

Natural Gas Market Update

May-2023

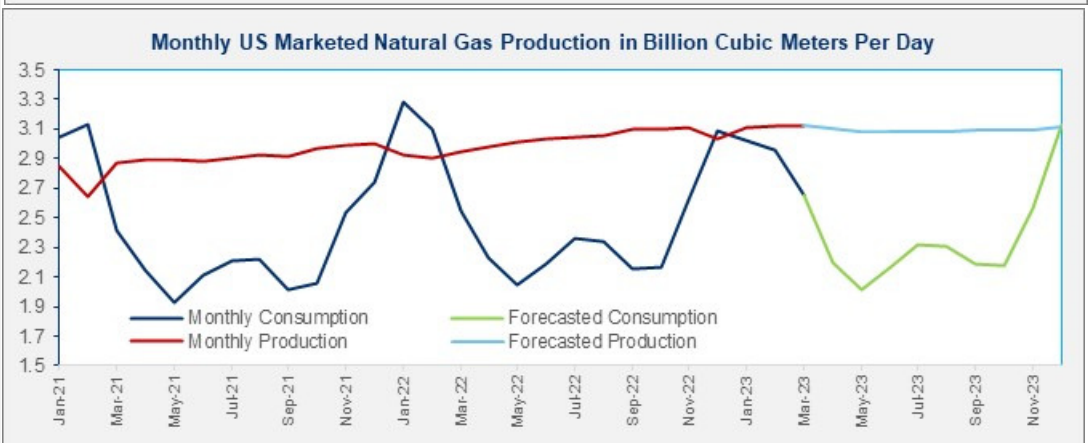
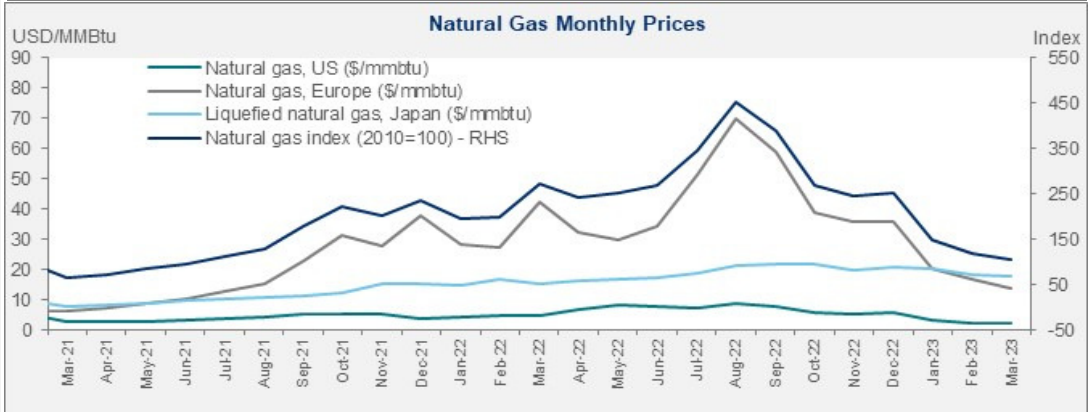
Natural gas prices fall to pre Russia-Ukraine conflict levels...

Natural gas prices have been plummeting since the start of the year. Moderate winter demand and negative sentiment towards industrial consumption fueled by the US Federal Reserve's aggressive rate increases adversely impacted demand outlook. The monthly World Bank Natural Gas Index dropped 59.1% in the last six months, underscoring the commodity's weaker global sentiment.

Last winter, European countries for the first time faced winter gas shortages as a result of Russia-Ukraine crisis. However, the winter gas shortages have not materialized for European countries because of mild winter and EU states securing alternatives to Russian gas. This eased negative gas market sentiment towards European countries' ability to obtain alternative gas supplies thereby pushing down global natural gas prices.

According to the World Bank, US natural gas prices for April-2023 decreased by 66.9% y-o-y to reach USD 2.16/MMBtu. Similarly, European natural gas prices for April-2023 declined by 58.0% y-o-y averaging the month at USD 13.52/MMBtu, while average monthly Japanese LNG price for April-2023 witnessed 3.4% y-o-y drop at USD 15.73/MMBtu. Natural gas and LNG spot prices in Europe and Asia witnessed three consecutive monthly declines between December-2022 to March-2023. In March-2023, NEA LNG spot prices averaged USD13.35/MMBtu while the TTF average monthly spot prices hovered around USD13.87/MMBtu.

In terms of consumption, global natural gas consumption is forecasted to grow around 1% in 2023 driven by the US, China, and certain emerging markets especially in the Asia Pacific region, according to Gas Exporting Countries Forum. EU gas consumption has been falling throughout the last three months of the year. EU gas consumption fell 19% y-o-y to 40 bcm in January-2023 mainly driven by above average temperatures which impacted demand for heating in the residential sector as well as gas consumption reduction measures.



Sources : EIA, World Bank, Kamco Invest Research

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Comparatively, US gas consumption declined by 8.8% y-o-y mainly due to deceleration of industrial activity as well as warmer temperatures. For February-2023, EU gas consumption recorded a marginal drop of 0.1% y-o-y to reach 38.5 bcm while natural gas consumption in the US witnessed a 5.9% y-o-y decrease during the same period. The European Union's natural gas consumption continued to decrease during March-2023 as the bloc recorded a 13% y-o-y decline to 34.1 bcm.

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2021	2022	2023-e	2024-e
Marketed Production	94.57	98.11	100.87	101.58
Consumption	83.90	88.53	87.37	86.12
LNG Exports	9.76	10.59	12.08	12.73
Henry Hub Spot Prices (\$/thousand cubic feet)	3.91	6.42	2.94	3.71

Sources : EIA, Kamco Invest Research

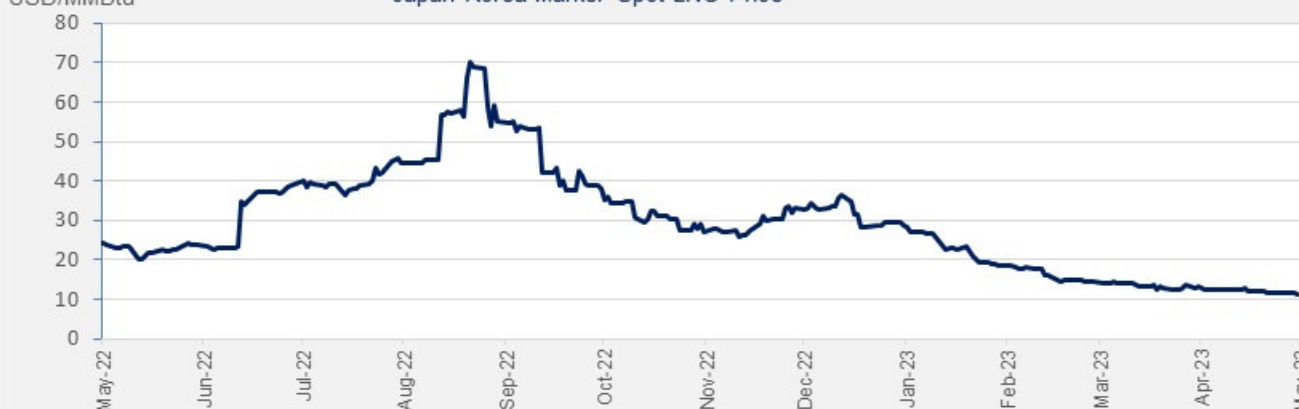
As natural gas demand in Europe and the US waned, China's natural gas consumption has increased since the start of 2023. In February-2023 natural gas demand in China increased by 4.6% y-o-y to 31 bcm, mainly due to the relaxation of the pandemic measures and the bite of colder than expected weather. China's natural gas demand is expected to grow by 19 bcm or 5.1% in 2023 to reach 386.5 bcm, according to the CNPC Research Institute. Growth in China's industrial sector especially by the steel and glass is forecasted to drive the lion's share of the country's consumption growth during the year. Japan's gas consumption dropped by 1.9% y-o-y during March-2023 to 9 bcm, mostly driven by the bite of energy saving policies and the impact of mild winter weather. In contrast, India's natural gas consumption recorded 4.2% y-o-y growth in both January-2023 and February-2023 to reach 4.5 bcm in February-2023. Growth in India's natural gas consumption was mainly propped up by the revival of the country's fertilizer sector which witnessed a 31% y-o-y increase in February-2023.

In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption in 2023 would reach 1.3% lower than the amount of consumption in 2022 at 87.37 bcf/d (2.47 bcm/d) reflecting expected consumption decline in the industrial sector.

Global natural gas supply is expected to rise by 4% in 2023 according to the IEA. Although this production increase will not be evenly distributed in the world's gas producing regions. Overall, global gas supply is forecasted to remain tight in 2023 weighed down by expected lower Russian pipeline natural gas supplies to Europe. Moreover, global LNG supply is set to grow by only 20 bcm or 4% in 2023 mainly driven by an increase in US LNG exports. However, the growth in global LNG supplies are expected to fall short to fill the expected reduction of Russia's natural gas pipeline supplies to Europe.

According to the IEA, Russia's pipeline natural gas supply to OECD Europe dropped by an anticipated 70% (50bcm) y-o-y during 2022/2023 heating season. The share of OECD Europe's natural gas consumption that was met by Russian pipeline natural gas supplies plummeted to below 10% during the 2022/2023 heating season. As a result, this drastic reduction of Russian gas to Europe remains a major uncertainty for global gas supplies in 2023. Already, Europe's net LNG imports increased by 8% y-o-y for the first three months of 2023 as European countries hustle to take advantage of low gas prices not seen since August 2021. Overall, global LNG supplies rose by 2% y-o-y in Q1-2023 primarily driven by the Middle East and Asia Pacific regions which witnessed 2% and 5.5% y-o-y growth in their LNG production, according to the IEA. Qatar, Indonesia, Australia, and Malaysia were the main countries that contributed to the growth in global LNG supplies during the period. Comparatively, the US witnessed a 4% y-o-y decline in its LNG exports during Q1-2023 mainly attributed to the delayed and only limited restart of the Freeport LNG facility which was out of service for eight months due to fire damage in the past year.

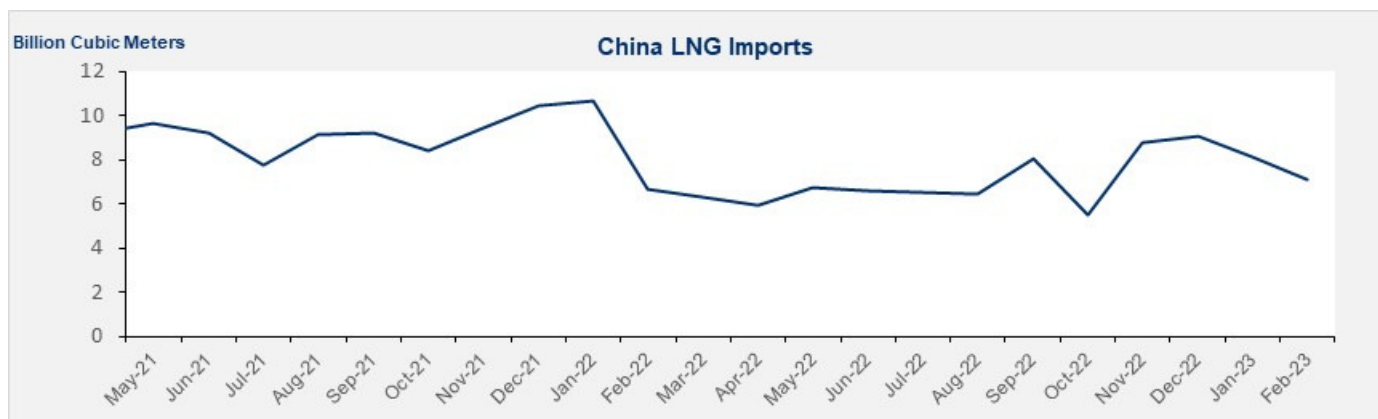
USD/MMBtu Japan Korea Marker Spot LNG Price



Sources : Bloomberg, Kamco Invest Research

The EIA also estimates that US natural gas marketed production to reach 100.87 bcf/d (2.86bcm/d) in 2023 witnessing an increase of 2.8% from 2022 to 2023. In terms of sectors, the EIA forecasts that the US natural gas share of electricity generation to remain flat at 39% for both 2022 and 2023 and then drop to 37% in 2024. In terms of natural gas prices in the US, the EIA forecasts the Henry Hub natural gas spot price to average at around USD 2.94/MMBtu during 2023 and then increase to USD 3.71/MMBtu in 2024 due to expected rising demand LNG exports as Freeport LNG export terminal returns to full operations combined with expected rise in natural gas consumption in the Electric Power sector.

The GCC region has been one of the key regions eyed by the EU countries for LNG supplies in their bid to diversify away from Russian energy. State oil companies in the region such as UAE's flagship state-owned energy company ADNOC are taking advantage of the Russia-Ukraine conflict to expand their natural gas production and simultaneously increase their investment commitments to target Europe's gas market. ADNOC (Abu Dhabi National Oil Company) is currently constructing additional LNG capacity and increasing its international natural gas production footprint in other states in the Middle East region. The company has announced it has taken a strategic stake in Israel's offshore gas company NewMed Energy. Moreover, the energy company has also reported that its subsidiary, ADNOC Logistics & Services deployed five new Very Large Gas Carriers (VLGCs) which were built in China. The ships are intended to ship LPG further developing ADNOC's ability to meet the growing worldwide gas demand. On the other hand, Qatar regained its position as the world's largest LNG exporter in 2022 according to Gas Exporting Countries Forum (GECF). Qatar has exported an estimated 80 million tonnes of LNG during 2022 followed by Australia (79 million tonnes), USA (78 million tonnes) and Russia (32 million tonnes).



Sources : Bloomberg, Kamco Invest Research

In 2022, the US was the primary driver in global LNG exports with other gas exporting countries such as Qatar, Russia and Norway contributing little to the rise in LNG exports. In contrast to 2022 things look different so far. In March-2023, Qatar was the driving force of LNG exports in GECF member states. Total growth in LNG exports by GECF states rose 6.7% (1.11 million tonnes) y-o-y during March-2023 to reach 17.66 million tonnes. Qatar represented 0.62 million tonnes or 56% of the total LNG export increases by the GECF member countries. The rise in Qatar's LNG exports was attributed to lower maintenance activity in 2023 as compared to 2022.

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