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Europe's Winter Gas Challenge Is Price, Not LNG Supply Access

Europe is facing the prospect of higher winter natural gas prices amid the fading possibility of a ramp-up of Middle East LNG exports over the peak demand period, which will force Europe to outbid Asia for spot LNG volumes, market sources suggest.

Europe's benchmark front-month TTF gas futures contract has been trading at over €70 per megawatt hour ($23.80 per million Btu), marking its highest level since January 2023 amid renewed US-Iran hostilities.

Market observers agree that a ramp-up of LNG exports from QatarEnergy's 12 undamaged liquefaction trains at its Ras Laffan liquefaction complex will take weeks, even after the Strait of Hormuz is fully reopened to vessels. This means that even if a restart were to occur at the start of the fourth quarter, material flows may only occur at the start of next year.

"We had expected exports from the unaffected trains [at Qatar's Ras Laffan liquefaction complex] to normalize by around October 2026, which may now be less likely given new geopolitical developments," Sadnan Ali, global oil and gas analyst at HSBC bank, tells Energy Intelligence.

Qatar is unlikely to ramp up LNG exports until after the US mid-term elections in early November, a European gas trader notes.

Notably, QatarEnergy in late August extended its force majeure notice on LNG deliveries to Italian utility Edison until early November.

Some European traders are even considering that Qatar's LNG exports may remain constrained for much of 2027.

"We believe it is prudent to assume no meaningful volumes during the first quarter and only limited volumes during the remainder of 2027," Simone Turri, head of Switzerland-based trader Met Group's gas desk for Western Europe, tells Energy Intelligence.

QatarEnergy CEO Saad al-Kaabi previously told Energy Intelligence that a return to normal LNG exports from the undamaged trains would take two to three months at a "minimum."

The near-closure of the Strait of Hormuz has subsequently reduced global LNG supply by as much as 105 billion cubic meters over the six months ending August, according to a recent research note published by Dutch bank Abn Amro.

The bank notes that new LNG supply of around 35 Bcm-55 Bcm per year coupled with gas demand destruction and fuel switching in Asia and Europe has largely offset the loss of Middle East LNG exports.

But the buffer has likely run its course heading into winter. "While these measures theoretically address the Qatari shortfall, they leave no operational buffer heading into winter 2026," the bank notes.

Increased Competition Incoming

Competition between Europe and Asia for spare LNG volumes over the winter period is all but a given, due to the limited Mideast LNG volumes and Europe's record-low gas inventories, market participants say.

Europe is, however, expected to outbid Asia for spot LNG volumes during winter following strong spot purchasing by Asian buyers over summer, which resulted in EU LNG imports falling 16% year on year over April to July, according to Dutch bank ING.

Europe's challenge this winter "is likely to be price rather than access" to supplies, Turri says.

"In our view, the problem for Europe is primarily one of price rather than physical availability," HSBC's Ali says. "Higher competition from Asia is likely to result in elevated price volatility and

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force Europe to outbid competing buyers, but we still expect Europe to secure sufficient supply overall, it will just have to pay a higher price for it."

The economics currently favor spot LNG cargoes to Europe despite Asia's de facto LNG benchmark hub Japan Korea Marker (JKM) holding a slight premium over European gas price benchmark TTF along the near curve.

"We believe imports should stabilize and recover on a month-on-month basis, because freight economics now favor sending spot cargoes to Europe," ING said in a recent research note.

A continued closure of the Strait of Hormuz coupled with stronger winter demand could keep European gas prices in the €70-€80/MWh range, according to Abn Amro.

Weather Watching

The extent of Europe's winter LNG needs will largely hinge on the weather, as this year's El Nino event is likely to be the strongest on record, according to the UK's Met Office.

"Weather will remain the single biggest driver of gas demand this winter. We are not explicitly forecasting an unusually mild winter at this stage, our base case is still for an average winter," says Ali.

This year's El Nino may weigh on Asia's LNG needs, potentially helping to cap European gas price increases.

"A strong El Nino event is typically associated with a milder winter in Northeast Asia. This may reduce Asian LNG demand and is currently one of the most underappreciated bearish factors for JKM, potentially providing some relief for Europe," Turri says.

Turri notes that weather-related risks are "more concentrated in late January and February."

"Signals such as projected stratospheric weakening and low Arctic sea ice levels increase the probability of polar vortex disruptions, which could support higher gas demand in Q1," he adds.

To reduce Europe's winter demand and compensate for the region's low gas inventories, the El Nino event would need to increase temperatures by at least 2°C (36°F) above the historical average, which remains unlikely, according to Abn Amro.

Low Storage Supports Prices

Historically low EU storage levels exiting the winter season likely means that the bloc will continue to see higher gas prices heading into the summer storage restocking season.

EU gas inventories are expected to be around 70%-75% full by November, far lower than the 2021-25 average of approximately 90% full for Nov. 1.

"Starting from a lower level and facing a weaker LNG supply outlook could result in end-of-winter storage levels in the high-20% to low-30% range under normal weather conditions, with a plausible risk of levels falling below 20% following a particularly cold February," says Turri.

Storages under 20% would mark the lowest storage levels since March 2018, when the bloc's inventories exited winter just over 17% full, according to data from Gas Infrastructure Europe.

While European inventories may exit next winter in "unchartered territory," Turri notes that markets find a way to "rebalance through price signals" and that Europe has been able to attract LNG cargoes when they are required.

"The key concern is therefore not the physical balance itself, but rather the economic cost required to achieve it," Turri concludes.

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