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Energy Economic Horizons

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AUTHORS

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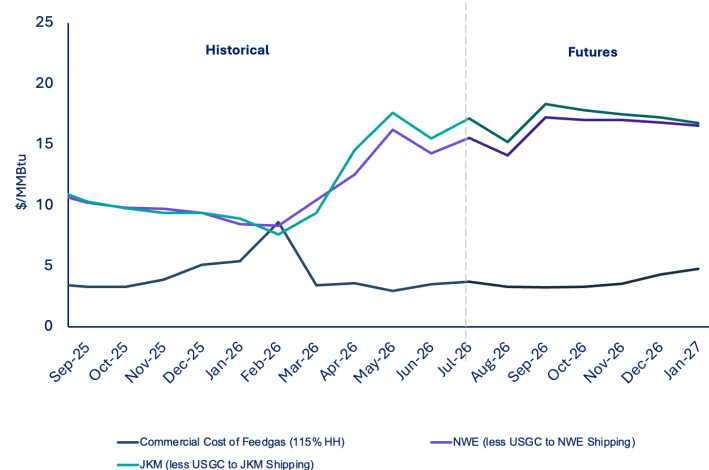
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Economic Horizons for LNG and Gas-Fired Generation

US LNG COMMERCIAL MARGINS



Notes

Commercial cost of feedgas: 115% HH [Source: S&P].

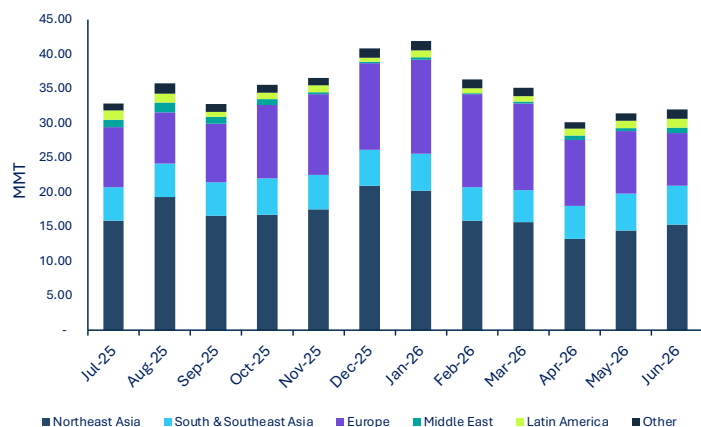
NWE (less USGC to NWE Shipping): Platts NWE minus BRG calculated shipping costs (Sabine Pass to Zeebrugge).

JKM (less USGC to JKM Shipping): Platts JKM minus BRG calculated shipping costs (Sabine Pass to Futtsu).

Insights

- Since the start of the conflict in Iran, Henry Hub (HH) prices have remained steady and LNG prices for Europe and Asia peaked in March and then have come down slightly. Future curves indicate that Europe and Asia LNG prices are expected to stay elevated through the end of the year.
- Future curves indicate that LNG trading margins will remain steady through the end of the year with implied margins fluctuating between \$9 – 12/MMBtu from August 2026 to January 2027. This is driven primarily by a combination of steady LNG prices in Europe and Asia following the recent breakdown in the ceasefire between Iran and the United States.

GLOBAL LNG IMPORTS



Notes

Regional data aggregated based on individual cargo deliveries (source: Kpler).

Insights

- Over the trailing twelve months:
 - > Global monthly imports averaged 35.1 MMT.
 - > Northeast Asia—predominantly Japan, Korea, and China—accounted for 48% on average of global imports.
 - > Global imports of LNG were up 13.3 MMT, a 3.2% increase, compared to the preceding twelve-month period from Q2 2024 to Q1 2025, even with the dropoff in LNG shipments due to the conflict in Iran.

The Impact of the War with Iran on Global Gas Markets

The war with Iran caught the world by surprise earlier this year, and few anticipated it would continue the way that it has. Energy markets have been severely impacted by the effective closure of the Strait of Hormuz and loss of supplies from Iran, Qatar, and the United Arab Emirates (UAE). Global prices for crude oil and related refined products such as jet fuel and liquefied petroleum gas have surged to the detriment of consumers. The impact on global markets for natural gas has been equally significant: with the loss of supplies from Qatar and UAE, about 20 percent of liquefied natural gas (LNG) effectively was taken out of the market. Major global price indices, such as TTF and JKM, jumped about 50 percent before gradually settling down. Given the continued supply disruption, the price impacts might seem modest considering price spikes in 2022, for example, when Gazprom cut supplies to Europe.

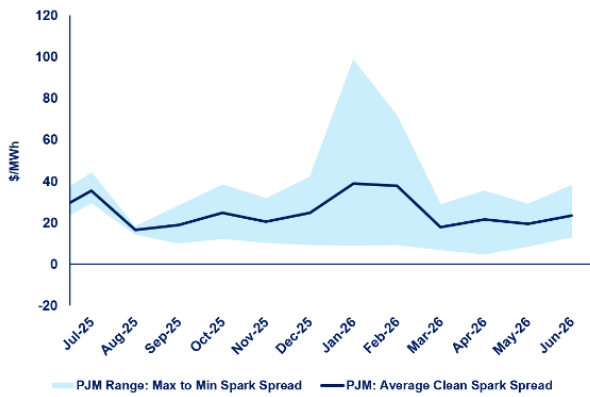
In this quarterly update, we assess the sustained impact the Iran conflict could have on global gas markets. We used LNG Horizon, our model of global gas markets, to analyze a potential scenario for the reopening of the Strait of Hormuz and gradual resumption of Qatar and UAE LNG production and exports. Considering the continued volatility of peace negotiations, we also believe that it is pertinent to consider scenarios where the Strait of Hormuz will be restricted for the foreseeable future and LNG buyers will perceive greater costs and risks for supplies that require transit through the Strait.

The Market Has Been Balanced by Demand Reduction

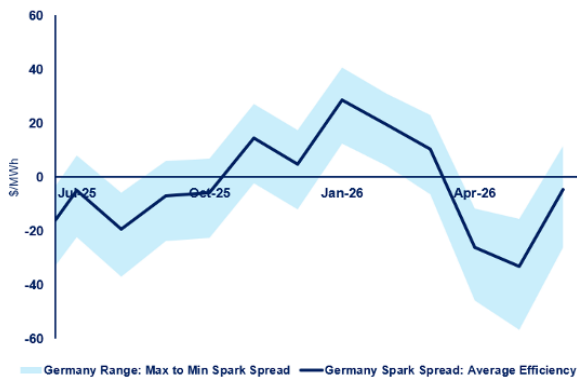
The physical damage inflicted on natural gas treatment and liquefaction facilities in both Qatar and the UAE and effective blockage of the Strait of Hormuz have taken an estimated 9 billion cubic meters (bcm) of natural gas production per month off the market. Some production will not resume immediately after the conflict ends and the Strait reopens to ship traffic because of the extensive repair work required. Qatar Energy estimates that repairs to bring its Ras Laffan treatment and liquefaction plants back into full operation will range from three to five years. Qatar's planned massive expansion of its LNG export capacity from 77 to 142 million metric tons per year (MTPA) likely will be delayed until risks subside. The cumulative volumes of natural gas that have already been lost or will be postponed from reaching global gas markets could exceed 400 bcm. For comparison, Gazprom exports to OECD Europe fell by approximately 83 bcm in 2022 following the Russian invasion of Ukraine, and Russian pipeline exports have fallen by over 150 bcm per year from peak levels before Russia weaponized its gas exports to Europe.

CLEAN SPARK SPREADS¹ FOR CCGT PLANTS

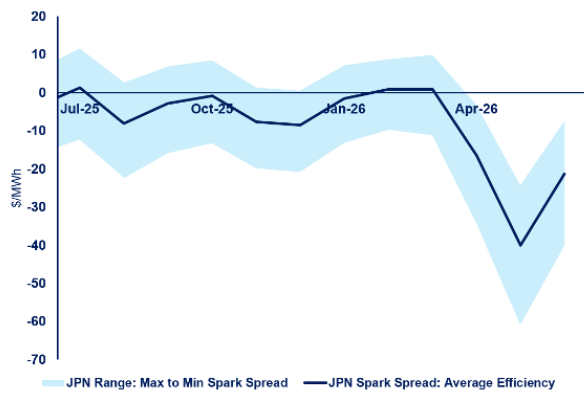
PJM



GERMANY



JAPAN



Notes

¹ Clean spark spreads = electricity prices – natural gas costs – traded carbon prices. Ranges in clean spark spread prices are based on variation in market prices and plant efficiencies.

Market data from S&P and Platts.

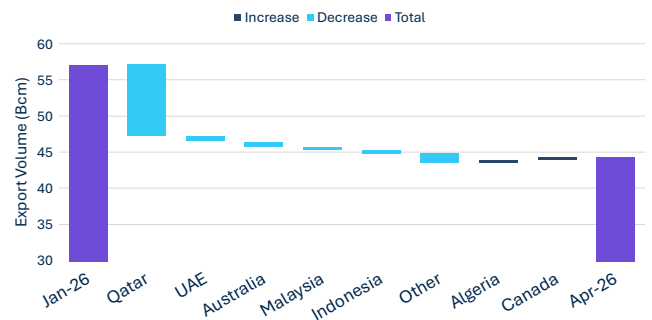
Emissions prices from a specified carbon tax (Japan), RGGI (PJM), and ICAP or Trading Economics (Germany).

Insights

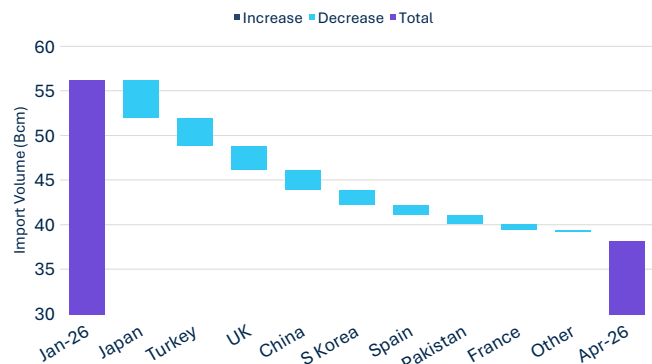
- Over the trailing twelve months, clean spark spreads:
 - Remained positive in the US PJM region.
 - In Germany, turned and remained negative for most of 2025 before returning to positive at the end of 2025; became positive through the start of 2026; then returned to negative in April.
 - In Japan, hovered around 0 for the second half of 2025 and into the start of 2026 before dropping sharply into the negative in April 2026.
- Since the conflict in Iran began:
 - The PJM region has been insulated due to the US natural gas market being relatively unimpacted by the price spikes.
 - Markets in Europe and Asia faced initial spikes in fuel costs, leading to sharp drops in spark spreads before power prices caught up and spark spreads began to rebound.
- Since our last quarterly release, EU Emissions Trading System (ETS) prices increased around 11% from March to June 2026.

Unsurprisingly, the loss of gas supplies will raise prices in global gas markets, while impacts will vary greatly over time. Prior to the war, the consensus was that the market was moving into a situation of oversupply as new large-scale LNG liquefaction terminals come into operation. With supplies from the Middle East now severely constrained, we are in a tight LNG market, which means there is little slack to make up for lost supplies and the market must be balanced by demand reduction. An examination of LNG supply and demand from January to April 2026, which spans a period before and after the conflict began, shows that this is exactly what has happened. The top chart below shows a reduction in Qatar supply during this period, but no significant increase in supplies from any other LNG producer. Hence, the supply-demand imbalance has been entirely compensated by demand reduction from LNG importers, as shown in the bottom chart. Prices were set by how much they had to rise to shed enough demand to match available supply.

GLOBAL LNG EXPORT VOLUME (JAN TO APRIL 2026)



GLOBAL LNG IMPORT VOLUME (JAN TO APRIL 2026)



Source: BRG analysis of Kpler data

Our analysis suggests that at LNG prices higher than \$18 per one million British thermal units (MMBtu), industrial, agricultural, and electricity sectors in countries such as China, India, and Bangladesh start to shed demand, and we have seen this recently. If prices stay elevated for longer or trend higher, other price-sensitive sectors of the global energy economy would see a reduction in demand.

Potential Market Scenario for Qatar Supply Recovery

It is impossible to predict precisely how long natural gas supplies from the Middle East will be constrained. For now, the major uncertainty is if and when free maritime traffic through the Strait of Hormuz will resume. The war has demonstrated the price and security risks to LNG from Qatar and the UAE that must pass through the Strait. LNG buyers have taken notice—some are wary—and want to diversify to alternative sources, putting (parts of) the planned Qatar expansions in a tenuous position.

We analyzed a scenario for resumption of LNG production from Qatar and the UAE to compare to our base-case made prior to the war to estimate the impact on global gas markets. The scenario assumes a loss of about 400 bcm of supplies, including supplies that have already been disrupted or will be delayed by the closure of the Strait, time to repair facilities, or loss of planned expansions. The key assumptions for the post-war scenario are:

- The Strait of Hormuz reopens in September at 50 percent of normal traffic and increases to 80 percent the following month and unrestricted flow thereafter.
- Ras Laffan facility repairs will be completed in four years.
- Qatar North Field East expansion (33 MTPA) starts in 2028, but planned North Field South and West (16 MTPA each) expansions are canceled as market demand for Qatar LNG softens.
- LNG demand in price-sensitive Southeast Asian countries remains stagnant through 2030 before resuming growth.

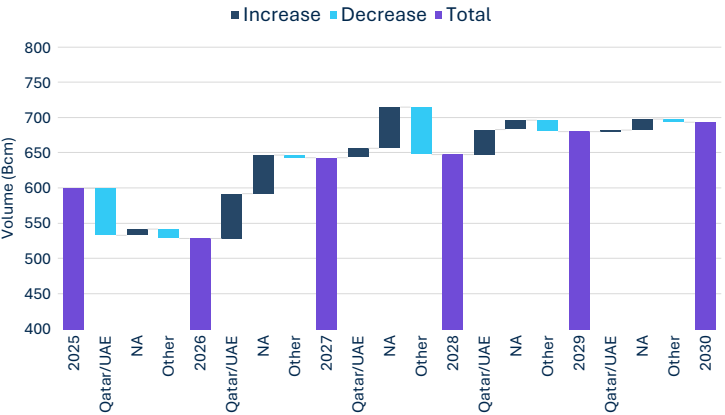
Projected Results Indicate Market Turmoil

Our LNG Horizon model projects that the impact of the war on key global prices will diminish greatly in the next several years despite continued loss of Qatar LNG supplies relative to our pre-war base case. The upward price impacts decrease from levels approaching \$6/MMBtu in 2026 to under \$1/MMBtu within a few years.

The next wave of liquefaction capacity (large volumes from the US and new projects from Canada and Mexico) will soften the impact of the supply disruption. Although the post-war scenario does not include additional LNG export terminals compared to the pre-war scenario—due to long lead times for liquefaction development, financing, and construction—the volume of LNG supply growth mitigates the impact of the Middle East supply loss. By 2028, the price impacts of the post-war scenario largely dissipate, and projected prices fall back in line with the pre-war base-case projections.

Examination of the growth in annual LNG supply under the post-war scenario shows why the price impact diminishes over time. Global LNG supply decreases by 66 bcm in 2026 due to disruption of supply from Qatar and the UAE. Other LNG-exporting countries cannot significantly increase LNG exports due to liquefaction or production capacity constraints and long lead times to develop new capacity. Consequently, prices surge in 2026. In 2027 and 2028 most of the Qatar/UAE LNG production is projected to resume, and substantial new North American supplies will hit the market. Global supply continues to grow in 2029 when Qatar’s North Field East expansion enters the market. The abundance of supply arrives in a weakened LNG market (due to demand destruction), leading to some displacement of other LNG supplies in 2028 and 2029. The overall result is that the previously anticipated LNG supply glut will be delayed from the pre-war expectation of 2027–2028 to our new forecast of 2029–2030.

ANNUAL LNG EXPORTS



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Our professionals include specialist consultants, industry experts, renowned academics, and leading-edge data scientists. Together, they bring a diversity of real-world experience, data, and human and artificial intelligence to economics, disputes, and investigations; corporate finance; and performance improvement services that address the most complex challenges facing organizations across the globe

Our unique structure nurtures the interdisciplinary relationships that give us the edge, laying the groundwork for more informed insights and more original, incisive thinking. When paired with our global reach and resources, our diverse perspectives and technical capabilities make us uniquely capable to address our clients' challenges. We achieve results because we know how to apply our thinking to your world.

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BRG's Energy & Climate experts provide integrated business advisory, finance and investment, and dispute resolution services to help energy companies, investors, buyers, and sellers navigate today's policy, economic, market, pricing, and competitive imperatives.

The BRG Energy & Climate team is focused on business, regulatory, and dispute resolution challenges associated with rapid decarbonization and the transformation of energy use across the energy, industrial, and transportation sectors. Our energy business advisory offerings and dispute resolution work are synergistic and mutually reinforcing. Our extensive experience with energy disputes makes us realistic, grounded analysts of long-term opportunity, risk, pricing, and value. Similarly, our cross-disciplinary experience throughout the energy sector, as accomplished advisors, former executives, and financiers, makes us highly credible, effective experts for dispute resolution matters.

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