Natural Gas Comment: European Gas Tighter Than Crude Oil

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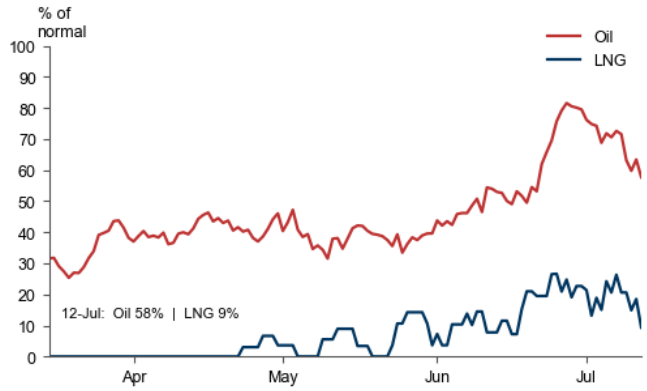
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- The rally in TTF over the past week following the recent escalation of the Iran conflict has taken it to 52 EUR/MWh, up 78% year to date vs 36% for Brent during the same period, reflecting the relative tightness in European gas and global LNG markets vs crude oil. This has been mainly driven by (1) Middle East exports ramping faster for crude oil than for LNG and (2) Asia (and China in particular) LNG imports having recovered to above last year's levels, while China crude oil imports remain weak.
- With Hormuz crossings now moving lower, the ramp in Qatari LNG loadings, which had recently modestly lagged our expectations, will likely drop. This poses further downside risk to European LNG imports, especially given that Asia spot LNG prices (JKM) remain high enough relative to European gas prices (TTF) to incentivize flexible US LNG loadings to head to Asia instead of to Europe.
- Because NW European gas storage remains very low, this delay in Middle East LNG export normalization fuels a sense of urgency for the market to fix the problem ahead of the coming winter, pulling TTF higher.
- Specifically, based on what we observed during this and the European 2022 energy shocks, we believe it would take TTF near 65 EUR/MWh ($22/mmBtu) to pull JKM to the mid-$20s/mmBtu to disincentivize Asia LNG demand more visibly - and potentially higher if that demand destruction needs to expand. TTF currently pricing at 52 EUR/MWh vs our 42 EUR/MWh 3Q26 base case hence implies a 45% market-perceived probability that price-driven destruction of Asia LNG demand will be needed to help manage European gas storage higher[1].
- Given this potential European competition with Asia for LNG volumes ahead of (and maybe into) the winter in a low European gas inventory environment, we continue to recommend that gas users hedge their 20206-27 winter exposure against sharp TTF and JKM price spikes.

[1] Alternatively, we can interpret current prices as implying a 28% probability TTF needs to rally to 80 EUR/MWh to trigger an even broader gas demand destruction process across Asia LNG importers.

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

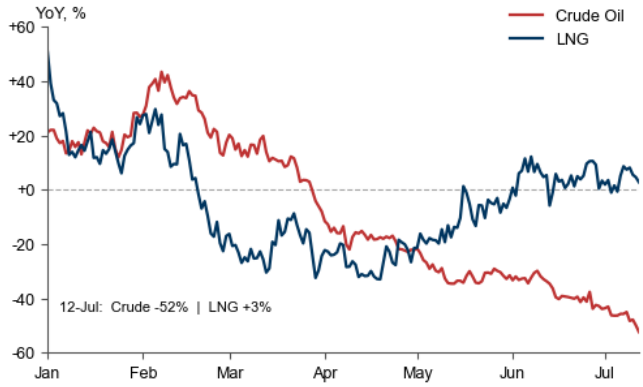
Exhibit 1: LNG exports from the Persian Gulf have been slower to ramp than oil exports
Percent of normal exports from the Persian Gulf (7dma), %



Oil includes total oil liquids.

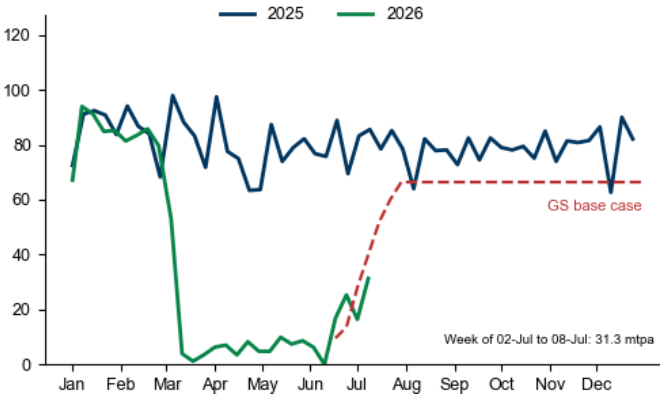
Source: Kpler, Goldman Sachs Global Investment Research

Exhibit 2: China LNG imports are back up yoy, while crude oil imports have decreased further
China yoy change in imports (4wma), %



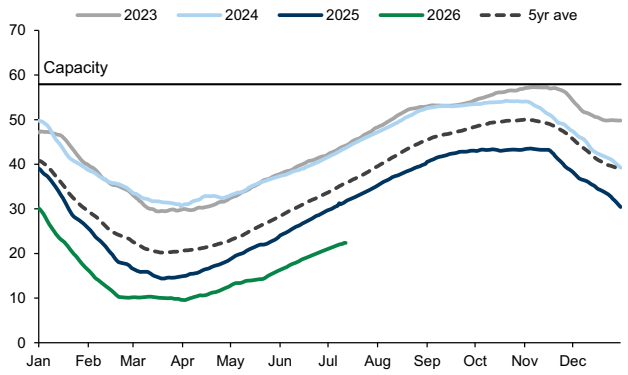
Source: Kpler, Goldman Sachs Global Investment Research

Exhibit 3: The recent decline in Hormuz LNG crossings will likely drive Qatari LNG loadings further down relative to our base case
Qatar LNG loadings (weekly), mtpa



Source: Kpler, Goldman Sachs Global Investment Research

Exhibit 4: NW European gas inventories remain very low
NW European storage, Bcm



Includes the UK, Belgium, France, Netherlands and Germany.

Source: Bloomberg, Goldman Sachs Global Investment Research

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