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MARKET DYNAMICS

Asia-Bound US LNG To Be Hit By New Panama Canal Limits

The decision to slash the number of ships allowed to transit through the Panama Canal during winter is expected to lead to more rerouted US LNG headed to Asia, longer shipping times and higher freight rates, market sources say. However, the impact on LNG will be less severe compared to other commodities.

The Panama Canal Authority (ACP) announced last week that a total of 24 daily transits will be permitted through the maritime route from Nov. 7, down from the 36 daily transit slots typically allowed, in light of the lowest monthly precipitation in the region since records began in the 1950s. The lack of rain impacts water levels at the artificial Gatun Lake, used to operate the waterway's locks. From February onwards, transit will be reduced to 18 per day due to projected rainfall, ACP said.

The transit restrictions will result in more US LNG cargoes bound for Asia transiting either the Suez Canal or the Cape of Good Hope, market observers say. "The current restrictions are until the end of February, yet with the increased US LNG production the share of Suez and Cape in terms of transport to Asia

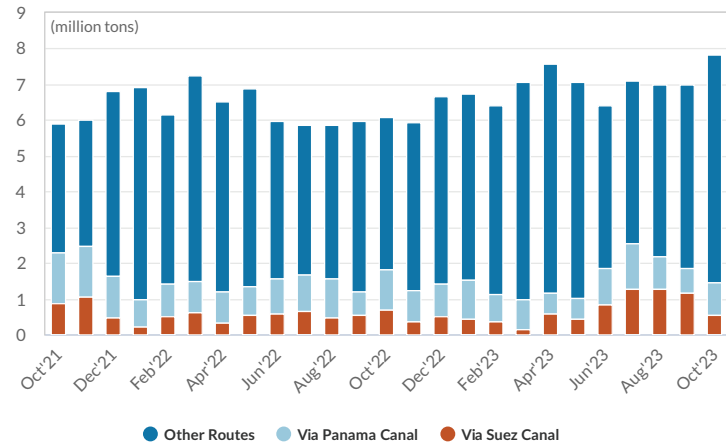
Pacific is just going to increase," MET Group's LNG trading team tells Energy Intelligence.

Shipping times through the Suez and Cape routes are similar: A voyage from Sabine Pass on the US Gulf Coast to Tokyo Bay via the Suez Canal takes around 35 days, and via the Cape of Good Hope takes around 38 days, according to Kpler. However, the same journey via the Panama Canal takes around 22 days. Transiting via Suez does, however, present optimization advantages compared to routing via the Cape of Good Hope as the region has a number of LNG import terminals, MET notes.

While the effect on LNG prices is limited now, lower transit slots could translate into bullishness down the line. "All in all we should expect more cargoes to Europe, Asia backfilling and longer journey times. Pricewise this should mean higher JKM/TTF, higher freight rates," MET said.

Europe has been the main destination for US LNG this year, as the region has held a price premium over Asia. The US exported around 14.5 million tons of LNG in the third quarter, with 2.9 million tons exported via the Panama Canal and 3.7 million tons via the Suez Canal, according to data from shipping intelligence firm Kpler. In the same period last year, exports via the Panama Canal were 2.7 million tons and 1.7 million tons via Suez.

US LNG EXPORTS BY ROUTE



Source: Kpler

Rising Costs

Despite higher competition for Panama Canal transit slots, the restrictions will likely have more of an impact on products and liquefied petroleum gas tankers, an analyst at a European trader says.

LNG carriers do not participate as much in auctions for transit slots compared to other commodities as LNG carriers tend to already pay higher fees to transit, the analyst notes. Some LNG vessels operated on time charters have paid auction premiums as

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high as \$2.5 million to ensure transit, Overseas Shipholding Group CEO Samuel Norton said during the company's third-quarter results.

Wait times for Neopanamax-sized vessels, which include LNG carriers, heading northbound are currently as high as 10 days for non-booked vessels, according to ACP data.

Shipping rates for all industries have risen due to the rising bottlenecks on the Panama Canal, AltaGas CFO James Harbilas said during the company's third-quarter earnings call. Some dry bulk shipowners are now increasingly turning to the Suez. "We are now routing ships through Suez which adds about 10 days and its slightly more expensive as well in terms of canal dues," Eagle Bulking Shipping CEO Gary Vogel said.

Eric Thorp, London
