

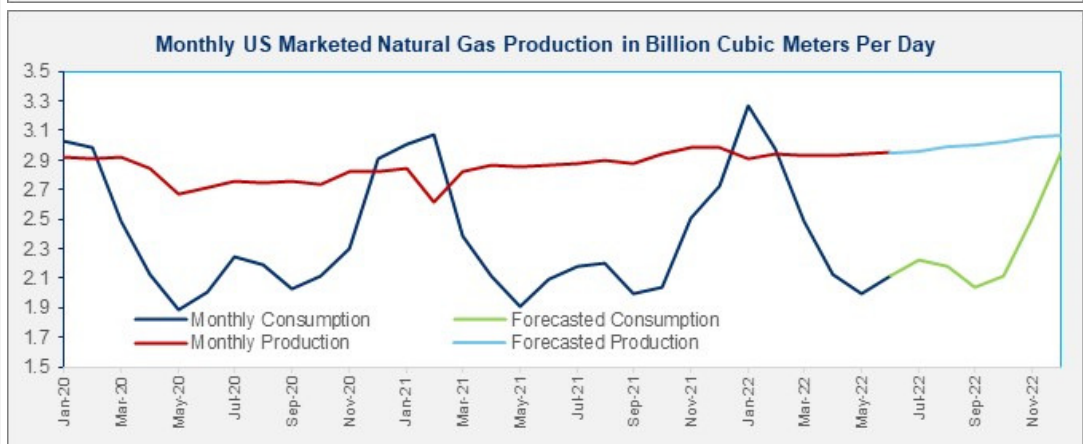
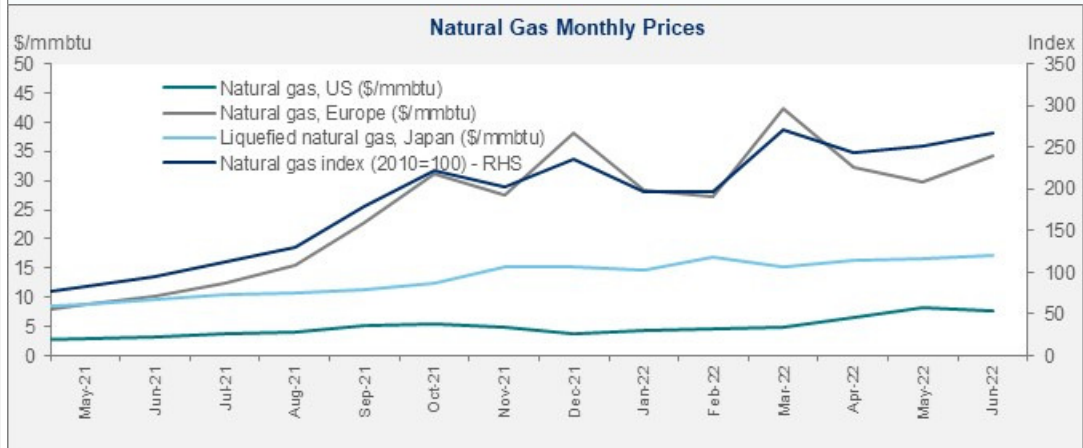
Natural Gas Market Update

July-2022

As the Russia-Ukraine war drags on global natural gas prices continue to stay elevated with constant volatility as we enter the second half of the year. The conflict continues to add uncertainty to Europe's natural gas supply security. June-2022 was the first month ever, that the EU has imported more natural gas (LNG) from the US than Russian pipeline gas. The significantly lower pipeline gas supply from Russia came as a result of fears of the looming maintenance of the Nord Stream 1 pipeline in July-2022. In the second week of July-2022, the Nord Stream 1 pipeline was shut down for its annual maintenance for a period of ten days, but it has now resumed its gas supplies to Europe. The Nord Stream 1 pipeline has supplied about 35% of Europe's Russian gas imports in 2021. The lengthy closure of US Freeport LNG, the second largest US LNG export plant, has also contributed to the soaring global gas prices. The plant which has been damaged by fire is expected to be shut till late 2022.

According to the IMF, the EU's Russian natural gas imports supply insecurity is weighing on European economies and is also expected to have a negative impact on the global economy. Europe is currently facing the possibility of gas cut-off while Russia is dealing with the consequences of the US and EU sanctions. According to the IEA, Russian natural gas would only account for 25% of total EU natural gas demand in 2022. The determination of the EU countries to find new natural gas suppliers is one the main elements that is keeping global gas prices up. This was reflected in the 60% decline in Russian gas supplies to Europe since June-2021. The global economy is also facing investment, trade and supply chain disruption due to the conflict which might lead to reduced economic activity and rising inflation.

As a result of the enduring high natural gas prices, global natural gas consumption is expected to dip in 2022 and grow slowly over the coming three years, according to the International Energy Agency (IEA). Moreover, elevated gas prices are also prompting many countries to switch back to coal and oil as primary energy sources. The IEA has lowered natural gas consumption prospects marking an increase of 140 bcm of natural gas between 2021 to 2025 as compared to 370 bcm growth of global natural gas consumption between 2016-2020.



Sources : EIA, World Bank, Kamco Invest Research

Junaid Ansari
Head of Investment Strategy &
Research
+(965) 2233 6912
jansari@kamcoinvest.com

Mohamed Ali Omar
Analyst
+(965) 2233 6906
momar@kamcoinvest.com

The IEA expects the Asia Pacific region to drive as much as 50% natural gas demand growth for the period. In terms of sectors, the IEA projects the industrial sector would represent about 60% of the global gas growth between 2021 to 2025.

According to World Bank, US monthly natural gas prices for June-22 increased by 137.5% y-o-y to reach USD 7.67/MMBtu compared to USD 3.23/MMBtu in June-21. In context, US natural gas prices reached an all-time monthly average high of USD 8.14/MMBtu in May-2022 due to an increase in LNG exports driven by the high European demand. However, the US Energy Information Agency (EIA) expects US natural gas prices would fall in the second half of 2022 due to expected lower exports.

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2020	2021	2022-e	2023-e
Marketed Production	98.91	101.40	104.89	110.42
Consumption	83.27	82.98	85.33	85.15
Imports	6.97	7.69	7.40	6.98
Henry Hub Spot Prices (\$/thousand cubic feet)	2.11	4.06	7.70	4.92

Sources : EIA, Kamco Invest Research

In the Asia Pacific region, according to the IEA, China has witnessed a strong 12% rise in natural gas demand in 2021 driven by strong economic bounce back from the Covid-19 restrictions and unusually forecasted cold weather. However, the Agency projects that China's natural gas consumption in 2022 would grow 3% due to elevated import prices, subdued economic growth, mild temperatures exacerbated by new COVID-19 restrictions. China and India have witnessed some of the steepest declines in LNG imports in 2022 as their usual LNG supplies are diverted to Europe due to higher prices replacing piped natural gas imports from Russia. On the other hand, Japan, the second largest LNG importer in the world, is struggling to find new LNG suppliers as it tries to wean itself off from Russian LNG. Japan currently imports 9% of its LNG from Russia, in which it gets half of it from the Sakhalin 2 LNG project. The Russian government has transferred the rights and obligations held by Sakhalin Energy, the operator of the Sakhalin 2 project, to a new company after Shell has withdrawn from the project. However, Japan's LNG contracts with Russia remain intact and the country has not been cut off from Russian LNG supplies. Under the new law, the non-Russian stakeholders are expected to apply to the Russian government to regain their stakes.

In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption would reach 3.2% higher than the amount of consumption in 2021 at 85.85 Bcf/d (2.4 Bcm/d). The EIA also estimates that US natural gas marketed production to reach 104.61 Bcf/d (2.92 Bcm/d) in 2022 witnessing an uptick of 3.5% from 2021 to 2022. In terms of sectors, use of natural gas in the Electric Power sector, the largest natural gas consuming sector, is expected to increase from 30.88 Bcf/d (0.9 Bcm/d) in 2021 to 31.85 Bcf/d (0.89 Bcm/d) in 2022. The EIA have updated their forecast of US industrial natural gas consumption, and expects it to increase throughout 2022 averaging 23.2 Bcf (0.65 Bcm/d) up from 22.46 Bcf/d (0.64 Bcm/d) in 2021. According to the EIA, US LNG exports for the 1H-2022 reached 11.2 Bcf/d (0.31 bcm/d) driven mainly by the soaring natural gas demand in Europe. For the first five months of 2022, 71% of US LNG exports went to Europe compared to an annual average of 34% in 2021. On the other hand, the EIA expects US LNG exports to decrease in the second half of the year due to the shutdown of the fire damaged Freeport LNG in Texas which is expected to be resume work at the end of 2022. The outage of Freeport LNG is expected to dent US LNG export capacity by 17%.



Sources : Bloomberg, Kamco Invest Research

In the GCC region, higher natural gas prices has been positive on the fixed front, especially for Qatar as a leading global LNG exporter. Qatar which accounted 21% of the LNG exports market share in 2021 has emerged as one of the key countries that the EU is trying to import more LNG from as they scramble to find new suppliers and increase LNG imports. The EU imported 24% of its 77 bcm LNG in 2021 from Qatar ahead of Russia (20%) and behind the US (26%).

Qatar became the worlds biggest LNG exporter in April-2022 surpassing the US after its LNG exports jumped to a five-year high following the completion of seasonal maintenance on its LNG facilities and demand for heating fuel in North America and Europe has waned. Total LNG exports in Qatar reached USD 11.9 Bn during April-2022 as compared to USD 5.8 Bn in April-2021. Most of the Qatar's LNG exports went to China followed by India and Japan. Qatar is currently set to begin the first phase of the North Field Expansion project after declaring some of the key partners in the project namely Shell, ExxonMobil, ConocoPhillips, Eni and TotalEnergies. In the first phase Qatar plans to increase its LNG production by 43% from 77 million tonnes per year to 110 million tonnes per year by 2025. In the second phase of the project Qatar plans its LNG production to increase to 126 million tonnes per year by 2027.

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Kamco Investment Company - K.S.C. (Public)

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : kamcoird@kamcoinvest.com

Website : www.kamcoinvest.com

Kamco Invest