

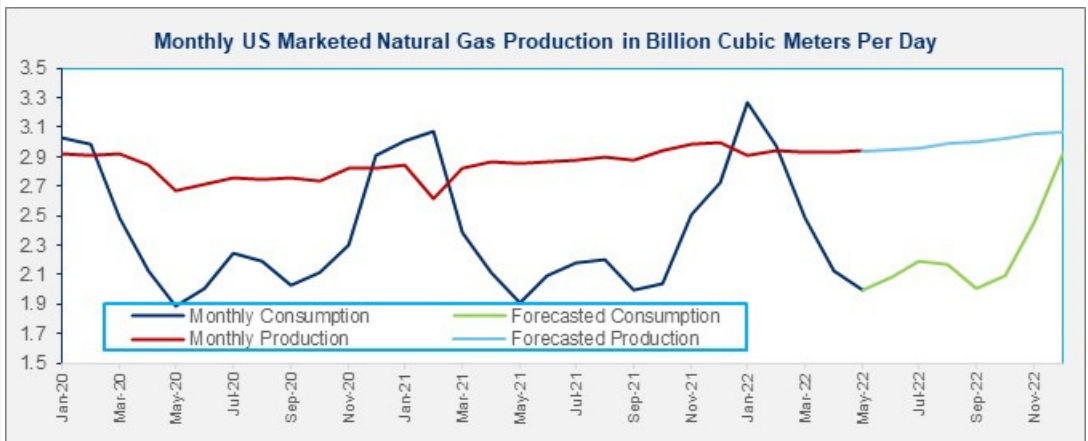
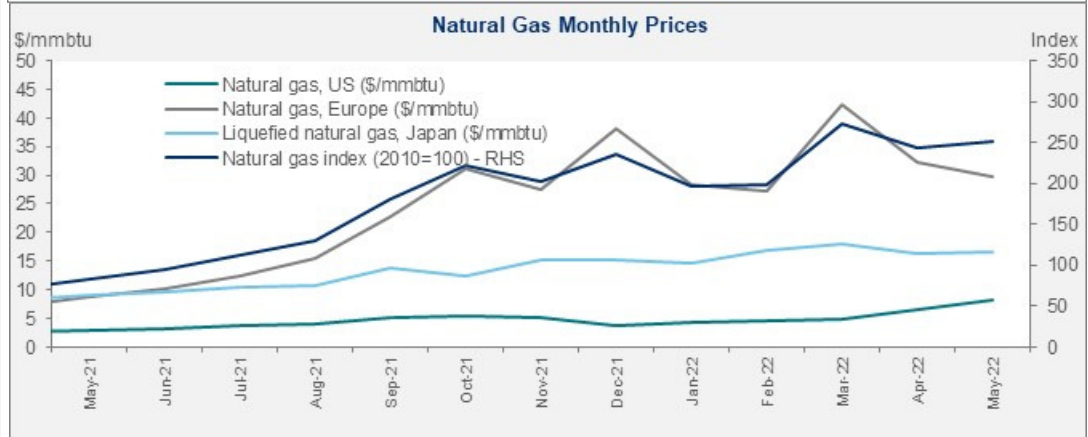
## Natural Gas Market Update

June-2022

Global natural gas prices continued to soar with European gas prices reaching new heights during the first quarter of 2022. Gas prices in the EU region witnessed greater volatility during March-2022 attributed mainly to the conflict between Russia and Ukraine that led to fears of gas supply disruption. The Russia-Ukraine conflict has caused global repercussions including the rise of US natural gas price due to the rise of US LNG exports to Europe as shown by Bloomberg Global LNG Trade Flow. US gas prices have more than doubled between December-2021 till May-2022. The war continues to drive political and economic re-alignment around the globe, prompting many Russian energy importing countries to try to diversify from Russian natural gas and crude and to find other suppliers.

In terms of global natural gas trade, most of the LNG supplies to Southeast Asian countries is tied under long-term contracts and cannot be diverted easily from their destinations to Europe. However, this has given new LNG exporters like the US an opportunity to cater to Europe's newfound strategy of weaning itself off from Russian gas and imposing sanctions in reaction to the war. On the other hand, this opportunity has allowed LNG suppliers to set the prices which are sometimes 75% more expensive than the deals they inked this time last year. Furthermore, the gap between natural gas spot prices and long-term LNG contracts is tightening fueled by high demand from Europe.

The World Bank described the Russia-Ukraine conflict to have induced the biggest energy shock since the 1970s. Global energy prices are expected to stay high including natural gas prices given Europe's determination to reduce its reliance on Russian gas and the continuation of the Russia-Ukraine war. The Western nations led by the US have put sanctions on the Russian economy especially on its energy exports and its access to the international financial system. To evade the sanctions Russia has demanded from the European countries to pay Russian gas with Rubles, the Russian currency which has been rejected by most of the European countries. Threatening to cut of gas supplies to those countries that will not settle their payments in Rubles which has been another reason which increased gas price volatility.



Sources : EIA, World Bank, Kamco Invest Research

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According to World Bank, US monthly natural gas prices for May-22 increased by 181.5% y-o-y to reach USD 8.1/MMBtu compared to USD 2.89/MMBtu in May-21. After witnessing five consecutive months of growth due to the demand for US LNG exports driven by Russia-Ukraine war coupled with colder than normal weather in the Northeast and the Midwest of the US. Monthly average European natural gas prices witnessed a 235% y-o-y jump to USD 29.85/MMBtu in May-2022 as compared to USD 8.91/MMBtu during May-2021.

In the Asia Pacific region China has been dealing with new spouts of COVID-19 outbreaks with zero Covid policy including lockdowns. These lockdowns have disrupted China's exports especially in certain key ports such as Shanghai the world's largest container port. Combined with more restrictions on lorry drivers and other factory workers due to COVID-19 measures, China's manufacturing sector has suffered. Apart from the LNG supply chain disruption due to recent COVID-19 outbreaks the increase in global natural gas prices mainly driven by the Russia-Ukraine conflict has reduced China's natural gas demand and imports. According to S&P Global, China's natural gas supply including imported LNG during April-2022 declined by 6.6% y-o-y to reach 28.9 billion cubic meters. Combined gas imports including LNG and pipeline in the country reached 11.1 billion

<b>EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day</b>				
	<b>2020</b>	<b>2021</b>	<b>2022-e</b>	<b>2023-e</b>
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

cubic meters during the month. To compensate for the declining gas imports China has responded by increasing coal production and imports in the country. The Chinese government has introduced new measures to raise coal production and coal projects.

In terms of the current geopolitical tension, the combination of higher natural gas prices and European natural gas supply concerns due to the Russia-Ukraine conflict have been instrumental to the US LNG export growth. According to EIA, during the first four months of 2022, 74% US LNG exports went to Europe compared to an annual average of 34% in 2021. There has been an overall increase in US LNG exports during the first four months of 2022. US LNG exports averaged 11.5 Bcf/d or (0.32 bcm/d) during the first four months of 2022 registering a growth of 18% as compared to the annual growth of LNG exports in 2021. The rise in US LNG exports was also partly driven by the additional export capacity of the newly launched Sabine Pass (Train 6) and Calcasieu Pass in Louisiana and higher global gas demand mainly in Europe. Comparatively, US LNG exports to Asia witnessed a decline of 51% for the first four months of 2022 according to the EIA. US LNG exports to Asia averaged 2.3 Bcf/d (0.06 bcm/d) for the first four months of 2022 as compared to the 4.6 Bcf/d (0.13 Bcm/d) annual average in 2021. China, South Korea, and Japan were the top destinations of US LNG in 2021. The combination of Covid-19 related restrictions imposed by China in key regions of trade which reduced demand and higher LNG spot prices in Europe and other parts of the world have played a role in the decline of US LNG exports to Asia markets.

In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption would reach 3.3% higher than the amount of consumption in 2021 at 85.73 Bcf/d (2.4 Bcm/d). The EIA also estimates that US natural gas marketed production to reach 104.87 Bcf/d (2.93 Bcm/d) in 2022 witnessing an uptick of 3.4% 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 31.77 Bcf/d (0.89 Bcm/d) in 2022. The EIA have updated their forecast of US industrial natural gas consumption. The agency expects US industrial gas consumption to increase throughout 2022 averaging 22.8 Bcf(0.64 Bcm/d) up from 22.46 Bcf/d (0.64 Bcm/d) in 2021.



Sources : Bloomberg, Kamco Invest Research

The GCC region has emerged to be one of the key regions which can increase its natural gas production and exports to meet future European gas demands as EU countries scramble to diversify their natural gas imports, in an effort to decrease their reliance of Russian natural gas. In recent deals, Qatar has awarded a 6.5% equity stake of the first phase of the North Field East project for an estimated USD 2 Bn to the French oil company TotalEnergies. The project is estimated to worth USD 29 Bn and includes the construction of four LNG liquefaction trains. The projects aim is to increase Qatar's natural gas production from the current 77 million tons per annum to 110 million tons per annum in 2026. Moreover, the UAE has also started its plans to become a key LNG exporter. Abu Dhabi National Oil Company (ADNOC) has awarded the front-end engineering contract to construct the Fujairah LNG export terminal to McDermot International. The project includes the construction of two 4.8 million tons per annum LNG trains and is expected to rise ADNOC's LNG production capability by 9.6 million tons of natural gas per year.

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