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IENE Comment

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*By Michael Stoppard**

The start of September has seen a sudden upward surge in international natural gas prices. While headlines focus on crude oil crossing the symbolic \$100 per barrel mark, gas prices have been rising faster, and are trading close to the oil price equivalent of \$150 per barrel.



The gas price rally should not come as a surprise. Analysts have been fretting for months about the low levels of gas stocks in Europe. These need to be ramped up if Europe is to be ready for the winter heating season — and to secure supply, Europe must go head-to-head with Asian buyers.

But the warnings went unheeded. “Forward” prices for gas this winter

remained resolutely flat relative to summer prices. So there was no incentive for traders to buy gas and pay to use storage for months, waiting on winter. Governments wanted to maintain a sense of calm.

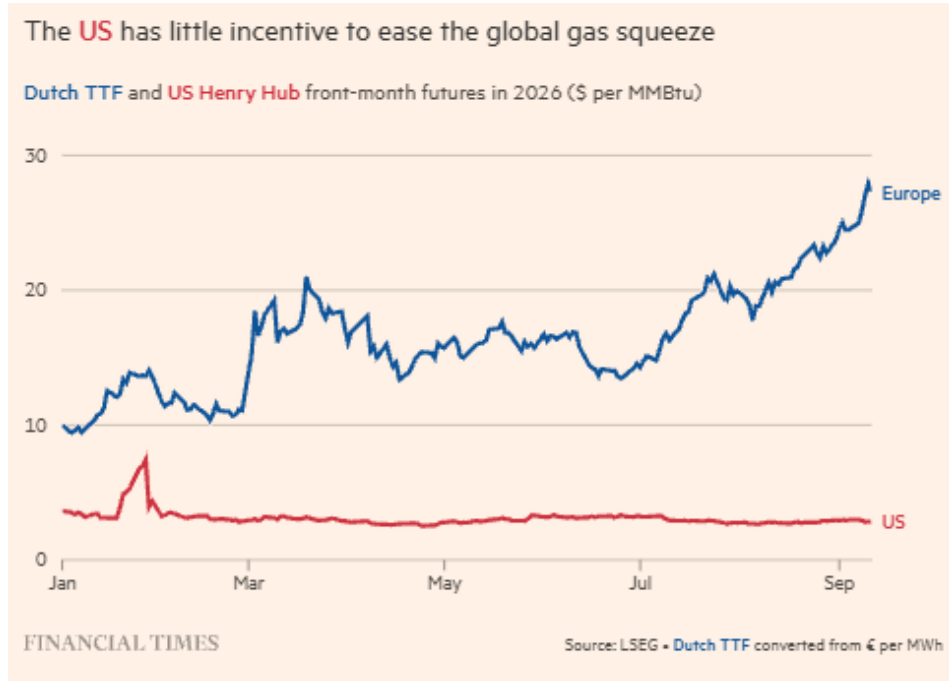
So what changed? The approach of winter has come into focus. But perhaps more importantly, there is a growing awareness that LNG trade through the Strait of Hormuz has no obvious solution, and blockage could continue indefinitely. And the prospects for LNG look dimmer than for oil. The mindset has shifted from expectations of a return to market to concerns of extended outage.

Of all the many commodities disrupted by the Middle East conflict, LNG is among the hardest hit. Less than 10 per cent of prewar traffic is getting through. The sheer size of LNG vessels, the value of their shipments and the consequences of a strike are too high a risk.

Compare that with oil. The US government has shown a determination through August to bring oil back to the market. While the precise volume of Middle East crude flows currently is unclear, flows have increased significantly, apparently due to demining and US escorts. It is in the interests of the Trump administration to unlock this oil as it attempts to tame gasoline prices in the run-up to the November midterm elections. The current exchange of fire between the combatants is a struggle between Iran and the US over who controls oil flows. LNG is frankly a bystander.

Unlike for oil, it is not a priority of the US to bring Middle Eastern LNG into the market, which would simply compete with its own exports. In fact, the absence of Middle East LNG this summer may have avoided a price collapse as US LNG exports reach ever higher levels and need to find

a home. And here's the rub: high international natural gas prices are unlikely to be felt by American consumers. American natural gas prices remain below \$4 per million British thermal units (MMBtu), less than one-fifth of international LNG. To put it in a nutshell, the US is exposed to oil disruption but not to LNG disruption.



So if LNG remains locked out of the market, how high might prices go? Current prices are around \$25 per MMBtu, and there are reports of options to buy LNG at above \$30 per MMBtu. That is high and painful. It suggests households and factories will be subject to increasing bills. But it is still a far cry from the \$50 to \$75 per MMBtu of the 2022 crisis. It was these price levels and the resulting subsidy protection of consumers which are partly responsible for today's sovereign debt challenges and pressure on government bonds.

The industry consensus is that we will not revisit the stratospheric levels of 2022. There will be a tug of war this winter for supply between Europe and Asia, and the intensity of this competition for supply will depend in part on the weather. Cold weather — but also 'windless' weather that reduces electricity supply from wind farms — would increase demand for gas. But the frantic dash of summer 2022 by Europeans to fill storage at all costs when Russian pipeline gas was withdrawn will not be repeated.

Asian markets do not have the appetite and will probably not bid aggressively at prices above \$25 per MMBtu. The wealthier economies of Japan and Korea have taken serious measures to manage their consumption. China has multiple alternative sources of gas supply. The less wealthy emerging economies do not have the financial clout to compete with Europe for supply.

Moreover, other factors are providing some counterwinds. Most importantly, strong growth of alternative LNG supply from North America — Canada as well as the US — and deployment of wind and solar power are all mitigating the situation.

The gas market has proven to be remarkably resilient over the past six months. Its biggest test

may yet lie ahead. There is precious little redundancy in the system. Nevertheless, careful planning can avoid a repeat of 2022 price spikes.

The writer is principal at Stoppard Energy. This article has been abstracted from the Financial Times, September 14, 2026.

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