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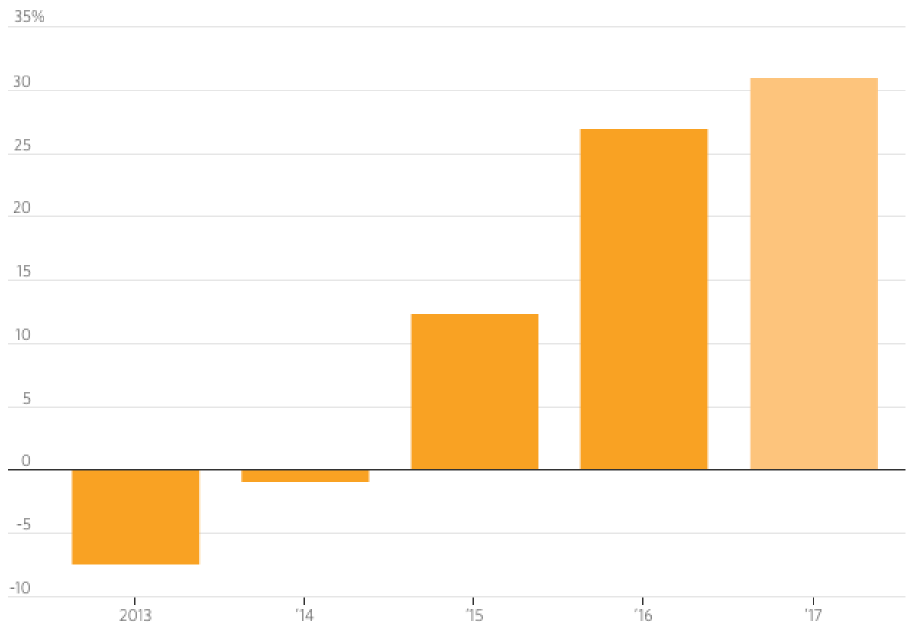
MARKETS

Henry Hub Emerges as Global Natural Gas Benchmark

Henry Hub is helping to set prices around the world as wave of U.S. natural gas reaches Europe, South America, Asia

By Alison Sider and Christopher M. Matthews

Annual changes in the daily volume of Henry Hub natural-gas futures outside of U.S. hours, a sign of increasing trading abroad



Note: All data are full-year except 2017, which is through June.
Source: CME Group

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ERATH, La.—An unassuming confluence of pipelines here in the heart of Cajun Country is becoming the most important place in the world for natural gas prices.

The Henry Hub has for years been a benchmark for U.S. contracts. Now it is helping to set prices from Mozambique to Japan, as a wave of U.S. natural gas being unlocked by shale drillers reaches Europe, South America and Asia.

In the first half of the year, there was a 31% increase in the volume of Henry Hub natural gas futures traded outside of typical U.S. trading hours, compared with the same period last year, according to CME Group, which owns the New York Mercantile Exchange. That is a sign that traders abroad are increasingly dabbling in the U.S. gas benchmark.

Henry Hub's growing prominence underscores how the burgeoning trade in liquefied natural gas is weaving disparate regions together into an increasingly unified global marketplace, more like that for crude oil. That could transform what has been a niche market that swings on slight shifts in the weather forecast into a reflection of the global economy.

"The U.S. is going to be the price setter for majority of the freely traded market," said Peter Keavey, global head of energy at CME. "You're exporting the Henry Hub benchmark to the rest of the world."

U.S. LNG exporters are hoping Henry Hub will emerge as the global price setter because it would remove significant risk from their business model. These exporters buy all of their natural gas at Henry Hub prices and could stand to lose money if they have to sell it to their customers at oil-linked prices if the margins are unfavorable.

Until recently, natural gas markets remained staunchly regional. But that's changing rapidly.

Analysts say the U.S. is set to become the world's swing supplier of LNG as construction is completed on several new terminals that will chill natural gas until it turns to a liquid that can be carried away on tankers.

The actual shipments from those terminals may rise and fall depending on global supply and demand, analysts say. And since cargoes departing from the U.S. Gulf Coast can typically be rerouted and resold on a growing spot market—a relatively new development—that could help pull other regional prices down toward Henry Hub levels and keep them closely aligned.

"The economics suggest that U.S. gas prices will act as a natural anchor," said Spencer Dale, chief economist at BP PLC.

Henry Hub entered the global marketplace when Cheniere Energy Inc. signed the first export contract of U.S. liquefied natural gas from the U.S. Gulf in 2011. Before that, almost all LNG was sold at prices tied to oil, around 98% in 2000.

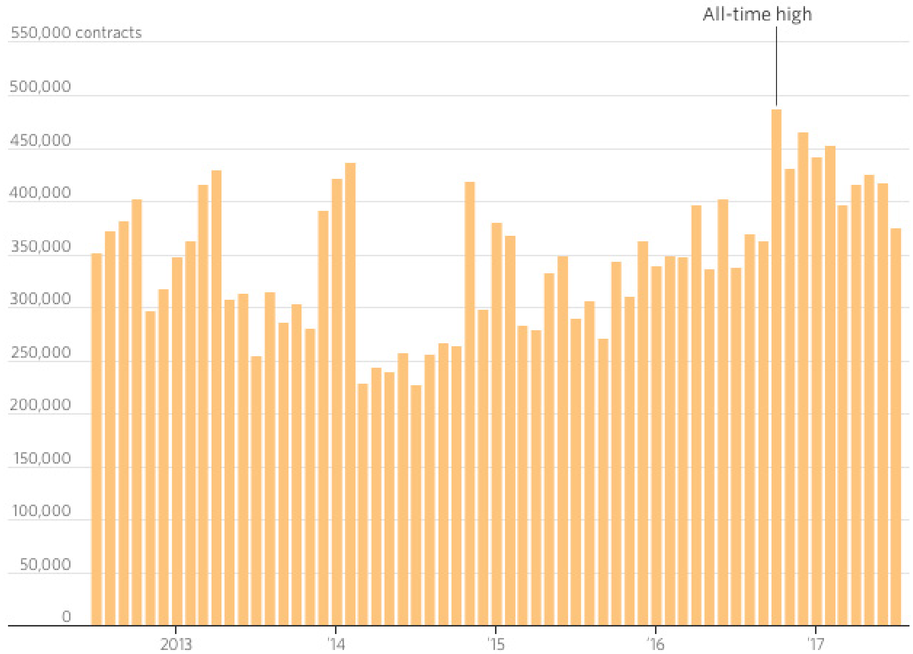
Cheniere predicts the share of Henry

(over please)

Hub-indexed contracts will rise to 30% by 2025 as U.S. LNG export facilities come online. Shipments from Cheniere's Sabine Pass export terminal began last year.

"We have seen interest around the world in accessing Henry Hub indexed natural gas because it comes from a stable source, it is affordable, and U.S. LNG has the most flexible contract terms in the market," said Jack Fusco, chief executive of Cheniere. "The world is becoming more knowledgeable and comfortable with Henry Hub."

Average daily trading volume of Henry Hub futures contracts, monthly



Source: CME Group

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It's not only U.S. LNG that is being priced at Henry Hub. Anadarko Petroleum Corp. has signed deals to sell LNG from gas discoveries off the coast of Mozambique at Henry Hub prices, according to Mitch Ingram, Anadarko executive vice president.

Though it has become more prominent globally, there are challenges to Henry Hub's growing influence.

Falling oil prices have slowed Henry Hub's progress. Even Cheniere has noted that the lower price of oil has generated renewed interest in linking LNG contracts back to oil. Asian buyers have become more reluctant to buy LNG at prices linked to Henry Hub, according to analysts.

And since European buyers have options between coal, gas delivered on pipelines, and liquefied gas that arrives on tankers, demand there will also help determine global prices.

"The market is much too rigid and sticky at the moment. There are too many barriers," said Liz Bossley, chief executive of the Consilience Energy Advisory Group Ltd.

Still, the growing connection between these hubs is a sign of how the gas market is evolving. The anticipated increase in U.S. exports of liquefied gas will strengthen the links between the U.S. and global gas markets, analysts said.

Analysts at Société Générale expect European gas prices to "show signs of convergence to Henry Hub" by the middle of next year as more LNG from the U.S. floods the market.

Tom Earl, chief commercial officer for Venture Global LNG, is bullish on Henry Hub's prospects and predicts it could take on the prominence Brent crude or West Texas Intermediate crude hold for oil markets. Venture plans to build two export facilities in Louisiana.

"It's a phenomenally deep and liquid pricing mechanism that can be relied on," Mr. Earl said. "It's driven by an abundant and enduring supply in the U.S. and it now has a track record as an index that is trusted by the market."