

Natural Gas Market Update

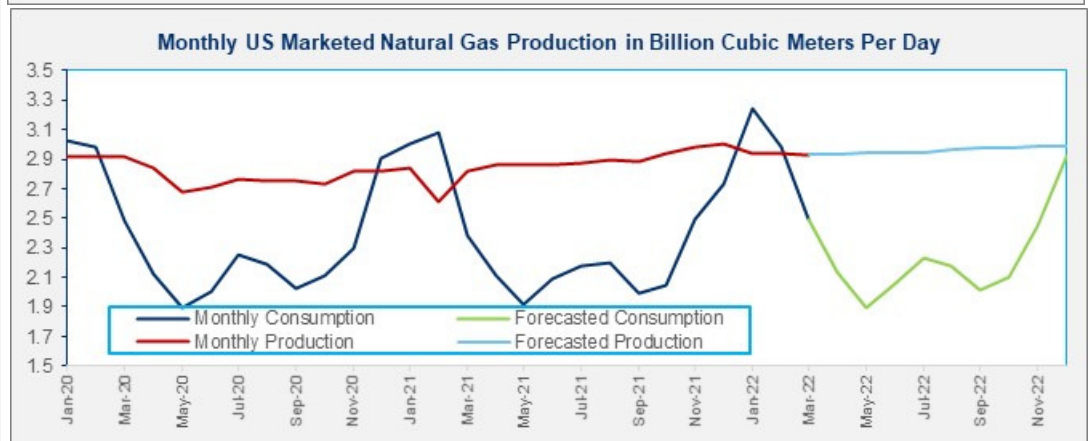
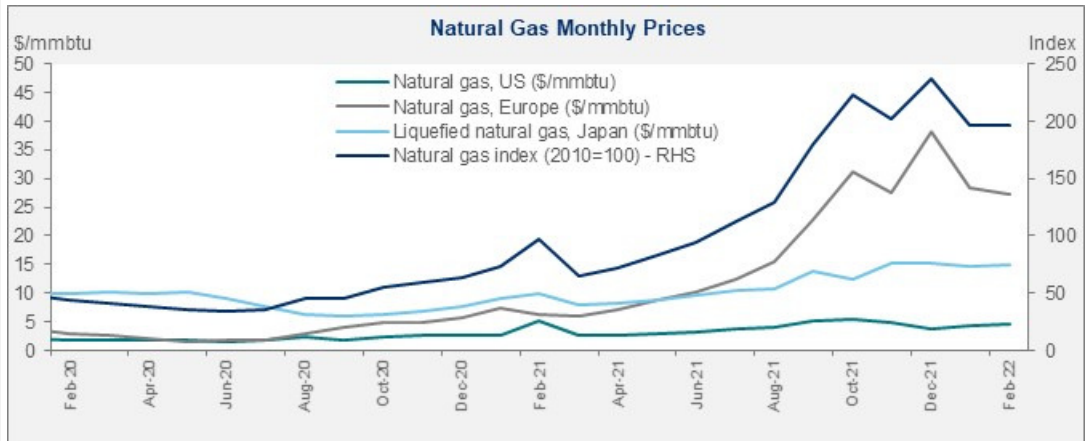
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Global natural gas prices continued to skyrocket and fluctuate to historical highs during the fourth quarter of 2021 and the first three months of 2022 due to the dwindling natural gas reserves in Europe and tension caused by the Ukraine-Russia war. The war has exacerbated global natural gas prices which were already suffering from supply constraints which caused very high prices. Similarly, global oil prices surged quickly with Brent touching USD 139/bbl due to the possibility that Russian oil and gas exports may face harsher sanctions.

Furthermore, in some parts of the world such as the US, the rise in natural gas prices has also been record breaking but not as steep as gas prices have jumped in Europe and Asia. The current war between Russia and Ukraine highlighted the interdependency of global energy supplies. The European countries are looking ways to reduce their dependence on Russian natural gas and considering every feasible established major gas producers such as Algeria. The EU is working to expand Algerian natural gas pipeline capacity between Spain and France.

Even Before the start of the war natural gas inventories in Europe remained much lower than their five-year average capacities driving gas prices in Europe and attracting LNG imports from the USA. For instance, the EU imported 155 bcm of natural gas or roughly 40% of its gas consumption and 45% of its gas imports from Russia in 2021. Given the economic sanctions that Russia has faced after the US banned crude oil and natural gas inputs from Russia, global energy prices are expected to remain high.

According to World Bank, US monthly natural gas prices for Feb-22 slipped 7.6% y-o-y to reach USD 4.66/MMBtu compared to USD 5.04/MMBtu it reached in Feb-21. After falling to USD 3.7/MMBtu in Dec-21, US monthly natural gas prices increased for next two consecutive months due to the colder than normal weather in the Northeast and the Midwest of the US. In February-2022, US Henry Hub natural gas spot prices averaged USD 4.69/MMBtu recording a 7.1% increase from average Henry Hub prices in January-2022 mainly driven by a drop in production since temperatures were normalizing in the eastern parts of the USA.



Sources : EIA, World Bank, Kamco Invest Research

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In the Asia Pacific region, China has recently overtaken Japan as the largest LNG importer in the world. It is expected that China's LNG imports will continue to rise in 2022 albeit at a slower rate than it did in 2021. According to S&P Global, China's natural gas demand in 2021 reached 370 bcm and is expected to increase up to 395 bcm in 2022. Moreover, China has added 14 million mt/year (19 bcm) of natural gas receiving capacity in 2021 and 7.85 mt/year (10.7 bcm) of gas receiving capacity in 2020. China has plans add 21.5 mt/year (29.2 bcm) of natural gas receiving capacity to its facilities in 2022.

In terms of the current geopolitical conflict, Russia is the second largest crude supplier to China after Saudi Arabia and third largest natural gas supplier (both LNG and pipeline) underlining the importance of Russia's crude to China. Natural gas imports from Russia accounted around 10% of China's gas imports in 2021 compared to 25.9% from Australia and 19.8% from Turkmenistan. In February 2022, Russia and China concluded a 30-year agreement to supply natural gas to China via a new pipeline in which China will settle the gas sales in Euros. Similarly Japan, the worlds second largest LNG importer, is facing the prospect of reviewing their Russian LNG imports after Shell withdrew from the Sakhalin 2 project which accounted around 9% of Japan's LNG imports. The Sakhalin 2 project is one of the largest integrated. Export-oriented oil and LNG projects which

| EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day | | | | |
|--|-------------|-------------|-------------|-------------|
| | 2020 | 2021 | 2022 | 2023 |
| Marketed Production | 98.91 | 101.41 | 105.02 | 107.81 |
| Consumption | 83.26 | 82.97 | 84.59 | 84.26 |
| Imports | 6.97 | 7.69 | 7.11 | 6.97 |
| Henry Hub Spot Prices (\$/thousand cubic feet) | 2.11 | 4.06 | 4.10 | 3.73 |

Sources : EIA, Kamco Invest Research

has seen most of its oil and LNG products sold in long term contracts to Asia-Pacific and North American countries. Moreover, Exxon Mobil has announced its exit from Russian Sakhalin 1 oil and gas project leaving behind USD 4 Bn in assets.

In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption would reach 2% higher than the amount of consumption in 2020 at 84.59 Bcf/d (2.4 Bcm/d). The EIA also estimates that US natural gas marketed production to reach 105.02 Bcf/d (3.0 Bcm/d) in 2022 witnessing an uptick of 3.6% 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 decline from 30.88 Bcf/d (0.9 Bcm/d) in 2021 to 30.05 Bcf/d (0.85 Bcm/d) in 2022. The EIA expects US industrial natural gas consumption to increase throughout 2022 reaching pre-pandemic levels 23.49 Bcf/d(0.67 Bcm/d) up from 22.46 Bcf/d(0.64 Bcm/d) in 2021.

According to the EIA, US LNG exports during January-21 increased 7.7% from December-21 to reach 911.2 Bcf/d (0.32 Bcm/d). The increase was driven by large price differences between the US spot prices such as the Henry Hub price and European and Asian spot prices. Amid the current Russia-Ukraine, USA's LNG exports to Europe are set increase in order to fill the gap that might arise if the European countries cut back their Russian gas supplies.

In the GCC region, despite the European gas prices reaching new highs with the TTF day ahead gas price touching over USD 70.9/MMBtu in March 2022, Qatar has continued to cater to its Asian customers due to Asia's high spot prices and the unavailability of extra free volumes of LNG exports to Europe. For example, Qatar has signed a new long-term LNG contract to supply 1 million tons of LNG per year (1.38bcm/yr.) to China for the ten years between 2024 till 2034.

However, in a response to the Russia-Ukraine war the European Union has disclosed plans to reduce its reliance to Russian natural gas by two thirds. In its place the EU indicated that it would substitute Russian gas supplies with LNG imports from Qatar and the US. Although the European Union has resisted decades long agreements that Qatar usually signs with its LNG customers in Asia. In addition, Europe has inadequate LNG import capacity to fully switch from Russian pipeline natural gas supplies to LNG imports. Germany with no LNG terminals has recently announced its plans to build two terminals.



Sources : Bloomberg, Kamco Invest Research

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