

## Natural Gas Market Update

October-2020

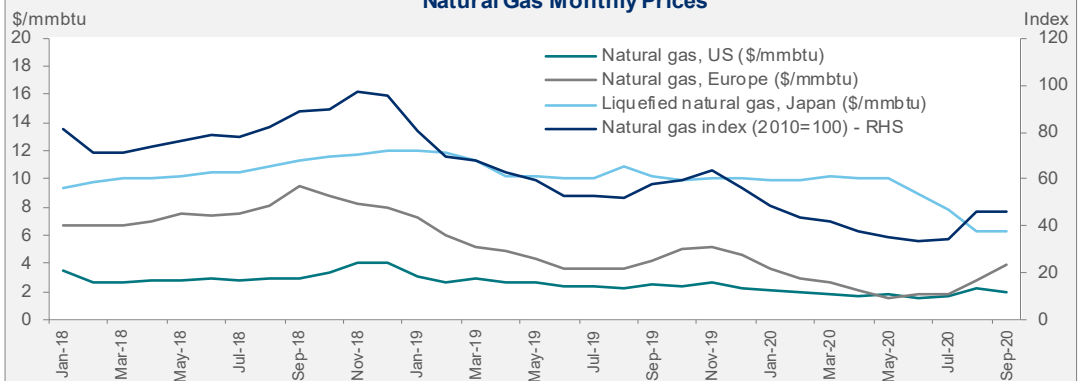
The year 2020 turned out to be an exceptional year for the energy markets, in line most other sectors, with prices going down to multi-decade lows led by the demand and supply disruption caused by the Covid-19 pandemic. Natural gas market has its fair share of volatility this year, in line with crude oil market, however, prices of natural gas were already depressed for the past few years. Milder temperatures also contributed to the decline of natural gas prices around the world during 2020.

Average monthly US natural gas prices declined by 16.3% during September-2020 to reach \$1.92/mmbtu while average monthly European natural gas prices for the same month were \$3.95/mmbtu registering a 38.1% jump as compared to the previous month. South East Asia natural gas prices remained the same, averaging at \$6.34/mmbtu during August and September of this year.

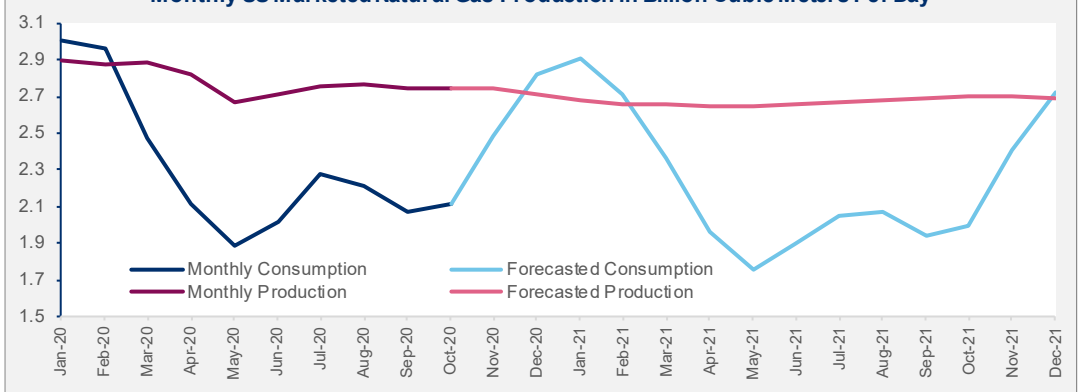
Oversupply in South Asia caused mainly by the falling demand in LNG due to COVID-19 restrictions. In Japan, the world's largest LNG importer, because of mild winter and falling economic demand due to corona restriction Q1-20 LNG imports fell 4%. On the other hand, South Korea's LNG imports rose by 7% during the same period but this was South Korea's government program of shutting down coal fired power plants.

In terms of natural gas demand and supply, according to CEDIGAZ, short term natural gas demand will recover in 2021. Pipeline exported natural gas is expected to make up the bulk of the fall in demand during the pandemic, however, LNG demand is forecasted to remain unaffected during 2020. On the contrary, the GECF (Gas Exporting Countries Forum) expects global LNG demand to increase 4 billion cubic meters during winter of 2020 as compared to winter of 2019. The increase is mainly expected to come from South Asia, especially from China and Japan. However, another global COVID-19 wave or a warmer winter temperature may disrupt the expected increase in demand for LNG.

Natural Gas Monthly Prices



Monthly US Marketed Natural Gas Production in Billion Cubic Meters Per Day



Sources : EIA, World Bank, Kamco Invest Research

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Near term expectations of natural gas market is positive and prices are expected to recover during this winter led by colder winter and higher demand for home heating fuels due to the work from home culture. Recently Japan's, meteorological agency increased the probability of La Nina winter (a winter which reduces temperatures to lower-than-usual) happening from 60% to 70%. As a result, Japan's energy demand and thereby LNG consumption is expected to increase during this winter. Furthermore, China's industrial activity is now close to pre-pandemic levels and according to Reuters news agency, China's LNG imports is expected to increase 10% this year as companies buy cheap LNG to satisfy the growing industrial demand. European natural gas prices are also expected to rise during this winter. However, since the COVID-19 case numbers are currently increasing in European countries the continent faces a second wave of the corona virus which may open the door for a second lockdown. European countries imported less LNG cargoes and pipeline natural gas from Russia also declined due to the fall in industrial output in the continent caused by the COVID-19 restrictions.

In the US, the world's largest natural gas producer and consumer, natural gas demand is expected to pick up as rising LNG exports and lower production is supposed to give demand a lift, according to the EIA. However, US natural gas production and consumption for 2020 are expected to be lower than what they were in 2019 because of the lower production and weak demand in the early months of 2020. According to EIA estimates, US natural production and consumption in 2020 would average 2.6 billion cubic meters and 2.4 billion cubic meters per day.

### Natural Gas in 2020

Natural gas is basically a by product from oil production, especially in the US and with US oil production increasing at one of the fastest historical pace in 2019 and early 2020, natural production also increase with minimal increase in demand. This caused prices to remain depressed for an extended period of time. However, with the onset of Covid-19, oil prices crashed and along with it oil production in the US and elsewhere as there was a steep decline in demand. This resulted in a steep decline in oil production in the US as it was unviable to produce at sub USD 40/b levels for most US crude oil producers. With this, the supply of natural gas also declined, resulting in support for prices as demand gradually picked up during 2H-2020.

The disruptions caused by the Covid-19 pandemic had varying levels of impact on natural gas consumption across the globe. In North America natural consumption during 2020 remained strong despite the COVID-19 induced restrictions. According to IEA, US natural gas consumption declined by 2.8% y-o-y during the first five months of 2020 attributed to mild temperatures and lockdown measures. However, because of the cheaper natural gas prices natural gas power generation increased at the expense of coal powered generation buoying the natural gas consumption. According to EIA 36% of natural gas in the USA in 2019 was used in electric power generation while 33% was used for industrial purposes and 16% in the residential purposes and the remaining 14% was consumed in commercial and transportation.

According to IEA's Gas 2020 report, European natural gas markets are faced with a challenging environment impacted on by milder weather, COVID-19 induced lockdown and strong wind generation during 2020. Europe relies on Russia as its major supplier of natural gas. In 2019, Europe imported 80% of its 233 bcm of pipeline natural gas imports from Russia, according to BP Statistical Energy Review 2020. The monthly natural gas price at the German-Russia border declined by 27.6% between January 2020 till the end of August 2020 to reach USD/MMBtu 2.62. Given that Europe may face a second COVID-19 wave during the winter of 2020/21 and new lockdown measures might be implemented by the European countries including the UK, natural gas prices are expected to remain depressed in the continent in the short term .

The Asia Pacific region, the second largest natural consuming region in the world after North America, which consumed over 22.1% of the world's natural gas has had a mixed performance. China, Asia Pacific's largest natural gas consumer, has had slow increase in its natural gas demand during the early months of 2020. China's lower demand during the first quarter of 2020 was attributed to milder weather and the introduction of lockdown measures which curbed economic activity. However, demand picked up after the lockdown measures were eased and according to Energyworld.com, demand for natural gas grew by 1.5% during the first six months of 2020 and is expected to grow 4.2% for the whole year of 2020.

Japan, the world's largest LNG importer, saw its LNG demand fall 5% year-on-year during the first five months of 2020 according to IGU.org's Global Gas Report 2019. The fall in Japan's imports was attributed to a combination of elements such as the COVID-19 restrictions impact and milder weather. On the other hand, South Korea saw its LNG demand increase 13% year-on-year during the first five months of 2020 because of the country's move from coal plants to natural gas fired plants.

### GCC Perspective

The GCC region represented 20% of the world's proven gas reserves and 10.7% of natural gas production in 2019, according to BP Statistical Review of Energy 2020. Among the six GCC countries only Qatar and Oman are natural gas exporters. While Saudi Arabia is one of the largest natural gas consumers in the world, the Kingdom consumes all the natural gas it produces. Saudi Arabia's natural gas consumption stood 113.6 billion cubic meters

IMF GCC Natural Gas Production Forecast Millions Barrels Per Day				
Country	2018	2019	2020	2021
Bahrain	0.38	0.39	0.39	0.42
Kuwait	0.25	0.24	0.22	0.22
UAE	1.10	1.13	1.16	1.19
Saudi Arabia	2.24	2.35	2.33	2.49
Qatar	4.45	4.46	4.38	4.50
Oman	0.76	0.77	0.81	0.89

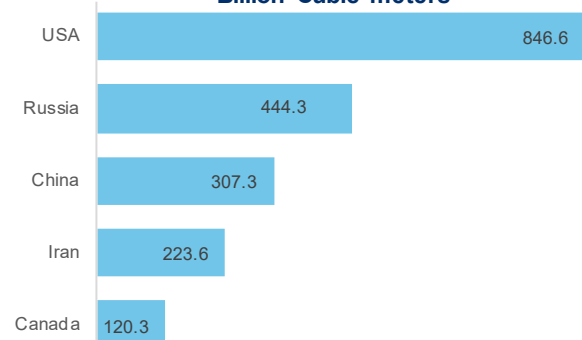
Sources : IMF

in 2019 making it the sixth largest natural consuming country in the world in 2019. On the other hand, both Kuwait and UAE are significant natural gas net importers. According to the EIA, the UAE became a net natural gas importer in 2008. Around 90.6 million cubic meters of UAE's natural gas comes from Qatar via the Dolphin Energy pipeline daily. Recently the UAE found a new natural gas field between Dubai and Abu Dhabi estimated at approximately 2,265 billion cubic meters of natural gas.

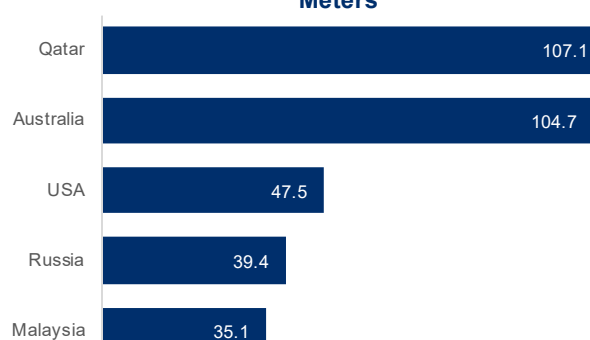
In Kuwait, although natural gas production has grown 3.4% during the 2008-2018, Kuwait still doesn't produce enough natural gas to meet its own demand and hence it is the second country in the GCC that imports natural gas after the UAE. Kuwait consumed 23.5 billion cubic meters of natural gas in 2019 while it produced 18.4 billion cubic meters of gas according to BP Statistical Review of Energy. Kuwait's new LNG terminal Al-Zour is expected to be opened in March next year. Al-Zour terminal will be able to process approximately 25.6 billion cubic meters of LNG a year. Currently Kuwait, the largest LNG importer in the GCC, uses a floating storage regasification vehicle Golar Igloo.

Qatar is the largest LNG exporter in the world and the GCC's biggest natural gas producer. Qatar has the third largest natural gas reserves in the world after Russia and Iran with 24.7 trillion cubic meters. Qatar's natural gas exports grew 2% to 107.1 bcm's in 2019. According to BP, 72 billion cubic meters of Qatar's LNG exports went to Asia pacific countries, 32 billion cubic meters of LNG went to Europe while the remaining 2.7 billion cubic meters went to Kuwait. However, Qatar is facing tough competition from new LNG exporters such as Australia and the US. Qatar's new LNG rivals are using flexible contracts and cheap spot prices to capture LNG market share from Qatar. The country has also responded with plans to boost LNG production to 171.4 billion cubic meters by 2027 which stood 107.1 billion cubic meters in 2019.

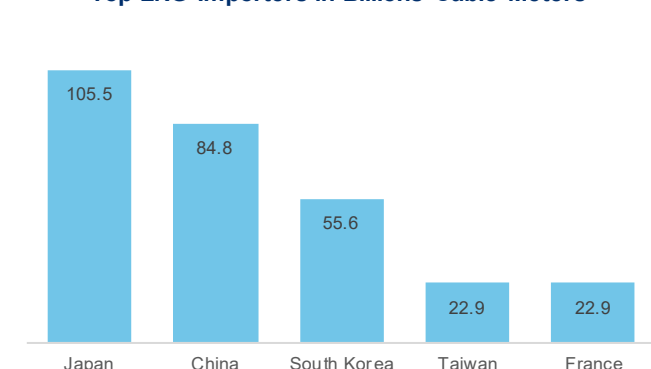
**Top Five Natural Gas Consumers in 2019 in Billion Cubic meters**



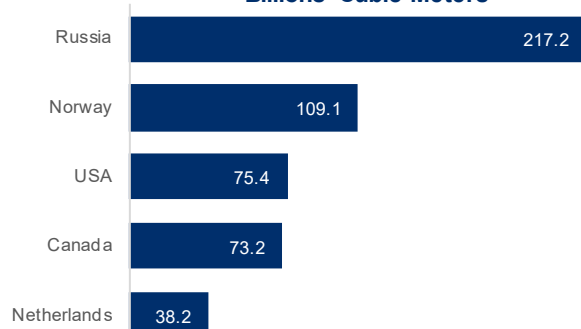
**Top LNG Exporters in 2019 in Billions Cubic Meters**



**Top LNG Importers in Billions Cubic Meters**



**Top Natural Gas Pipeline Exporters in 2019 in Billions Cubic Meters**



Sources : BP, Kamco Invest Research

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