

LNG

Bull v Bear

5th July 2024

Onyx Capital Advisory





Summary & News

- **Russia attacked and damaged a gas facility** in the Poltava region operated by UkrGazVydobuvannya (UGV), **Ukraine's** state-owned producer, on 03 July. UGV and UkrNafta, another subsidiary of the state-owned Naftogaz, together produced 7.3 Bcm of gas in 1H'24. an 8% increase y/y.
- **Vietnam's government** has approved a direct power purchase agreement which would permit **renewable energy developers to sell electricity directly to consumers**. Producers covered in the new decree included owners of licensed power plants utilising solar energy, wind, small hydropower, biomass, ocean waves, tides and currents, geothermal energy, and rooftop solar power.
- A finding by S&P Global Commodities Insights data, **US LNG exports** to Latin America and the Caribbean **fell by 23% m/m** in June to 33.34 Bcf (prev: 44.66 Bcf). However, exports to Brazil rose to 10.33 Bcf in June from 7.08 Bcf in May. Interestingly, **Latin American LNG imports swelled up by 20% in June m/m to 68.4 Bcf**, with Chile importing 15.51 Bcf - its highest monthly import figure since 2023. While 67% of this supply was imported from the US, 24% came from Trinidad, and the rest came from Nigeria and Indonesia.
- India and the Netherlands were the **top destinations for US LNG exports in June**, each receiving 12 LNG cargoes. Japan followed, receiving 9 cargoes from the US in June.
- **Japanese** utility Tohoku Electric is reportedly planning to restart the 1 GW No. 2 **coal-fired** unit at its Haramachi thermal power plant on 24 July. The facility has been facing an outage due to a glitch since 21 May.
- Germany's energy regulator, the Bundesnetzagentur, reported that the country's **gas consumption fell further** in the week ending 30 June to an average of 1.26 TWh/d, down 10% w/w and 19% lower relative to the pre-energy crisis average for this week (from 2018-2021).
- **African LNG exports fell by 6% to 20.31 million mt in 1H'24**, down 6% y/y. Nigeria remains the region's top LNG exporter, with exports in 1H'24 climbing by 5% m/m to 7.11 million mt.
- **According to data by the Petroleum Planning and Analysis Cell**, India's LNG inflows climbed around 6% m/m to 2.65 billion cubic metres in May.
- The average traded daily gas prices in Finland and the Baltic region converged in June, averaging €39.66/MWh in the Estonia-Latvia market and €39.74/MWh in the Finnish market. The Lithuanian market area averaged €39.98/MWh.
- As per the **Ukrainian** president, the country is in talks to **potentially transit gas from Azerbaijan to Europe** in an attempt to find alternatives to the current gas transit deal between Russia and Ukraine. The five-year gas transit deal between Ukraine and Russia is due to expire at the end of 2024.

View

Contract	Forecast	Logic
TTF Flat Price	Small Bear	Europe's TTF prices have been trading in a very narrow range in recent weeks amid high storage levels in the continent. Very weak German gas demand along with unexpectedly poor industrial production figures in both Germany and France is a major source of bearishness. However, remain cautious about this bearish view due to Russia's attack on a Ukrainian gas facility, which may impede supply in the short term.
Basis	Bearish	We expect Basis to tick down on the back of JKM's weakness, with Basis' PPO starting to see a decline post-01 July, with rising bearish momentum seen in prices. Major Japanese players appear to be done with their summer buying, which may pressure the Asian benchmark further.

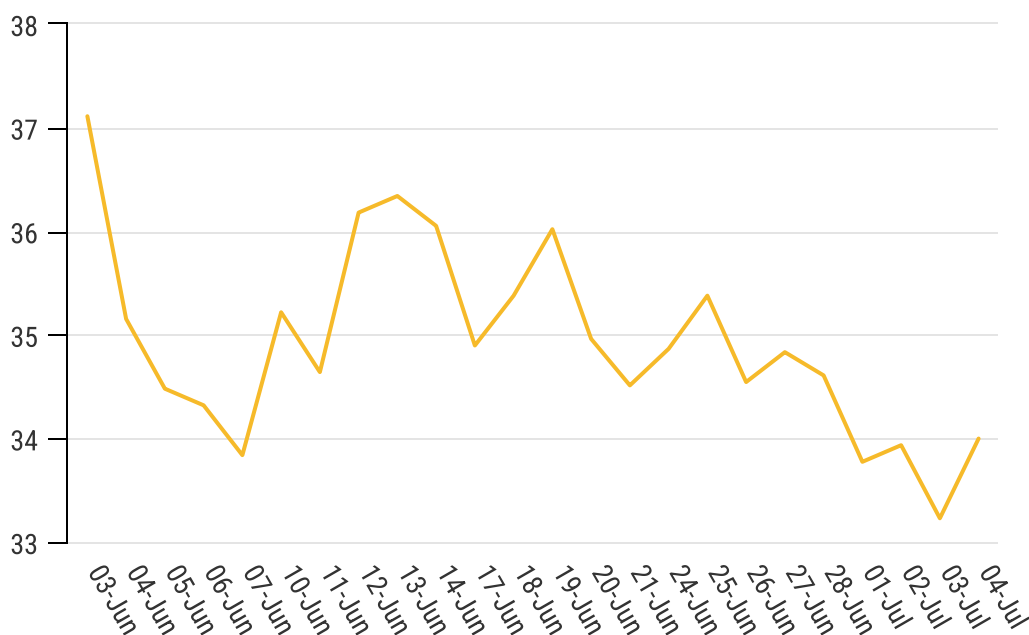
Bearish Factor

1

Consumption Conundrum

- Germany's energy regulator Bundesnetzagentur announced a drop in gas consumption in the week ending 30 June (Week 26).
- Consumption in this week fell by 10% w/w to 1.26 TWh/d as per data published on 04 July, while industrial gas consumption - which comprises consumption in the power generation sector - softened to an average of 1.07 TWh/d compared with 1.13 TWh/d in Week 25 and 1.43 TWh/d in Week 23.
- The August TTF contract weakened in the week ending 30 June, falling from €34.80/MWh on 28 June to €33.20/MWh on 03 July.
- According to Bundesnetzagentur data, this week's figure is 19% lower than the average for this week from 2018-21.
- Finally, we may see a worsening of consumption amid a decline in German industrial production, which declined by 2.5% m/m in May 2024 (exp: +0.2%, prev: +0.1%), its largest decline since December 2022.

Aug TTF (€/MWh)



Source: Onyx Capital Advisory

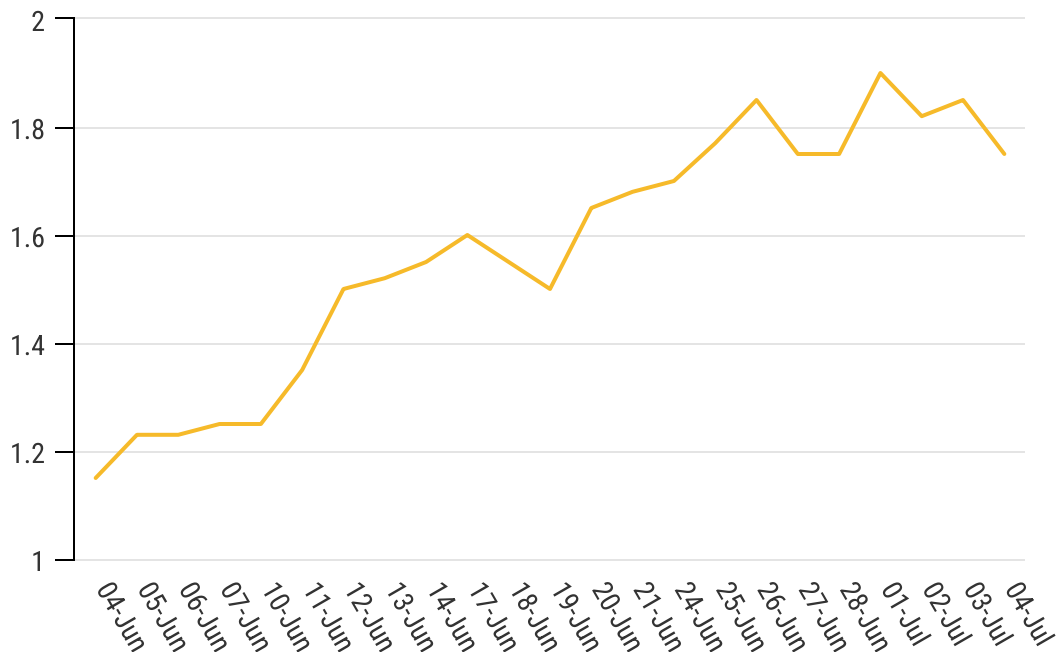
Bullish Factor

2

Attacks on Gas Infrastructure

- The Ukrainian energy ministry announced that Russia attacked the Poltava Oblast in Ukraine on 03 July, damaging a gas facility operated by state-owned producer UkrGasVydobuvannya (UGV), a subsidiary of Ukraine's Naftogaz.
- TTF prices were up on 04 July, the day this news was announced, rising 3% from the previous day's €33.20/MWh close to ultimately closing at €34/MWh on 04 July. In addition, the Aug differential between Asia's JKM and TTF came off from \$1.85/MMBtu to \$1.75/MMBtu on 04 July amid this strength
- UGV is Ukraine's biggest gas producer, producing 7.3 Bcm, along with fellow Naftogaz unit UkrNafta, an 8% increase year over year. In addition, this production figure surpassed planned levels by almost 2%.
- While any premia into TTF resulting from this attack appears to have been priced, it will be interesting to watch out for any developments regarding such attacks following the slew of attacks that impacted Russian refineries earlier this year.

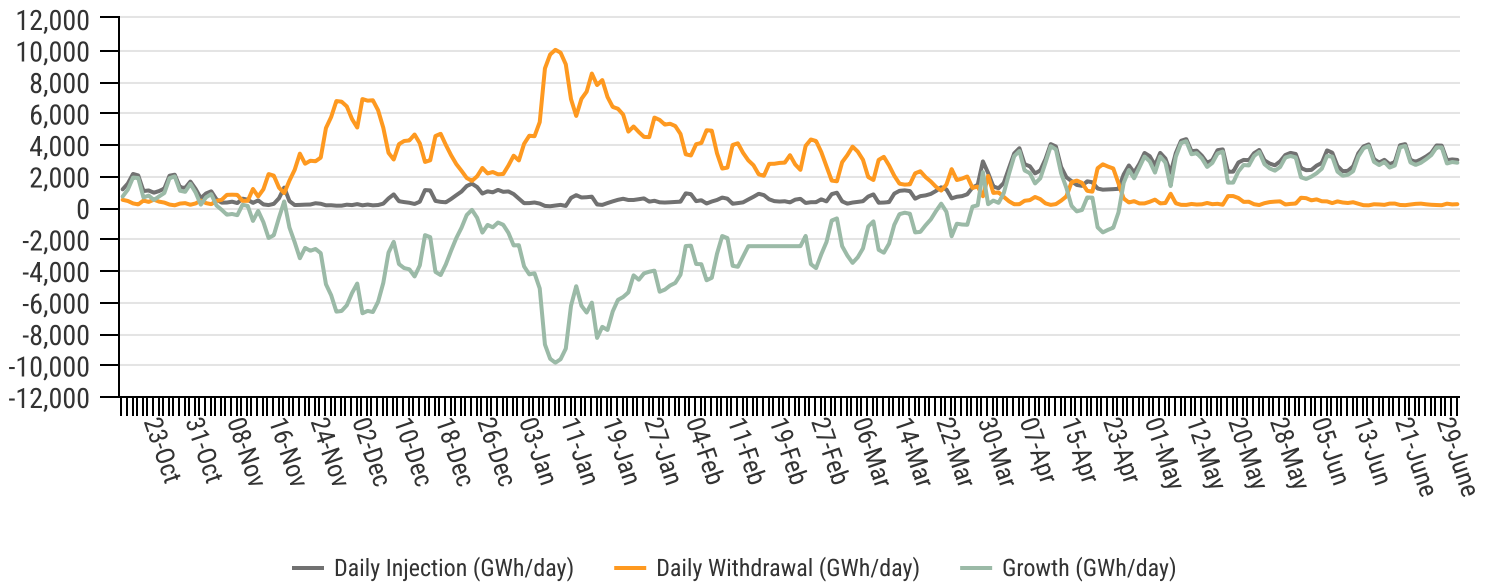
Aug Basis (\$/MMBtu)



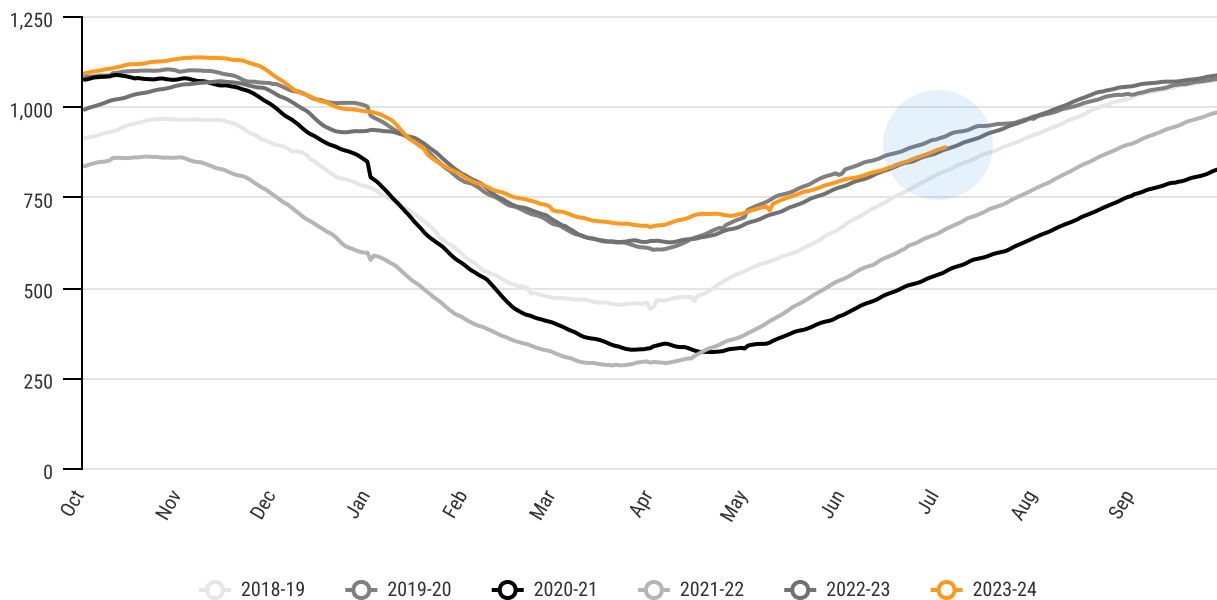
Source: Onyx Capital Advisory

European Storage Levels

European Gas Storage



EU Gas Storage (TWh)



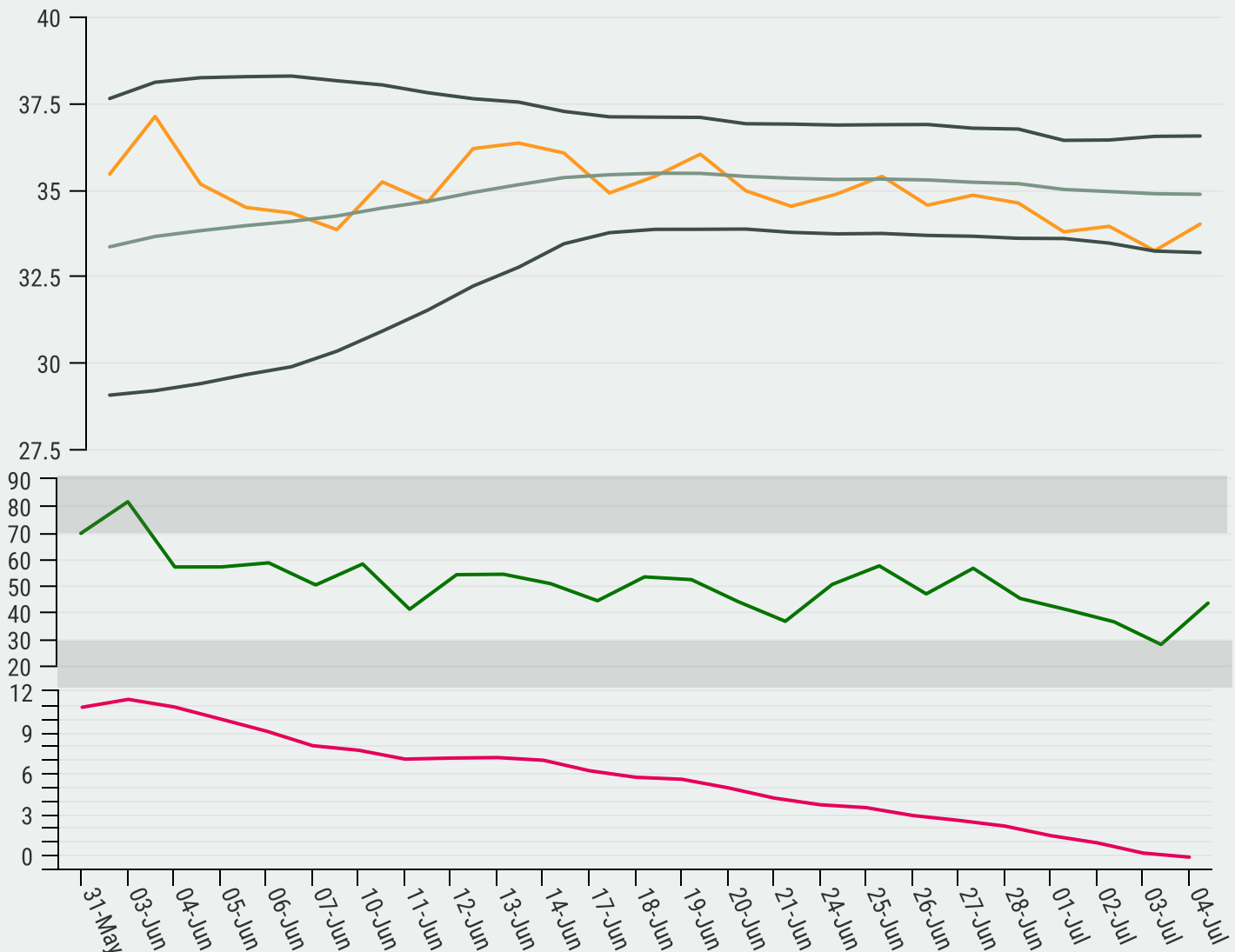
Source: Gas Infrastructure Europe

Over the past fortnight, European gas in storage has climbed, rising by an average of 0.25% each day in June. Levels reached 78.1% full on 03 July, from 74.79% on 21 June. These levels are very strong, and while this is trending higher at an accelerating rate, it remains lower than the levels noted in 2019-20 and is in line 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 an increasingly narrow range between €33.20/MWh and €35/MWh.
- Noticeably, volatility has remained at extremely low levels in the contract, shown starkly by the Bollinger bands remaining an equal distance apart, having aggressively narrowed since the start of June.
- These prices have seen the RSI remain firmly in neutral territory, while the Percentage Price Oscillator (PPO) has continued its decline from around 5 at the time of the previous report to finally dip below 0 as of 04 July.

Price (€/MWh)

Bollinger Bands

20-Day Moving Average

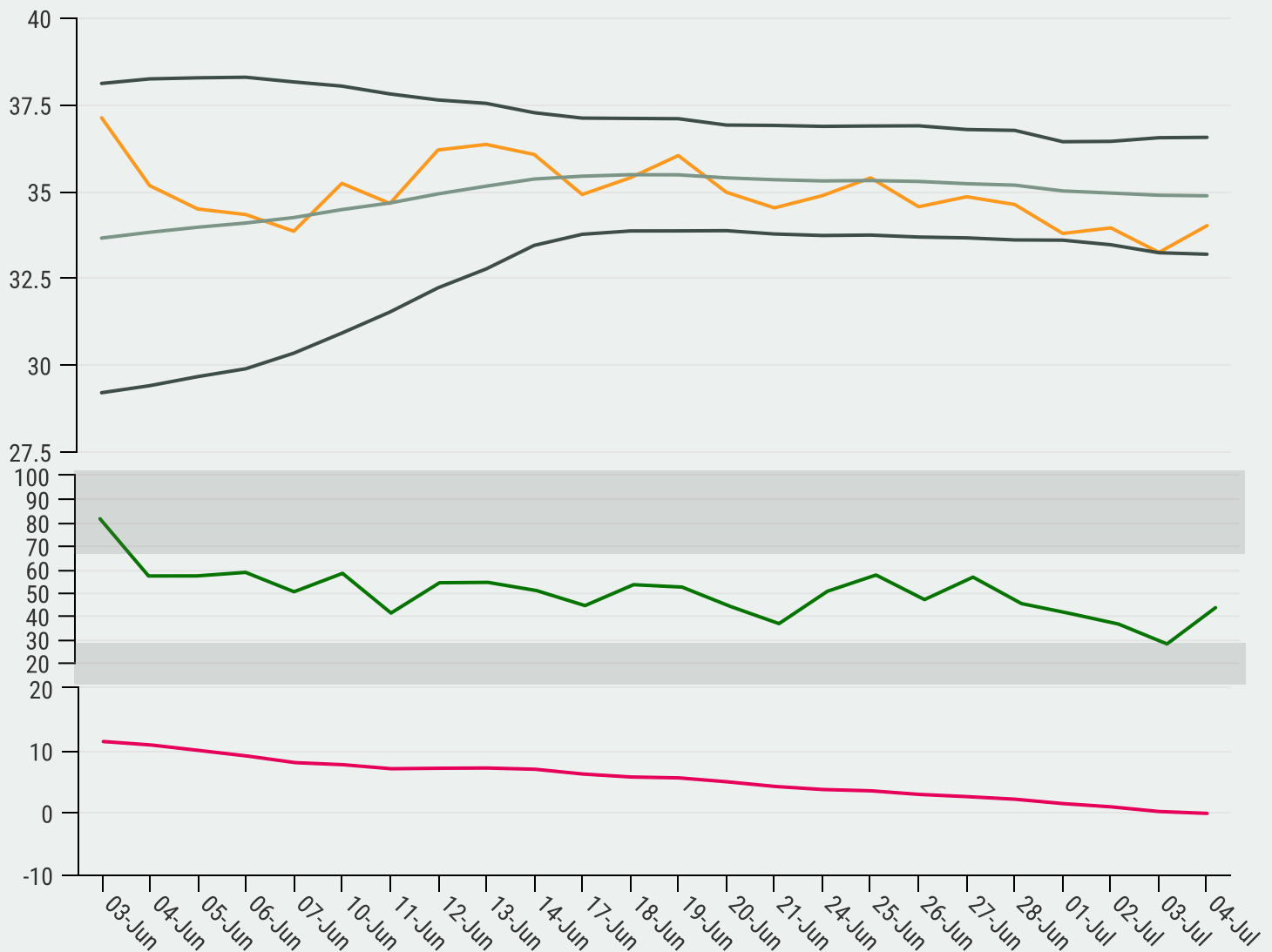
Relative Strength Index

PPO

Source: Onyx Capital Advisory

Technical Analysis

Aug JKM (\$/MMBtu)



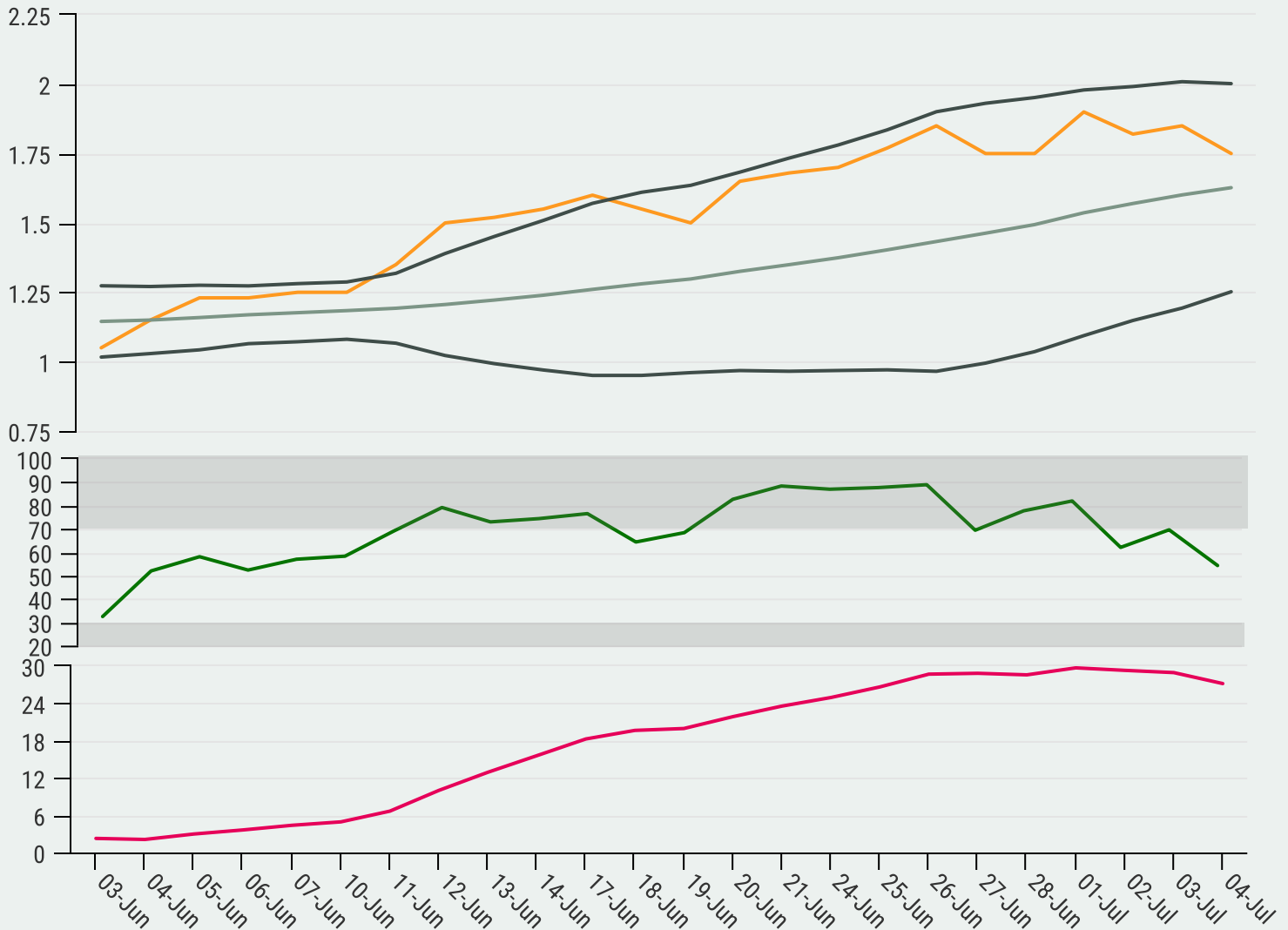
- The prompt JKM contract softened this week, inching from \$12.80/MMBtu on 26 June to \$12.20/MMBtu on 03 July, but found support here and climbed to \$12.35/MMBtu the following day.
- We now see a rise in bearish momentum in price action, highlighted by a downward-sloping Percentage Price Oscillator (PPO), signalling a decline in the short-term EMA relative to its longer-term counterpart.
- That said, 04 July witnessed prices retrace higher from the oversold territory, based on both the RSI and Bollinger bands, back into neutrality - indicating levels of support in the prompt contract and providing it with some respite amid the recent weakness.

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 seen a mixed bag of flow over the past fortnight, with price action first rising from below \$1.70/MMBtu on 21 June to \$1.90/MMBtu on 01 July and subsequently declining to \$1.75/MMBtu on 04 July.
- The recent weakness likely emerges from the correction of an overbought market, as indicated by an RSI reading falling from 89 at the end of June to 54 (neutral territory) on 04 July. We may also be noting de-risking, as indicated by a narrowing down of the Bollinger bands, highlighting lower levels of volatility.
- The PPO now appears to be declining, pointing to the start of more bearish momentum in prices.

Price (\$/MMBtu)

Bollinger Bands

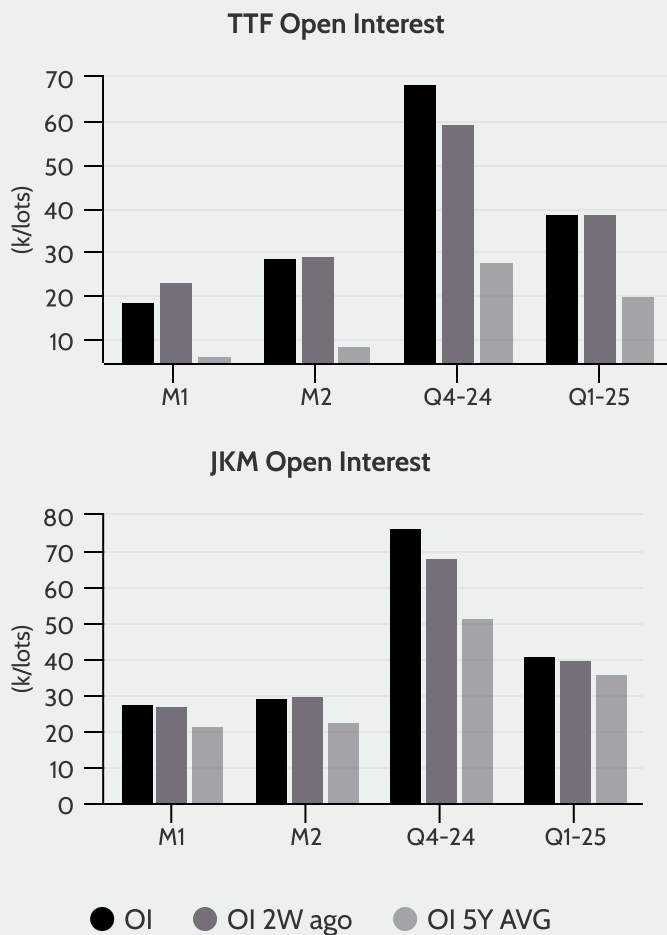
20-Day Moving Average

Relative Strength Index

PPO

Source: Onyx Capital Advisory

Open Interest



Open Interest (OI) in the M1 TTF contract was around 4.3k/lots (-19%) less than the figure from two weeks ago, whilst the M2 contract saw OI essentially flat at 29k/lots. Q4'24 and Q1'25 were different, with OI increasing in the past two weeks, by 9.1k/lots (+15%) and 0.3k/lots (+0.6%), respectively. Interestingly, the current OI was far above the 5-year average OI for all observed tenors, particularly in M1 and M2, where their respective current OI figures are 199% and 243% above the 5-year average figures.

Both the M1 and M2 JKM contracts saw their OI effectively flatline in the past two weeks, remaining around 28k/lot and 29.5k/lots levels, respectively. On the other hand the Q4'25 tenor saw a notable increase of 8.3k/lots (+12%) in the past two weeks. All the tenors observed saw OI well above their respective 5-year average figures, with the difference most significant in Q4'24, where current OI is 24.5k/lots (+47%) above its 5-year average.

Source: Onyx Capital Advisory

Technical Indicators Analysis:

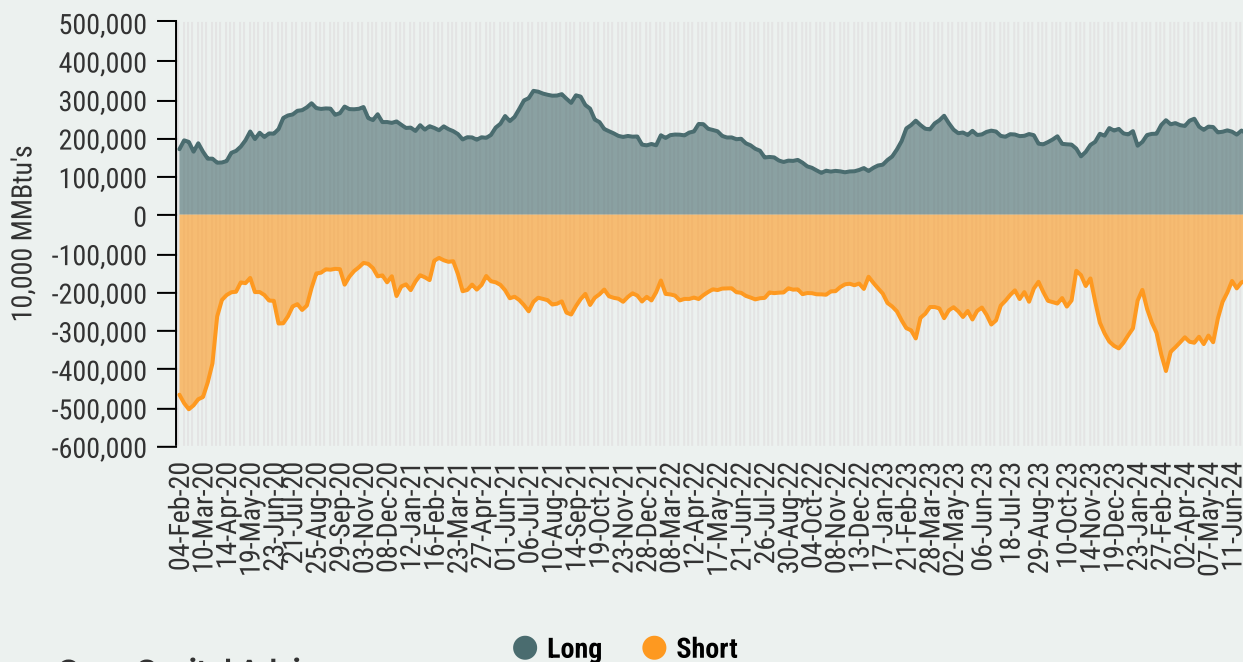
The Aug TTF price has traded in a narrow range between €33.20/MWh and €35/MWh, with any signs of strength neutered by weakening German gas consumption in the week to 30 June. European storage levels also remain at historically very high levels and as of 03 July are 78.1% full.

JKM prices softened this week from \$12.80/MMBtu on 26 June to \$12.20/MMBtu on 03 July, before it then saw support up to \$12.35/MMBtu. The PPO continued to decline throughout the fortnight, ticking down from around 5 to -0.16, although the Bollinger bands remained extremely narrow.

The difference between the August JKM and TTF contracts (Basis) rose slightly from \$1.65/MMBtu to \$1.75/MMBtu from 20 June to 04 July, during which it reached a peak of \$1.90/MMBtu on 01 July. The RSI ticked down from deeply overbought territory (89) to firmly neutral (54) from 26 June to 04 July, with the PPO also seeing an end to its rally, first moving sideways and then starting to tick down post-01 July.

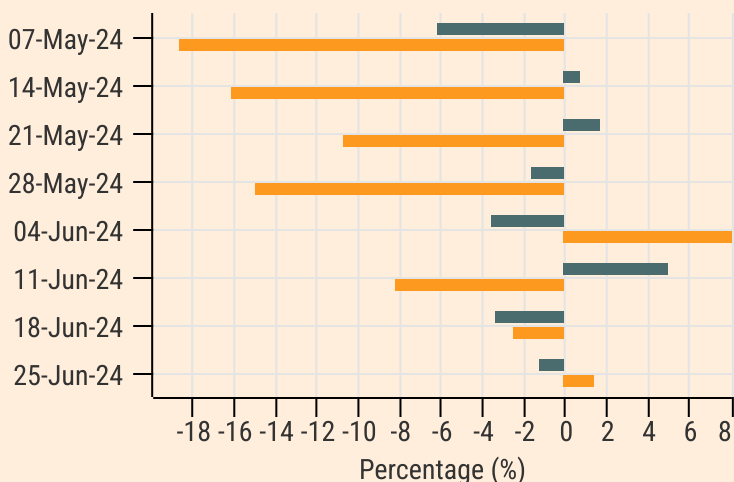
CFTC - NAT GAS NYMEX

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



Longs Weekly Change Shorts Weekly Change

Source: Onyx Capital Advisory

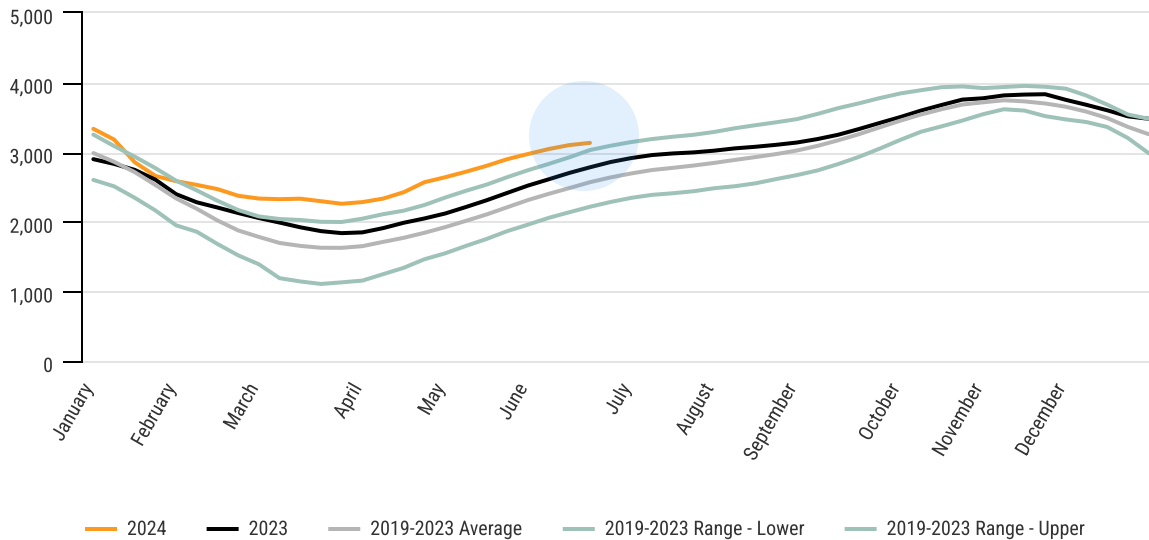
In the week ending 18 June, speculative players displayed a risk-off sentiment very mildly skewed to the short side, reducing their long positions by 7.2k/lots (-3.3%) and reducing their short positions by 4.3k/lots (-2.5%).

Subsequently, in the week ending 25 June, this shifted to a more outright bearish sentiment, as again, long positions were reduced, albeit by a lower magnitude of 2.4k/lots (-1.2%), whilst short positions were enlarged by 2.5k/lots (+1.5%). This brought net positioning down over the fortnight from 42.3k/lots to 34.6k/lots, the lowest level in four weeks.

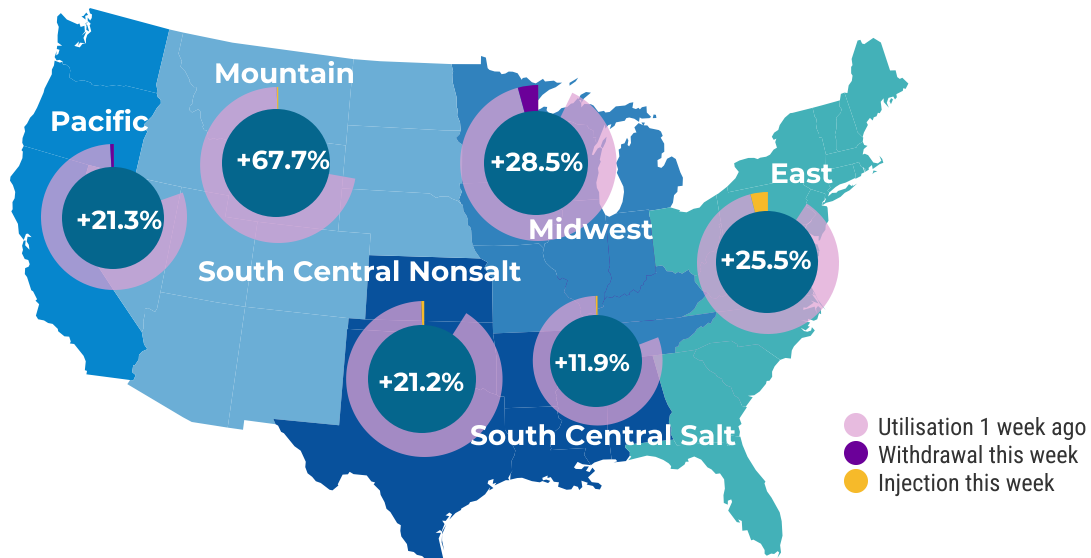
Prod/merc positions told a different story, one of risk-on sentiment and a mixture of bearishness and bullishness. The week to 18 June saw prod/merc players grow their longs and shorts by 15.2k/lots (+7.7%) and 17.5k/lots (+6.2%), respectively, whilst this shifted to more pronounced bearishness in the following week, with shorts increasing by 14.2k/lots (+4.7%) and long positions shrinking, albeit only by 341 lots (-0.2%).

US Storage Levels

US Lower 48 Weekly Working Gas Storage (Bcf)



Underground Natural Gas Storage compared to 5-year average



As of June 28, 2024, the EIA estimates working gas in storage at 3,134 Bcf, a net increase of 32Bcf from the previous week. Stocks exceeded both last year's levels by 275 Bcf and the five-year average by 496 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 United States Natural Gas ETF (UNG) only witnessed net selling this week, with net option delta (NOD) volumes averaging -67k every day in the week ending 03 July. Price action for the ETF accordingly dipped from \$17.65 on 28 June to \$16.35 on 03 July. 28 June notably saw net selling surpassing 125k shares of stock, most of which emerged from players buying a net equivalent of 216k puts. Despite this, open interest (OI) data over the week highlighted a decline in the put/call ratio and a rise in OI by 3.9% w/w.	+6.5%	+0.6%	-5.5%
BOIL	Bullish	Flows in BOIL (ProShares Ultra Bloomberg Natural Gas) were more positive, with only 28 June noting net sell-side NOD volumes at -57k. By contrast, 01 Jul saw +141k in NOD volumes. This day's bullishness emerged from traders buying a net equivalent of 348k shares in call options. Total open interest in BOIL listed options rose by 15.1% w/w, although the put/call ratio also witnessed a slight uptick w/w despite declining by 3.9% on 03 July.	14.6%	+16.1%	+1.3%
KOLD	Bearish	The ProShares Ultrashort Bloomberg Natural Gas ETF (KOLD) witnessed muted flows predominantly positioned with a sell-side bias, with only 01 July noting net positive NOD at +45k. While traders were seen buying over 87k in call options, they ended up selling these options in more significant volumes throughout the week, resulting in a decline in call option open interest. Total open interest also fell by 1.9%.	-4.0%	+2.2%	+6.5%

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

Summary:

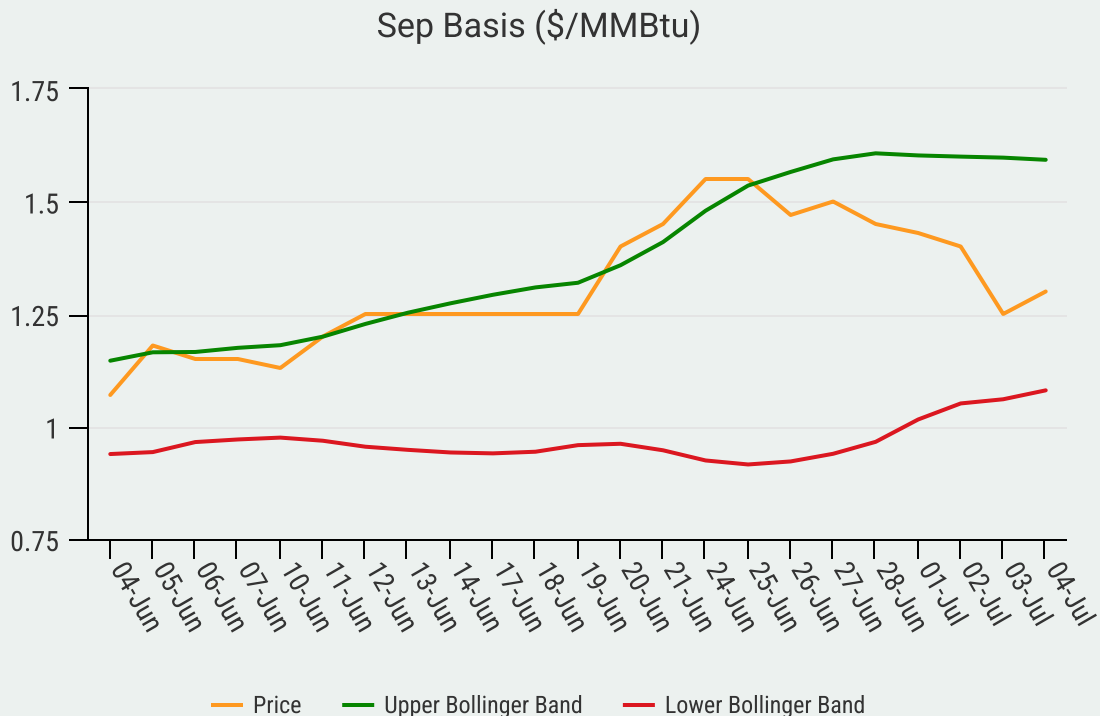
We saw traders adopt a bearish stance in UNG alongside the ultrashort KOLD ETF, the latter of which also saw more de-risking. On the other hand, BOIL witnessed a bullish flow this week, based on net option delta volumes, and also saw a rise in overall open interest. Despite the bullish flow, selling in BOIL-listed call options led to a marginal increase in the put/call ratio although call open interest in these options is stronger than usual.

Source: Market Chameleon, Onyx Capital Advisory

Suggested Trade

Short Sep Basis (\$/MMBtu)

The differential between Asia's JKM and Europe's TTF has been on a downward trend recently, with price action for the September contract falling from \$1.55/MMBtu on 25 June to \$1.25/MMBtu on 03 July. While prices have since climbed marginally to \$1.30/MMBtu, we expect them to continue to weaken in the near term on the back of JKM's weakness. Supporting this view, the PPO has been on a steady decline in July after previously rising, evidencing the recent decline in shorter-term price EMA relative, signalling rising bearish momentum in prices. Japanese power utilities have already procured volumes for summertime demand, while LNG prices in the Atlantic rebounded on 04 July amid unplanned outages in Oseberg and Visund in Norway, alongside Russia attacking Ukrainian gas infrastructure.

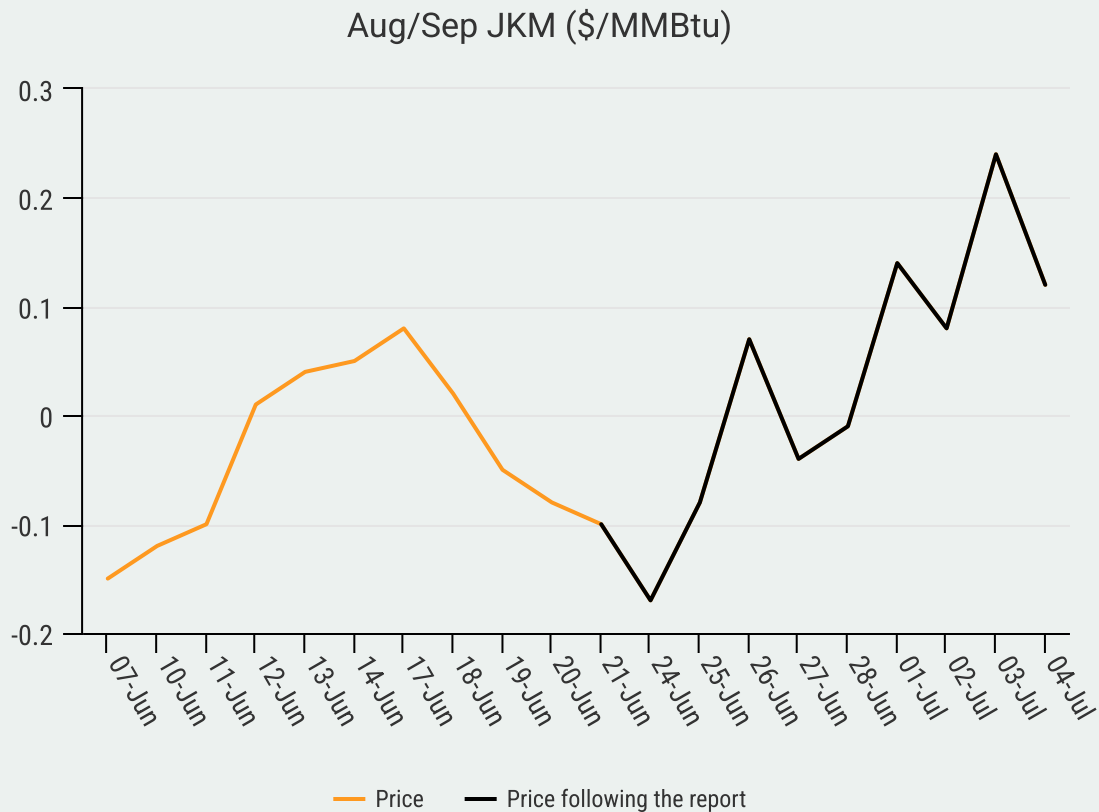


Source: Onyx Capital Advisory

Trade Review

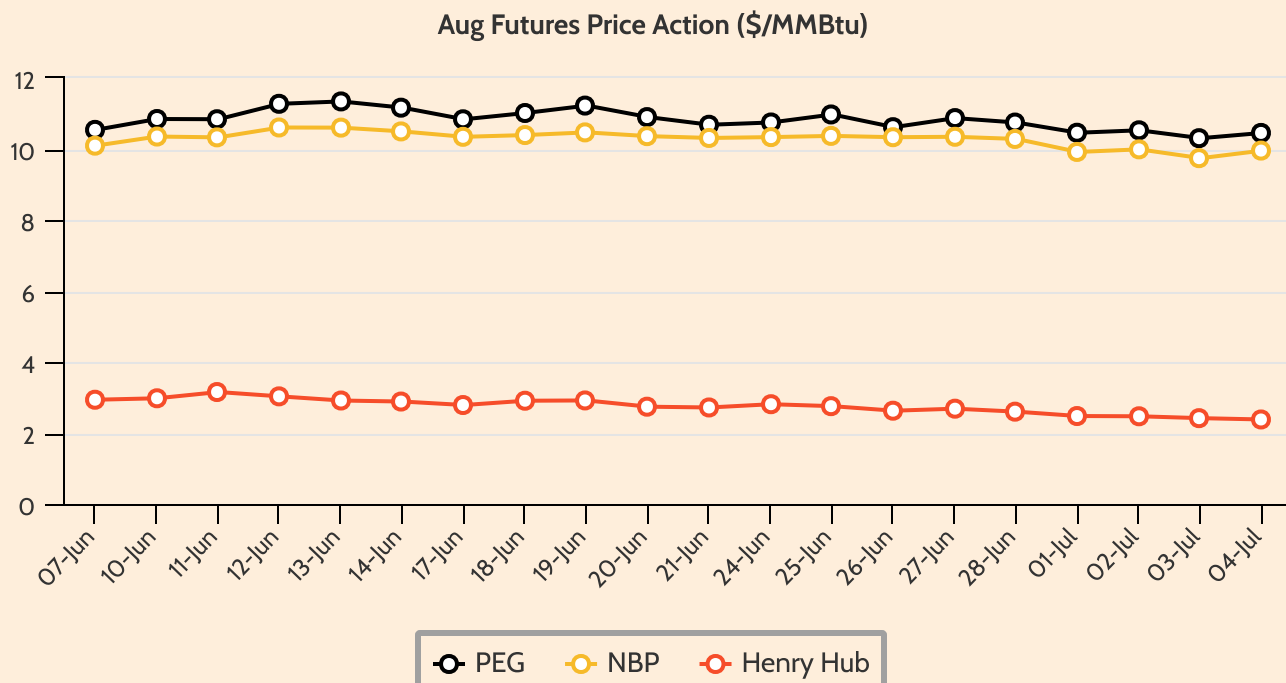
Long Aug/Sep JKM (\$/MMBtu)

We expected the prompt JKM time spread to rally following a nosedive towards the end of June when the spread entered contango. The sentiment was fuelled by hotter-than-expected temperatures in Asia alongside the EU's restrictions on re-exports of Russian LNG, giving rise to fears of Asia-bound product stuck in Europe. In line with our expectations, the spread rallied, reaching \$0.25/MMBtu on 03 July - highlighting a successful trade.



Source: Onyx Capital Advisory

Futures Benchmarks



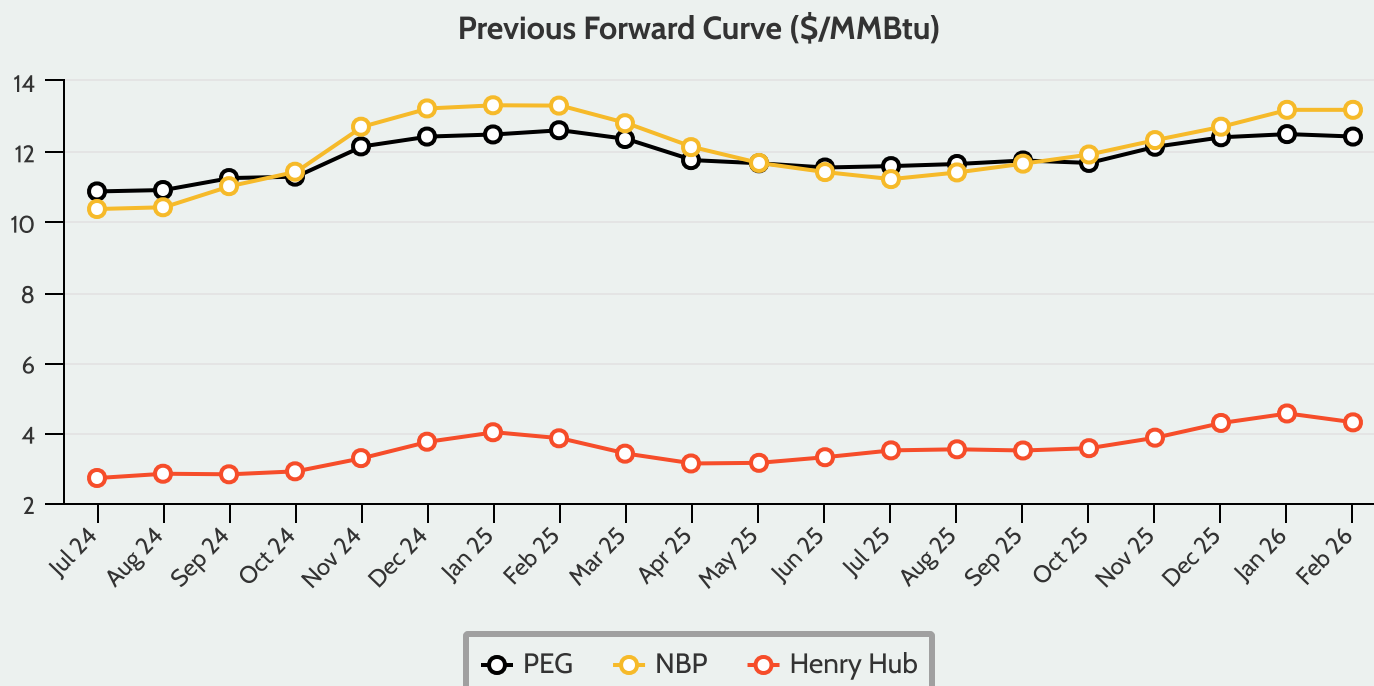
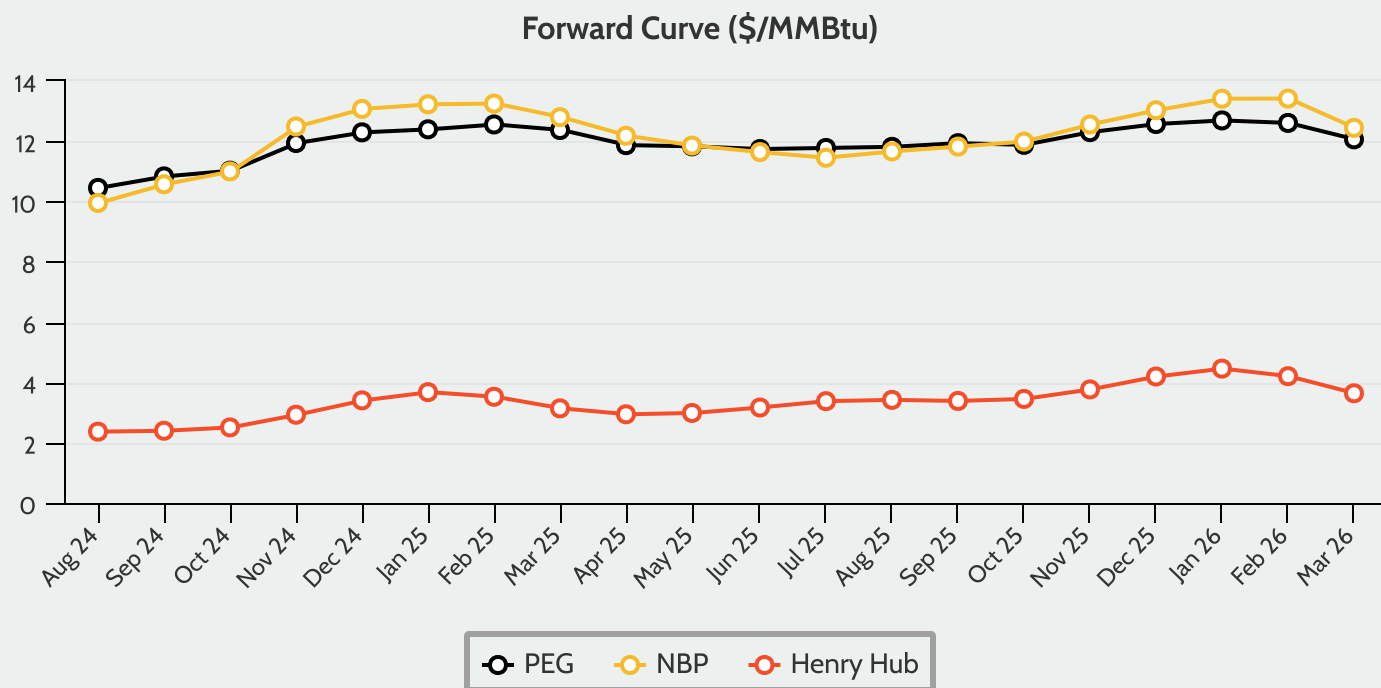
Source: Bloomberg, Onyx Capital Advisory

Global Benchmark Spreads (\$/MMBtu)

	TTF/Henry Hub	TTF/NBP	NBP/Henry Hub
Aug	8.25	0.63	7.61
Sep	8.57	0.36	8.21
Oct	8.88	0.37	8.88

Source: Bloomberg, Onyx Capital Advisory

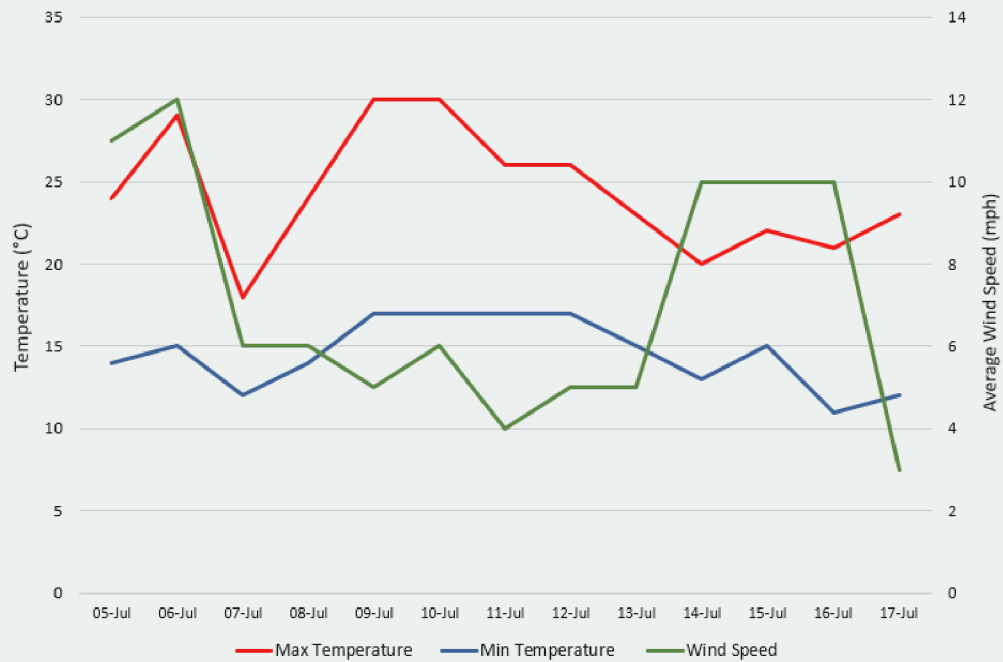
Futures Benchmarks



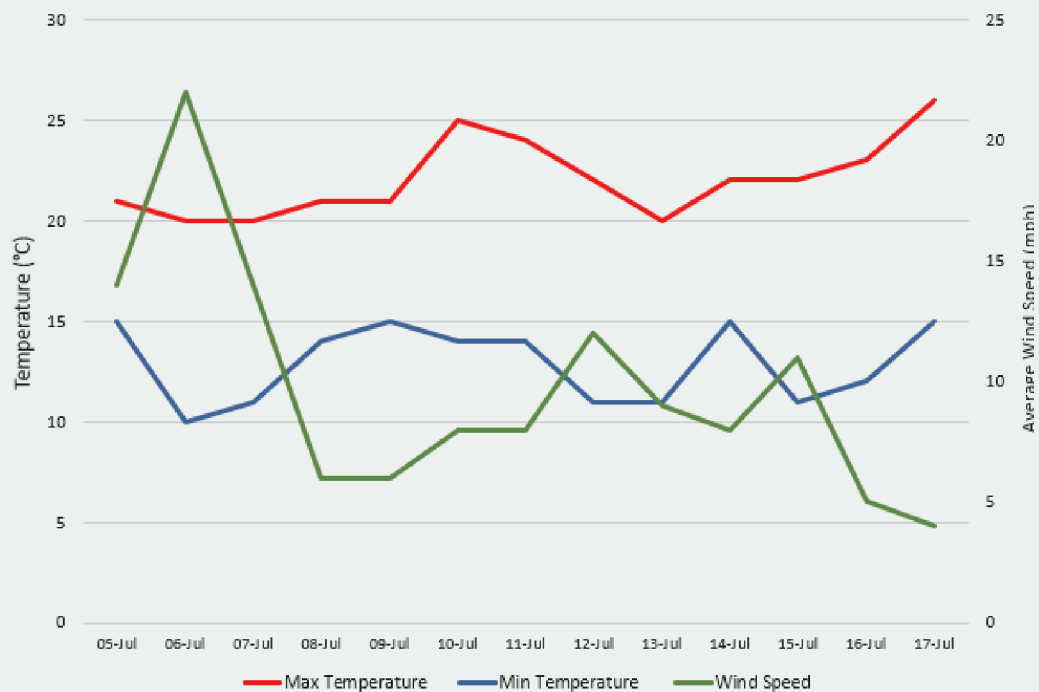
Source: Onyx Capital Advisory

Weather Forecast

Munich

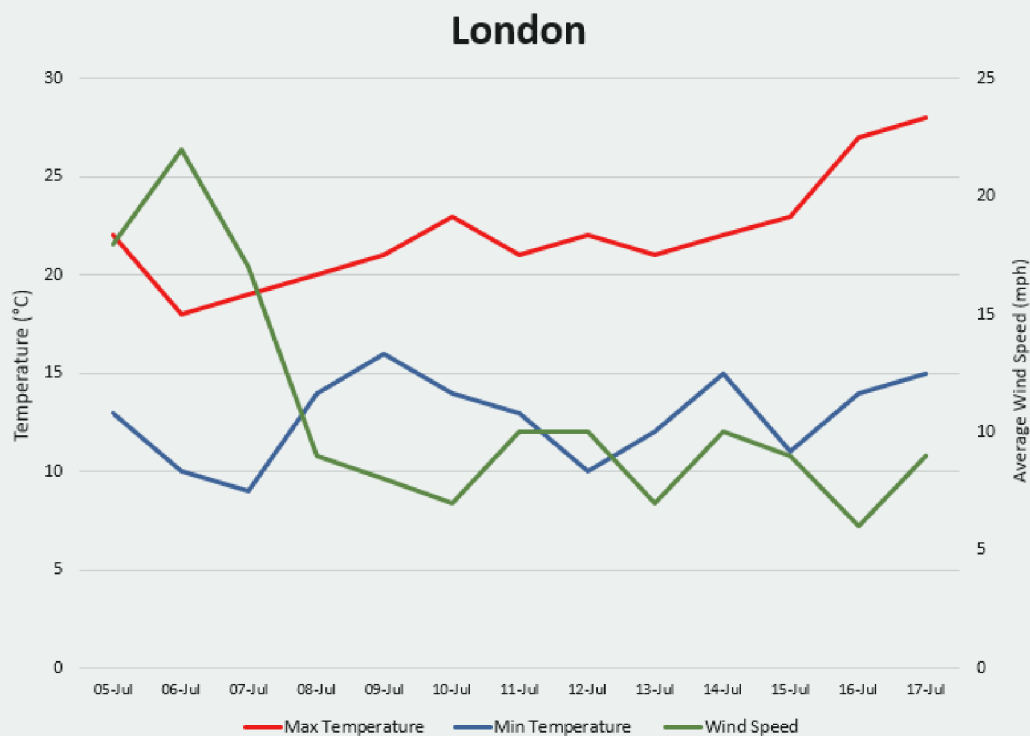
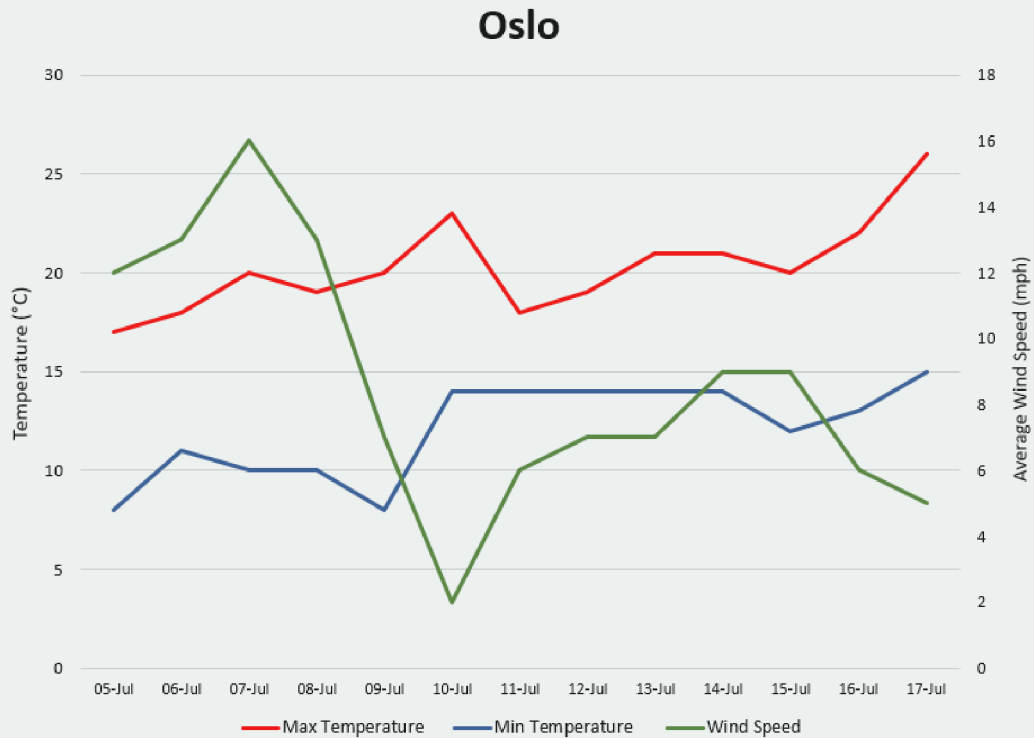


Brussels



Source: Onyx Capital Advisory

Weather Forecast





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