

LNG DAILY

January 2018

JKM 2017 LNG swaps volume quadruples to 50,266 lots

- Prompt spreads widen between JKM and NBP
- Quarters and Calendars hold strong correlation to NBP

JKM swap volumes quadrupled last year with 50,266 lots traded, up from 12,717 lots in 2016, according to data from brokers, exchanges and S&P Global Platts data.

That put the total number of cargoes traded on the paper market in 2017 at 168, versus 42 cargoes the previous year.

JKM swap spread to NBP widens

The average spread between front-month JKM LNG swaps contracts and the equivalent UK NBP monthly gas contract widened to \$0.862/MMBtu, up 37% from \$0.631/MMBtu in 2016.

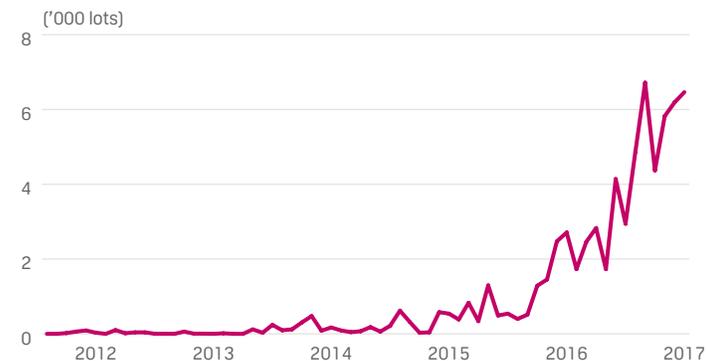
According to S&P Global Platts data, that was led by stronger winter pricing on the curve for 2017 year on year and relatively stronger summer pricing for the LNG derivative versus the equivalent NBP forward month.

In 2017, active trade in winter month contracts for JKM began to pull away from NBP contracts earlier, with the December JKM swap hitting \$8.00/MMBtu in the third week of September, while NBP's December contract was trading at \$6.00/MMBtu. The previous year saw the JKM December swap trading at \$5.95/MMBtu against NBP December at \$5.40/MMBtu.

The expectation of strong winter pricing was supported by developments in physical LNG markets, which saw demand from end-users in China pushing spot prices higher and earlier in the year.

The average spread against NBP for the prompt JKM swaps contract stood at \$2.188/MMBtu by the end of 2017, compared to

JKM SWAPS VOLUME – END 2017



Source: Exchange and broker data

JKM SWAP FRONT QUARTER vs NBP



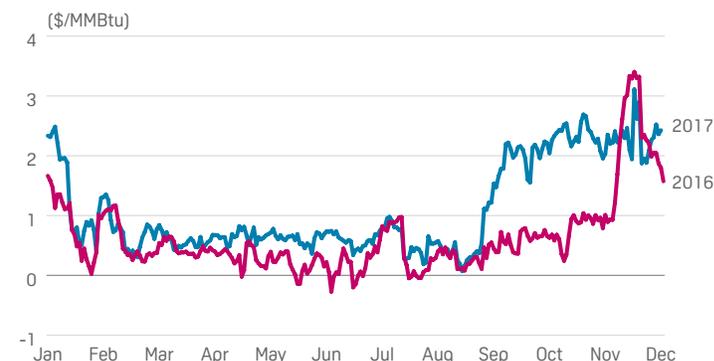
Source: Platts

JKM CALENDAR YEAR vs NBP



Source: Platts

JKM PROMPT MONTH SWAP vs NBP



Source: Platts

\$1.202/MMBtu in 2016, up 82%.

At the same time, JKM prompt-month swap contracts maintained their premium to NBP throughout 2017. In contrast, there were five days when JKM swaps traded below the equivalent NBP monthly contract in 2016.

Front quarter and calendar year show strong correlation to NBP

Meanwhile, as greater liquidity allowed longer tranches to be traded, front quarter and calendar year JKM swaps contracts saw more trade,

with much of the LNG forward curve taking reference from the equivalent NBP contract.

Over the course of 2017, the curve on JKM first quarter swaps beyond the prompt months showed a 95% correlation on price against the equivalent NBP quarter contract.

However, the strength of correlation between the JKM swap Calendar 2018 contract against NBP's Calendar 2018 was slightly weaker at 90.5% over the course of 2017.

— *Desmond Wong*

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