

Coronavirus outbreak sends global gas prices lower pushing down UK Power

February 7, 2020

With an already oversupplied European gas market, the coronavirus outbreak is putting more pressure on global pricing for gas sellers.

Specialist PPA advisory and support services group New Stream Renewables says there is growing concern that China's demand for LNG will collapse a result of the coronavirus effect on the economy, possibly sending global LNG prices lower, which is impacting both UK gas NBP prices and UK baseload power.

Charlie Ward, Head of Renewables and PPAs at New Stream, commented: **"We came into winter with high European storage levels, and then the market withdrew really low rates in November and December on the back of mild weather. So here we are at the start of February with stock levels we wouldn't normally expect to see. This over supplied position has been made worse by the global LNG market and the impact of the coronavirus in China."**

"It's a shocker for sellers; we are heading into the second quarter with reduced demand for storage and there could be even more gas available than in 2019."

The U.S. is ramping up production at the Cameron and Freeport LNG liquefaction trains which will add further supply and cargoes on the water. Whilst it is difficult to see curtailment of LNG production given the nature of those operations, it is also hard to see how costs are being covered on a spot basis.

"What we don't know is how much of this gas is contracted under long term

off-take contracts at levels higher than we are seeing at the NBP or TTF. But those markets are still way above Henry Hub which is the U.S. price benchmark," said Ward.

In the U.S., gas producers are already under pressure domestically from an unusually mild winter. Although China hasn't directly imported LNG from the U.S. in over 18 months because of trade tensions, the market and impact on global demand is still important. Asia is a key export market and spot LNG prices have hit a record low as demand fears on the back of reduced industrial output have hit the market.

It could also be argued that the full impact of the coronavirus on Chinese demand has not been fully realised in what is a developing situation, with some businesses delaying start up after the new year.

To put the global price of gas into a European supply context:

- European TTF (Dutch benchmark) gas prices have fallen under \$3/MMBtu
- U.S. Henry Hub gas is below \$2/MMBtu
- To ship that U.S. gas to European markets there will be added liquefaction and shipping costs, so that spread / differential starts to look tight.

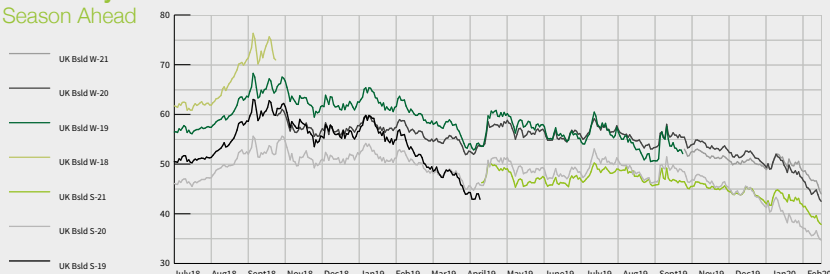
Said Ward: **"What is unclear is how long this gas supply demand imbalance will take to adjust. That's why we have been advising our clients to lock in PPAs to give downside protection."**



Charlie Ward,
Head of Renewables

New Stream Renewables is a specialist consulting and support services group operating across renewable energy markets and technologies.

UK Market Summary UK Power Season Ahead



NEW STREAM RENEWABLES LTD
4 Charlecote Mews Staple Gardens
Winchester SO23 8SR