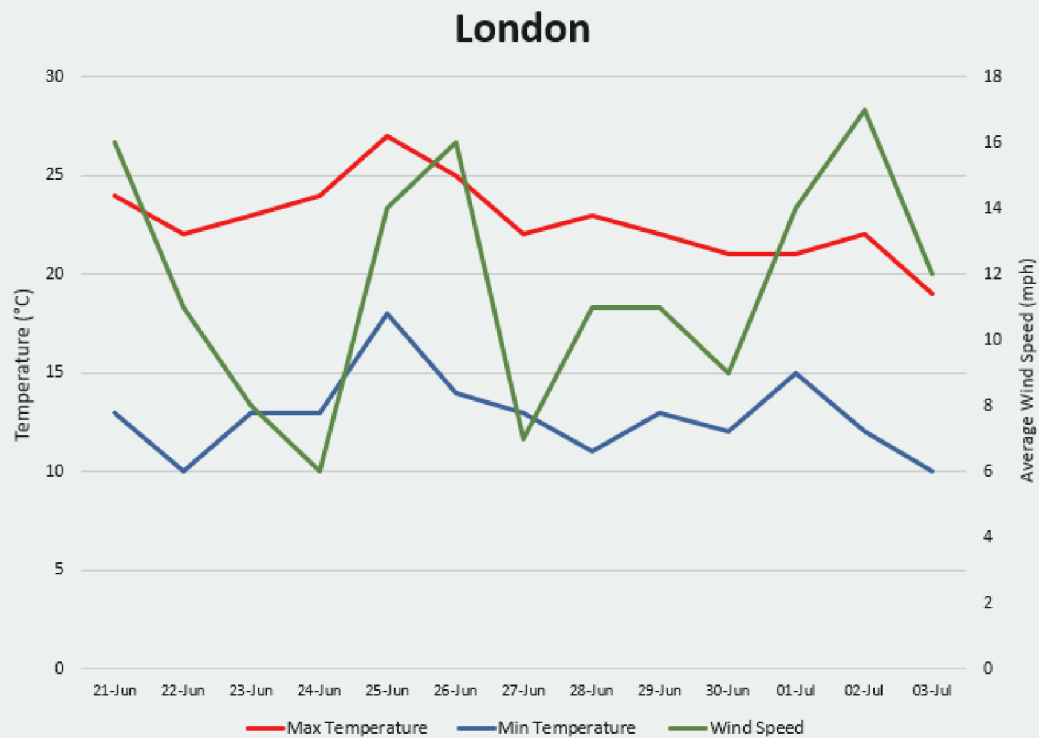
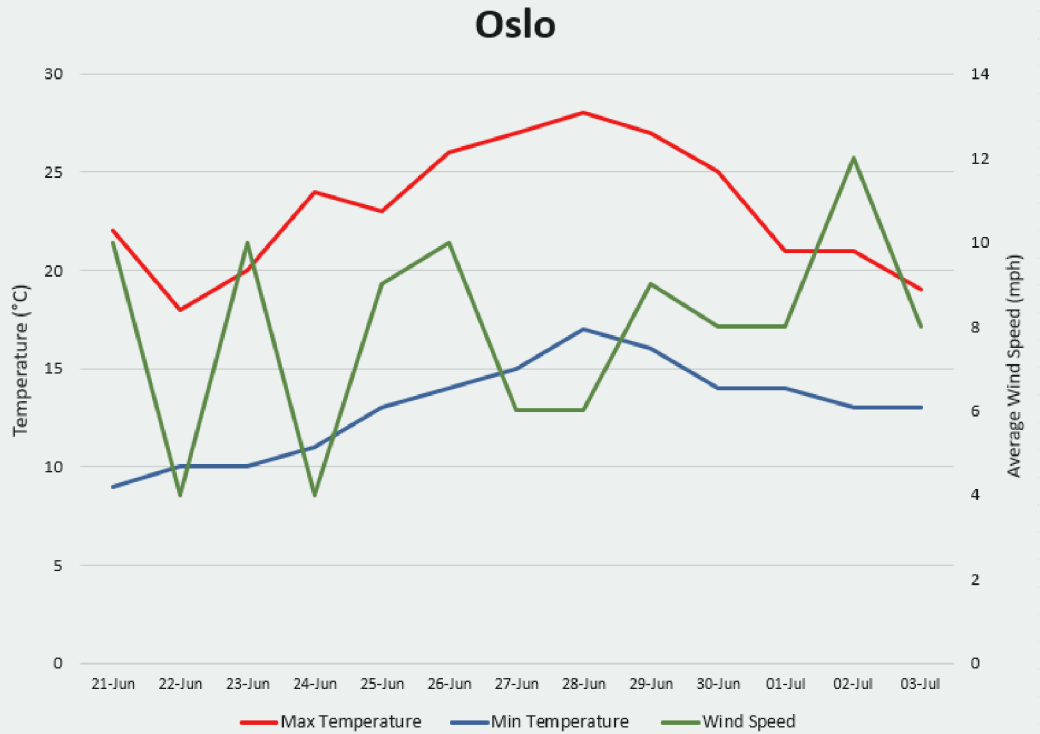


Brussels



Source: Onyx Capital Advisory

Weather Forecast



Source: Onyx Capital Advisory



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