

Natural Gas Market Update

August-2023

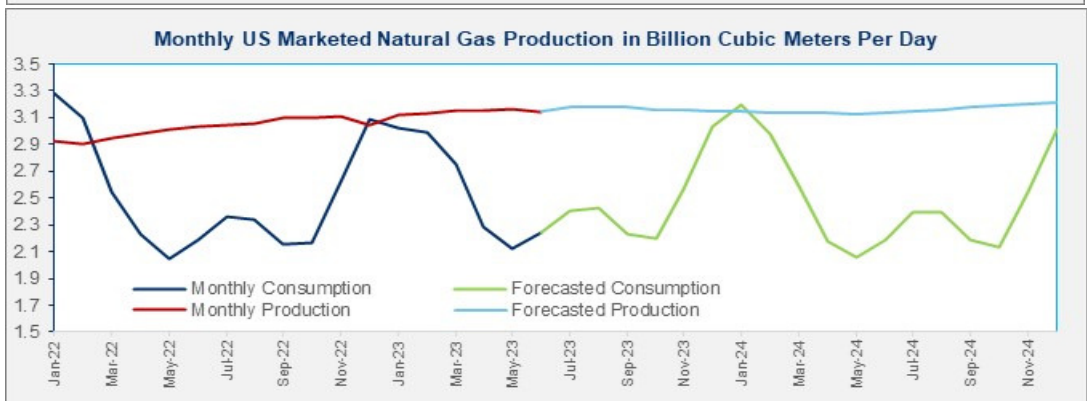
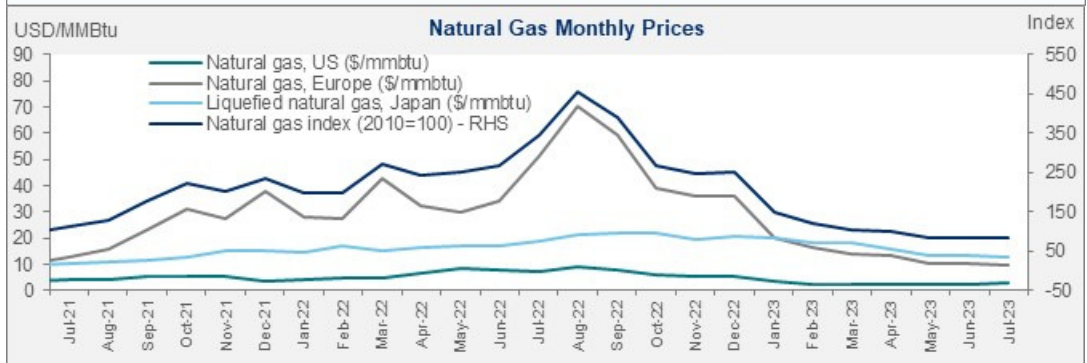
Natural gas prices remain bearish due to rise inventories...

Natural gas prices continued to decline from the start of the year till the end of Q2-2023 months despite warnings and fears that a cold winter and geopolitical tensions may cause natural gas prices to surge again. The monthly World Bank Natural Gas Index dropped 66.4% for 1H-2023 underlining the commodity's weaker global sentiment. Moreover, falling natural gas demand due to fears of global economic slowdown has put downward pressure on natural gas prices in the first half of 2023. Natural gas prices have declined from the steep and volatile price fluctuations of the past year due to the repercussions of the Russia-Ukraine conflict. The conflict has sparked global energy realignment as a result of sanctions levied upon Russian energy exports as well as European countries looking for alternate energy supply sources outside from Russia. But as the Russia-Ukraine conflict dragged on and new natural gas supplies mainly from the US reached Europe gas prices stabilized.

According to the World Bank, US natural gas prices for July-2023 decreased by 64.8% y-o-y to reach USD 2.55/MMBtu. Similarly, European natural gas prices for July-2023 declined by 81.4% y-o-y averaging the month at USD 9.55/MMBtu, while average monthly Japanese LNG price for July-2023 witnessed 33.8% y-o-y drop at USD 12.49/MMBtu

In terms of gas consumption, global natural gas consumption moved towards a slow rebalancing during the 2022/2023 heating season as a result of the supply shock triggered by the Russia-Ukraine conflict. Higher natural gas prices prompted a switch from the usage of natural gas back to coal in the power sectors of many areas in Europe and South Asia. This switch back to coal further depressed natural gas consumption putting downward pressure on gas prices.

Comparatively, US gas consumption increased by a marginal 0.6% y-o-y during the winter season of 2022/2023 (December –February) mainly driven by the steep drop in temperatures during December. The steep drop in winter temperatures triggered a dramatic rise in natural gas consumption as commercial and residential heating demand surged putting upward pressure on prices. However, this demand surge was reversed by mild temperatures in the first quarter of 2023.



Sources : EIA, World Bank, Kamco Invest Research

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Global natural gas production which remained flat during 2022 is expected to witness a marginal growth from 4033 bcm in 2022 to 4037 bcm in 2023 according to the Gas Exporting Countries Forum (GECF), led by the US, Africa, and the Middle East. Total natural gas production from North America is forecast to increase from 1215 bcm in 2022 to 1279 bcm in 2023 while natural gas production from Middle Eastern countries is projected to rise from 685 bcm to 702 bcm in 2023. Comparatively, gas production from the CIS countries is poised to decline 2.2% y-o-y to reach 814 bcm in 2023 mainly affected by the decline of Russian pipeline natural gas to Europe.

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2021	2022	2023-e	2024-e
Marketed Production	94.57	98.13	102.35	102.40
Consumption	83.90	88.53	89.02	87.81
LNG Exports	9.76	10.59	12.04	13.31
Henry Hub Spot Prices (\$/thousand cubic feet)	3.91	6.42	2.62	3.29

Sources : EIA, Kamco Invest Research

As natural gas demand in Europe and the US waned, China's natural gas consumption has increased since the start of 2023. China's natural gas consumption increased 5% y-o-y to 162 bcm from January to May 2023 according to GECF. China's natural gas consumption growth was underpinned by Chinese economy's recovery from stringent lockdowns during 2022 and the rise in natural gas consumption in the power sector as a result of decreased hydroelectric accessibility. The growth in China's natural gas consumption prompted an increase in China's natural gas pipeline imports. China's average monthly pipeline natural gas for the first five months of 2023 were 5.1 bcm as compared to 5.0 bcm in 2022. Similarly, China's LNG imports accelerated during the first half of 2023 reaching their highest mark during June-2023 6.2 Mt as compared to 4.4 Mt. Overall, the Asia Pacific regions LNG imports witnessed significant expansion during the first half of the year recording 2.3% growth to 129.38 Mt of natural gas.

According to the IEA, natural gas consumption in the advanced economies of Europe witnessed the steepest drop ever recorded during the heating season of 2022/2023 and declined by approximately 55 bcm y-o-y. IEA explained the new OECD Europe gas demand decline projection to be driven by lower gas burn in the power sector. So far for the first half of 2023, European gas demand dropped 10% or 30 bcm. Moreover, according to the GECF, natural gas consumption in the European Union dropped 12% y-o-y in June-2023 to reach 18 bcm. The decline in the bloc's gas consumption was primarily due to an increase in solar energy and wind power output which decelerated the use of natural gas for electricity generation. Natural gas consumption in Germany, the largest natural gas importer in the EU, fell 8% y-o-y for 1H-2023 to reach 41 bcm. The decline in Germany's gas consumption during the first half of the year was mainly attributed to favorable weather conditions and the efficient use of renewable energy sources. According to GECF, renewable energy sources including solar, wind and biomass comprised 55% of German's power mix generation during June-2023. In terms of sectoral natural gas consumption, Germany's Industrial sector recorded the thirteenth consecutive monthly decline of 8% y-o-y during June-2023. Similarly, Germany's Residential/Commercial sector witnessed 19% y-o-y gas consumption decline during June-2023 mainly due to the strict adherence to the EU regulations advocating for voluntary 15% reduction in in gas consumption.

In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption in 2023 would reach 0.6% lower than the amount of consumption in 2022 at 89.02 bcf/d (2.52 bcm/d) reflecting expected consumption decline in the industrial sector.

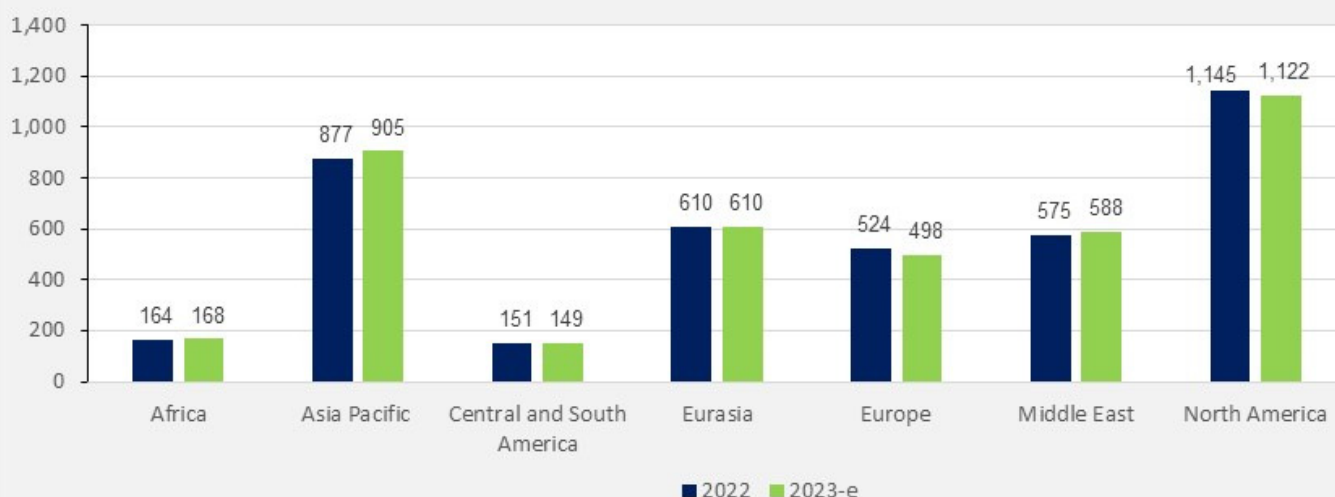


Sources : Bloomberg, Kamco Invest Research

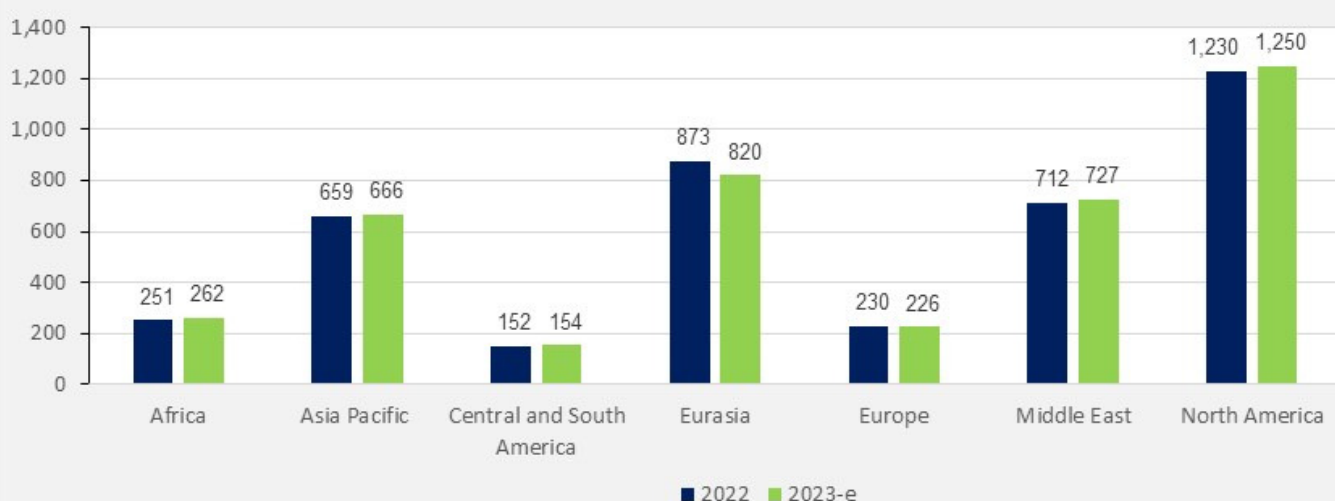
Comparatively, the IEA has cut its European natural gas demand for 2023 projecting a 7% drop to 489 bcm down from the previous 5% fall forecast. The EIA also estimates that US natural gas marketed production to reach 102.35 bcf/d (2.9 bcm/d) in 2023 witnessing an increase of 4.3% from 2022 to 2023. In terms of sectors, the EIA forecasts that the US natural gas share of electricity generation to reach 41% in 2023 as compared to 39% in 2022 and then drop to 37% in 2024. In terms of natural gas prices in the US, the EIA forecasts the Henry Hub natural gas spot price to average at around USD 2.62/MMBtu during 2023 and then increase to USD 3.29/MMBtu in 2024 due to expected rising demand LNG exports as Freeport LNG export terminal returns to full operations combined with expected rise in natural gas consumption in the Electric Power sector. The EIA forecasts that US natural gas consumption for electric power generation would average 46 Bcf/d (1.3 bcm/d) for the period between July-2023 and August-2023.

In the GCC region, Qatar, which has been the second largest global LNG exporter after the US in June-2023, has concluded the signing of two major long term LNG contract during 2023. Qatar has recently inked an agreement with China to supply 4 million metric tons of LNG per annum for 27 years. The agreement also included China's 5% stake purchase of Qatar's eastern expansion of the North Field LNG project. Furthermore, Qatar's second agreement that it signed during 2023 was a 15-year contract to supply 2 million metric tons of LNG per year to Bangladesh. It is estimated that Qatar currently has uncontracted LNG capacity of 60 million tons per year. moreover, the Qatari government has indicated that it will sign LNG contracts with several European countries during 2023 as result advanced discussions since 2022. Qatar has boosted its LNG exports so far in 2023 supported by lower maintenance activity even delivering the commissioning cargo for the Suntien Tangshan LNG terminal on June-2023.

World Natural Gas Consumption in Billion Cubic Meters



World Natural Gas Production in Billion Cubic Meters



Sources : IEA, Kamco Invest Research

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