What's Hot: Freeport LNG reopens, providing a gateway to reduce US natural gas inventory

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Nitesh Shah
Head of Commodities and Macroeconomic Research, WisdomTree Europe

Freeport LNG has received US Federal Energy Regulatory Commission (FERC) approval to resume production on two of its three trains on February 21st 2023. That ends the longest outage of Liquefied natural gas (LNG) facilities in US history.

Freeport terminal was forced to shut down following an explosion and fire at the facility on June 8, 2022. As detailed in What's Hot: Have we hit peak-bearishness on Natural Gas yet? (January 2023), the natural gas markets have changed considerably in the 8 months of closure. With the absence of Russian natural gas flows, global gas markets were expected to be very tight, but a combination of European thrifting and very mild winter weather (both in US and Europe), meant natural gas supplies in the US were in surplus. During Freeport's closure, the US lost close to 20 percents of its natural gas export capacity at a time when demand from Europe was high (in the run-up to he winter). That has led to a large inventory build in the US. But the reopening of Freeport will help reduce that now.

On February 27th, FERC received an application for the approval of the final Freeport train. Approval and full capacity production would allow for the resumption of 15 million mt/year of production.

S&P Global Commodity Insights data shows that by February 27th, the facility had already shipped 6 cargoes of natural gas. Freeport can export about 16-19 LNG cargoes per month when operating normally.

Have we hit peak bearishness?

Soon after we published our prior What's Hot on Natural Gas, the Commodity Futures Trading Commission (CFTC) stopped printing futures market positioning because of a cyber-related incident at ION Cleared Derivatives1. It has only just started publishing old data (with the latest available on 31/01/2023 at the time of writing 03/03/2023). So, judging how bearish investors had become and whether that had reversed has become very difficult. But we can say that judging by flows into WisdomTree Natural Gas products, investors appear very bullish now. Flows in Delta-1 Natural Gas were at US66mn in February 2023, which is the highest monthly inflow since September 2010. In December 2022, adjusted net flows into our short and leveraged2 natural gas range hit the highest levels since our products started, and January 2023 marked the second highest. Adjusted flows in February 2023 ranked the 7th highest, indicating bullishness has not really fallen away. Website traffic to our natural gas products hit the highest levels since 2018 in January 2023, with only a fractional decline in February 2023. So as far as we can tell, exchange traded product investors are very bullish on the commodity.

Henry Hub rally 35% since re-opening

US Henry Hub Natural Gas prices fell to its lowest level since September 2020 on February 21st 2023 (i.e. just around the time Freeport received its FERC approval), and have rebounded 35% since (03/03/2023). Its price is still less than a third of their peak in August 2022 and so has a long way to catch up to prior levels, but we expect demand for US natural gas exports to expand.

Refilling European gas stocks

European natural gas stocks have fallen to 60% full (01/03/2023), markedly lower than the 80% when we commented in our January 2023 What's Hot. Coming into spring, seasonal demand for natural gas would normally decline as heating demand falls away. But we are not in normal times. European gas operators would be wise to fill storage (especially with prices as low as they are right now), to ensure ample supplies for winter 2023/24. Europeans arguably over-thrifted this winter, with farmers switching off heating supplies in their greenhouses, causing food shortages in some countries3. Constraining energy supply will be inflationary and reduce growth potential. A prudent strategy that will ensure price stability and support growth will be to fill storage. LNG import capacity in the European Union (EU) and the United Kingdom (UK) will expand by 34%, or 6.8 billion cubic feet per day (Bcf/d), by 2024 compared with 20214, indicating more demand from Europe for US natural to come.

Conclusions

Reopening Freeport LNG maybe a key turning point for US Henry Hub Natural gas. Prices are already 35% higher as a result. European demand for US natural gas could rise as it prepares for the next winter.

1 https://www.cftc.gov/PressRoom/SpeechesTestimony/cftcstatement020223

2 The sum of the flows in each WisdomTree Short or Leveraged (S&L) Natural Gas Exchange Traded Product (ETPs), multiplied by its leverage factor (i.e. -1 for short, 2 for 2x leverage, -2 for double short etc.) in US Dollars.

3 Dutch farmers had reduced heating of greenhouses taking a vital source of supply buffer away when adverse weather hit Spain and Morocco, two major sources of winter tomato, cucumbers and aubergines.

4 https://www.eia.gov/todayinenergy/detail.php?id=54780

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