

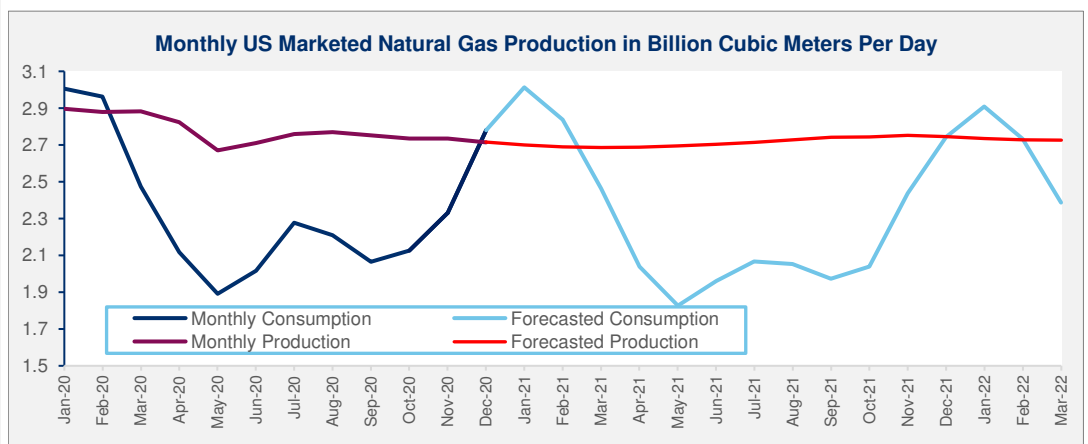
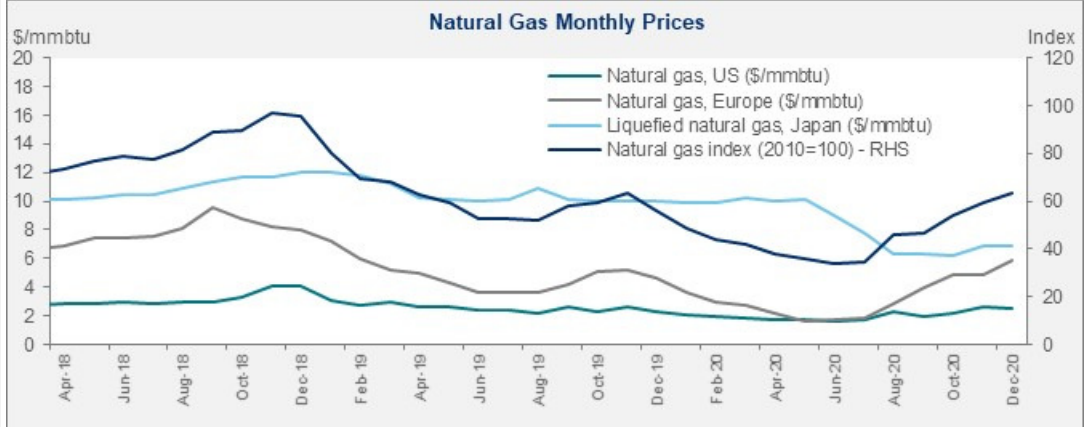
Natural Gas Market Update

January-2021

As global economies took measures to curb the spread of Covid-19, physical demand for oil slumped creating a global supply glut. However, natural gas demand did not collapse as much as oil demand had fallen during 2020 because of its historical low prices and preference as power generating fuel. According to Rystad Energy, global natural gas production fell by 3.6% in 2020 to reach 3,918 billion cubic meters while natural gas demand declined 2.5% to 3,840 billion cubic meters.

In terms of natural gas prices, according to World Bank data, US monthly natural gas prices for Dec-20 rose 13.2% y-o-y to USD 2.54/MMBtu. The full year 2020 saw US natural gas prices reaching the lowest in decades, according to the EIA. The Henry Hub national benchmark averaged at USD 2.05/MMBtu during 2020 as compared to 2.57/MMBtu in 2019, a decline of 20.2%. Mild weather and lower economic activity induced by the measures to curb the spread of the coronavirus were attributed to have driven down natural gas demand that impacted prices. Comparatively average monthly European natural gas prices for Dec-20 increased 26.7% y-o-y to USD 5.86/MMBtu while average LNG prices for Japanese LNG decreased 31.3% y-o-y to reach USD 6.91/MMBtu during the same period. Moreover, despite the collapse of natural gas prices in 2020, LNG imports increased by 3.3% during the year to reach 363 million tonnes, according to Rystad Energy.

On the other hand, current spot Asian LNG prices witnessed strong gains towards the end of 2020. The Platts Japan Korea Marker spot LNG price jumped 166% y-o-y to close at USD 14.3/MMBtu on 31st Dec-20 up from USD 5.3/MMBtu on 31st Dec-2019. The price surge was mainly due to colder winter weather in key Asian natural gas importing countries, including China, that resulted in higher demand. China is also expected to see an increase in natural gas consumption in 2021 led by plans of new LNG terminals. In order to meet the increase in LNG demand, China is planning to add 5 new LNG terminals with 3.2 Mcm of LNG capacity this year, in addition to its existing 22 terminals.



Sources : EIA, World Bank, Kamco Invest Research

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According to S&P Global Platts, China's natural gas demand is expected to increase about 8.4% to reach 360 Bcm in 2021 driven mainly by an increase in residential and industrial consumption. Out of the total estimated demand, around 163 Bcm or 45.2% is expected to be met by some form of import, either as an LNG or as pipeline from Russia, Myanmar, and Central Asian countries. Moreover, Japan and South Korea are also facing a similar unusually cold winter combined with tight LNG supplies that has driven up spot LNG prices, in addition to the higher demand backed by resumption of economic activity since as early as Q3-2020.

US natural gas prices have been subdued in 2020 but are expected to increase in 2021 on the back of strong demand and balanced production. In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption would decrease by 2.8% to reach 80.73 Bcf/d (2.3 Bcm/d) in 2021. The EIA also estimates that US natural gas **marketed** production to fall 2.4% to 95.9 Bcf/d (2.7 Bcm/d) in 2021 primarily due to lower prices which will decrease overall drilling activity. In terms of sectors, use of natural gas in the Electric Power sector, the largest natural gas consuming sector, is expected to decline from 31.6 Bcf/d (0.9 Bcm/d) in 2020 to 28.1 Bcf/d (0.8 Bcm/d) in 2021. The forecasted decline is attributed to the expected increase in natural gas prices for power generation in comparison with coal. In addition, although the COVID-19 vaccine is currently available in the US and is being administered, the US economy is not expected to be fully open until 2022 which means less economic activity which in turn will lead to less natural gas consumption and production. According to the EIA, US liquefied natural gas exports significantly rose during November and December 2020. US LNG exports reached 9.8 Bcf/d (0.28 Bcm/d) during Dec-20 recording an increase of 0.4 Bcf/d (11.3 Mcm/d) on Nov-20. The rise of US LNG exports was driven primarily by the increase in international natural gas and LNG prices in Europe and Asia. The US EIA forecasts the US LNG exports to come in at around 8.5 Bcf/d (0.24 Bcm/d) in 2021 and 9.2 Bcf/d (0.26 Bcm/d) in 2022. This expectation in rise of LNG exports is attributed to the higher expected natural gas demand in post Covid-19 world and the development in global LNG infrastructure where new countries are expected to develop LNG infrastructure.

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
Country	2019	2020	2021	2022
Marketed Production	100.04	98.26	95.92	97.62
Consumption	85.15	83.06	80.73	79.03
Imports	7.51	6.93	7.26	7.24
Henry Hub Spot Prices (\$/thousand cubic feet)	2.67	2.11	3.13	3.40

Sources : EIA, Kamco Invest Research

In Europe, total EU annual gas demand declined by 4% to reach 425 bcm, according to McKinsey, while pipeline imports for 2020 marked 15% y-o-y fall to 242 bcm. The decline was led by a combination of milder-than-usual winter and the impact of coronavirus restrictions lowered gas demand in Europe during the early period of 2020. Unlike China and South East Asian countries, many European countries have once again placed Covid-19 restrictions resulting in a downward pressure on natural gas demand. Nevertheless, colder than usual temperatures and higher natural gas prices in Asia during the 2020/2021 winter season are propping up both European gas demand and prices.

In GCC countries, Qatar is planning to expand its natural gas production and exports eyeing higher LNG spot prices. Qatar Petroleum is expected to announce the companies that won the USD 20 Bn North Field expansion plans in mid-2021, according to S&P Global. According to the report, the increase in natural gas production from the North Field will ensure Qatar's position as the largest LNG exporter in the world. Moreover, the Gas Exporting Countries Forum (GECF) has welcomed the recent Al-Ula Declaration which underscored the restoration of ties between Qatar and the regional neighbors.



Sources : Bloomberg, Kamco Invest Research

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