

U.S. LNG Date Swap Markets

Frequently Asked Questions

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The following is a list of the most Frequently Asked Questions and a high-level response. For more information, please contact Redwood Markets at info@redwoodmarkets.com.

This is brokerage platform, correct?

Incorrect. The purpose of the platform is to facilitate better logistics for lifters of LNG cargoes, initially from Gulf of Mexico LNG projects. Redwood is an online trading platform for physical, bilateral LNG markets and is not a broker. Once users have identified an opportunity to change lifting dates they communicate and deal bilaterally.

What is the driver for the platform?

LNG shipping is costly, both in terms of charter hire and boil off gas loss. We see evidence of inefficient vessel scheduling in the GoM. This is aggravated by the limitations on transiting the Panama Canal, which result in queuing, especially for ballast passages. As a result, achieving a timing match between Panama transits and lifting dates can prove to be difficult for LNG players looking to trade to and from Asia. We see more vessels in the GoM that could be more efficiently deployed if lifting dates could be better matched to voyage plans, without the need for costly slack.

LNG is becoming increasingly commoditized and an important requirement of a commodity market is efficiency of transactions in terms of speed and cost. To date, if a lifter of LNG wishes to explore a lifting date change, he may need to make multiple calls to find a counterparty looking to make a complementary change, revealing potentially sensitive commercial information. The swap platform is intended to make that process faster, easier and anonymous. There are over 30 companies that either lift cargoes from the GoM or have access to LNG cargoes produced there.

How does the platform relate to decisions on cargo cancellations?

LNG producing projects require their capacity holders and customers to decide whether they wish to lift or cancel cargoes by a specific date each month. These companies are faced with 4 options:

1. Lift the cargo in a vessel they control
2. Sell the cargo FOB (this can also be via a FOB/DES deal)
3. Swap the lifting date of the cargo for one that offers better logistical efficiency and potentially profit
4. Cancel the cargo

The first 2 options have existed for some time and are well understood by cargo holders; however, the third option is one that can only be addressed currently by offering the cargo to potential counterparts either directly or via a broker. The platform offers a faster and more discreet approach. For transactions under the second category, the Redwood cargo trading platform is available, and users can register cargo availability on the latter as well as a swap offer on the platform.

Does the platform address ship swaps?

It is not designed to perform this role. Ship swaps do take place and are better originated and executed bilaterally or via shipbrokers.

Should my freight desk be interested in this?

We think the platform is of value to both product and shipping desks. For example, in the case of shipping, a user may receive an offer to charter his vessel for a period that precludes his being able to meet his intended lifting date in the GoM. Having the opportunity to explore a date deferral via a date swap allows freight and product desks to coordinate.

How does it work?

Users of the platform will be required to register. Each date swap offer will be given a unique code and will not identify the user nor the origin of the cargo. For example, User 1 creates a market to swap a cargo between a nearby and a deferred date. User 1 may show a price to buy (buy nearby, sell deferred) or sell (sell nearby, buy deferred) the date swap. User 2 who can meet the swap requirements may respond to User 1 by placing a counter bid or offer or executing User 1's bid or offer. Once the transaction is matched the buyer and seller of the swap are introduced to each other online to finalize the transaction details.

Does the market need this?

We believe it does and will create more opportunities to enhance LNG trade for US sourced LNG. Currently, some 811 cargoes per annum can be produced in the GoM alone and by early 2023 this number will increase to over 1100, or approximately 3 cargoes per day.

The ability to swap dates can help the development of the LNG futures contract, by creating opportunities for physical delivery of LNG. The development of a liquid forward market, similar to that for Brent oil – the '15-day market' – that developed in the 1980s, will most likely be aided by a facility for date swapping. Simply put, LNG is becoming increasingly commoditized and the date swap market is a step in that direction.

How confidential is my information?

Participants on the Redwood Marketplace must sign the Redwood Marketplace Customer User Agreement. This Agreement covers the terms of use and specific terms regarding confidentiality. In short, all market and transaction information is anonymized and only exchanged after a match between the Buyer and the Seller to a transaction. The counterparty name for a market, bid, offer or transaction is not disclosed to anyone but the counterparties to a trade.

Do swaps involve the payment of fees between the parties?

That is left to the parties to agree on.

Will completed swaps be reported or recorded on the platform?

Basic data regarding the swap market is reported on the platform, however counterparty names are not disclosed. A trade "print" is disclosed with the dates that were swapped and the price that was matched.

Suppose there are companies I do not wish to, or cannot deal with?

This is simple: The Redwood Marketplace platform is a bilateral platform and all parties must authorize each counterparty they are willing to buy from or sell to. If you do not authorize a counterparty their orders will not appear executable to you nor will yours to them.

Who can register on the platform?

Only bona fide lifters of LNG cargoes from the Gulf of Mexico, Elba Island and Cove Point can register as users. As part of our terms and conditions we require users not to disclose information from the platform to third parties.

So how do I avoid 'fire kickers' who are simply looking to obtain commercially sensitive information?

Any party replying to an offer posted on the platform is automatically identified to the offeror and is required to offer a swap date (or dates) as part of their response. Remember that date swaps are only one mechanism in cargo decision-making and therefore we do not expect all responses to result in a swap transaction, but good faith communications by participants are expected.

So, this is free?

Registration on and use of the date swap markets will be free for the first 6 months after its launch. Following that period new members may be asked to pay a registration fee. Similarly, we envisage requiring a reasonable monthly subscription fee to help cover the costs of developing the platform.

What about other Sources of LNG?

At present, the objective is to promote offtake of LNG from the US through reducing cargo cancellations, of which there were over 150 in 2020. We plan to add other sources such as reloads out of Europe or cargoes produced at Atlantic LNG in due course.

How are cargo size differences addressed?

Swapping of cargoes is likely to result in differences in cargo sizes and which will need to be resolved. This will need to be done via a true up mechanism using a price agreed between the parties and is not addressed on the platform.

How do I find out more?

We have created some demonstration videos which can be provided on request. The Redwood Team will be happy to answer questions and can be contacted at info@RedwoodMarkets.com.