

## Natural Gas Market Update

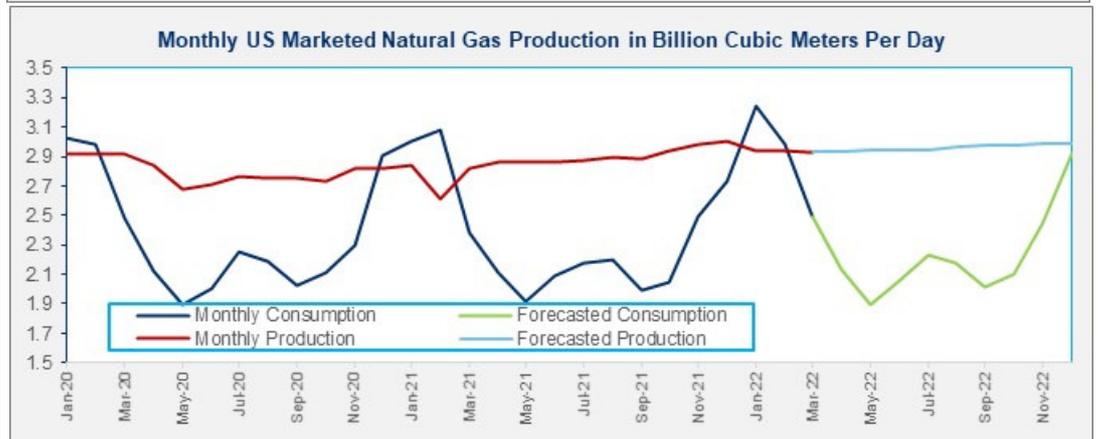
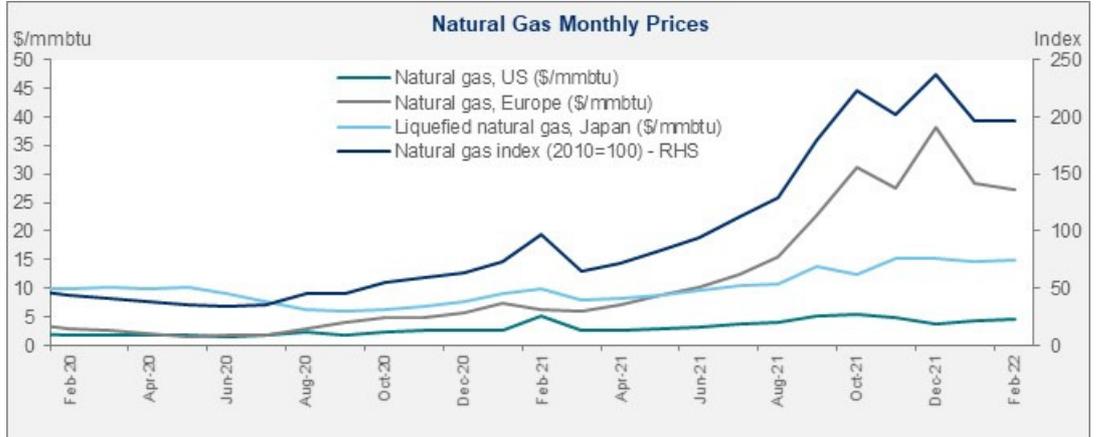
March-2022

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

**Junaid Ansari**  
Head of Investment Strategy & Research  
+(965) 2233 6912  
[jansari@kamcoinvest.com](mailto:jansari@kamcoinvest.com)

**Mohamed Ali Omar**  
Analyst  
+(965) 2233 6906  
[momar@kamcoinvest.com](mailto:momar@kamcoinvest.com)

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

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

---

## **Disclaimer & Important Disclosures**

**Kamco Invest** is authorized and fully regulated by the Capital Markets Authority ("**CMA, Kuwait**") and partially regulated by the Central Bank of Kuwait ("**CBK**")

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, an offer to invest, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, Kamco Invest did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives. The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in Kuwait or in any other jurisdiction to any other person or incorporated in any way into another document or other material without our prior written consent.

### **Analyst Certification**

Each of the analysts identified in this report, if any and where applicable, certifies, with respect to the sector, companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

### **Kamco Invest Ratings**

Kamco Invest research is based on the analysis of regional and country economics, industries and company fundamentals. Kamco Invest company research reflects a long-term (12-month) target price for a company or stock. The ratings bands are:

- \* **Outperform:** Target Price represents expected returns  $\geq 10\%$  in the next 12 months
- \* **Neutral:** Target Price represents expected returns between  $-10\%$  and  $+10\%$  in the next 12 months
- \* **Underperform:** Target Price represents an expected return of  $< -10\%$  in the next 12 months

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. Kamco Invest policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by Kamco Invest's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to Kamco Invest clients.

Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Kamco Invest and shall be of no force or effect. The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is fair, accurate or complete and it should not be relied upon as such. Kamco Invest has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The publication is provided for informational uses only and is not intended for trading purposes. The information on publications does not give rise to any legally binding obligation and/or agreement, including without limitation any obligation to update such information. You shall be responsible for conducting your own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Kamco Invest is a party.

Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service. This document is directed at Professional Clients and not Retail Clients within the meaning of CMA rules. Any other persons in receipt of this document must not rely upon or otherwise act upon it. Entities and individuals into whose possession this document comes are required to inform themselves about, and observe such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorization, registration or other legal requirements.

'Kamco Investment Company (DIFC) Limited ("**Kamco Invest DIFC**")', Office 205, Level 2, Gate Village 1, Dubai International Financial Centre, a wholly owned subsidiary of Kamco Investment Company KSC (Public), is regulated by the Dubai Financial Services Authority (DFSA). Kamco Invest DIFC may only undertake the financial services activities that fall within the scope of its existing DFSA licence. The information in this document may be distributed by Kamco Invest DIFC on behalf of Kamco Investment Company KSC (Public). This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA, and no other person should act upon it.

This document may not be distributed in Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority. The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. The recipients of this document hereby should conduct their own due diligence on the accuracy of the information relating to the contents of this document. If you do not understand the contents of this document you should consult an authorized financial advisor.

### **Risk Warnings**

Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected. The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).

Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgment. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

### **Conflict of Interest**

Kamco Invest and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Salespeople, traders, and other professionals of Kamco Invest may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document. Kamco Invest may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Kamco Invest business areas, including investment banking personnel. United Gulf Bank, Bahrain owns majority of Kamco Invest's shareholding and this ownership may create, or may create the appearance of, conflicts of interest.

### **No Liability & Warranty**

Kamco Invest makes neither implied nor expressed representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, and fitness for a particular purpose and/or non-infringement. Kamco Invest will accept no liability in any event including (without limitation) your reliance on the information contained in this document, any negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.

# KAMCO INVEST

---

**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](mailto:kamcoird@kamcoinvest.com)

Website : [www.kamcoinvest.com](http://www.kamcoinvest.com)

---

**Kamco Invest**