

Natural Gas Market Update

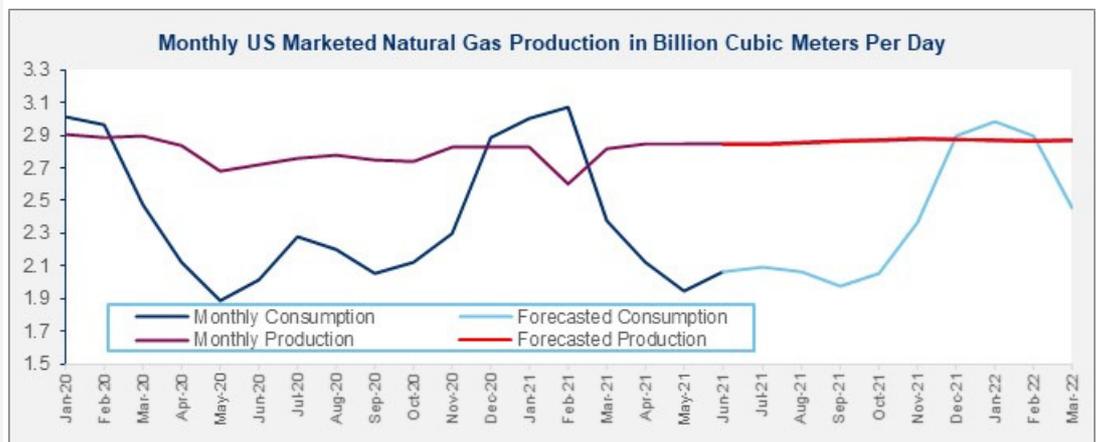
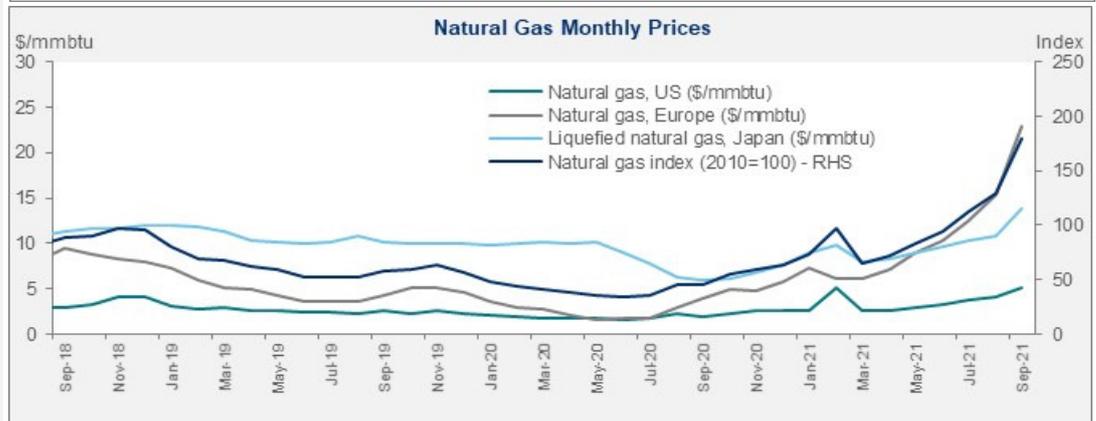
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Global natural gas prices skyrocketed to historical highs during the third quarter of the year due to the dwindling natural gas reserves in Europe and higher unquenchable fuel demand in Asian countries. Although natural gas prices have increased in every region of the world, in some parts of the world such as the US, the rise in gas prices was not as steep as gas prices have jumped in Europe and Asia.

According to World Bank, US monthly natural gas prices for Sept-21 jumped 166% y-o-y to reach USD 5.11/MMBtu. Rising oil prices induced by global economic recovery and competition for LNG by European and South Asian countries have been attributed to the jump in US natural gas prices. Similarly, European monthly natural gas prices soared 477.9% y-o-y to USD 22.84/MMBtu. Rising natural gas and LNG demand coupled with European natural gas seasonal reserves reaching their lowest level in ten years have been the main driving forces of the crunch in Europe's natural gas prices. Moreover, Russia's promised increase in natural gas supplies to Europe which have yet to materialize added to the upward pressure of the gas prices in the continent. Also, the continued improvement of economic activity in mainland Europe to almost pre-COVID levels has also been another contributing factor to Europe's natural gas price rise. Gazprom, Russia's natural gas company which mainly supplies Europe, has recently raised its gas prices adding to Europe's natural gas crisis according to Oilprice.com.

Gazprom which supplies around 35% of Europe's gas demand has indicated that it is concentrating to replenish its gas storages in Russia before it increases its exports to Europe. Gazprom increased its full year gas price for export to Europe and Turkey to between USD 295 per thousand cubic meters to USD 330 per thousand cubic meters. This is after Russia indicated that it will increase its natural gas exports to Europe to alleviate skyrocketing gas prices.

In the Asia Pacific region, (LNG) prices also continued to rise sharply as demand in the region remained strong. According to the World Bank Monthly Commodity data, Japanese LNG prices surged 135.6% y-o-y to USD 13.87/MMBtu during September-21.



Sources : EIA, World Bank, Kamco Invest Research

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China, the world's largest energy consumer, has been one of the key drivers of the rise in natural gas prices. The combination of environmentally friendly policies such as coal to gas switching, the forecast of cold winter and higher import costs has been attributed to the increase in China's natural gas demand which has led to the rise in gas prices. According to Oilprice.com, China's natural gas consumption for 2021 is expected to increase 15% to reach 360 billion cubic meters. Moreover, China is forecasted to import around 160 billion cubic meters of its yearly natural gas consumption which is 23% more gas than it imported in 2020.

US natural gas monthly benchmark, the Henry Hub spot prices, stood at USD 5.16/MMBtu in September-21, a 26.7% increase from the August-21 average price of USD 4.07/MMBtu. According to EIA, US Henry Hub spot price is expected to average USD 5.8/MMBtu during the fourth quarter of 2021 and USD 4.01/MMBtu for the whole of 2021. The rise in US natural gas prices is attributed to the diminished natural gas inventory which has fallen to their lowest levels in five years.

In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption in 2021 would be in line with consumption of the past year at 83.2 Bcf/d (2.3 Bcm/d). The EIA also estimates that US natural gas marketed production to

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2019	2020	2021-e	2022-e
Marketed Production	99.85	98.91	100.25	104.59
Consumption	85.29	83.25	83.23	82.59
Imports	7.51	6.97	7.41	6.92
Henry Hub Spot Prices (\$/thousand cubic feet)	2.67	2.11	4.33	4.16

Sources : EIA, Kamco Invest Research

reach 100.25 Bcf/d (2.81 Bcm/d) in 2021 witnessing a slight rise of 1.4% from 2020. In terms of sectors, use of natural gas in the Electric Power sector, the largest natural gas consuming sector, is expected to decline from 31.7 Bcf/d (0.9 Bcm/d) in 2020 to 29.8 Bcf/d (0.83 Bcm/d) in 2021. The EIA expects US industrial natural gas consumption to increase throughout 2021 reaching pre-pandemic levels and continue to grow throughout 2022.

The forecasted decline in natural gas consumption is marginal and is mainly attributed to the expected increase in natural gas prices for power generation in comparison with coal. In addition, both the economic recovery and the COVID-19 vaccine rollout are currently going well in the USA. According to Our World Data, over 58% of eligible population in the US have taken two doses of the vaccine and economic activity recovery has now reached almost pre-covid levels. According to Moody's Analytics and CNN Business, the US back-to-normal Index which represents the return of US economy to its pre-pandemic level of March-2020 has now reached 94% helped mainly by people returning to their places of work.

According to the EIA, US LNG exports during September-21 decreased 4% from August-21 to reach 9.3 Bcf/d (0.26 Bcm/d). Despite the monthly fall, this was the largest US LNG exports for the month of September since the US began LNG exports in 2016. The EIA forecasts US LNG exports for October-21 to average at 9.1 Bcf/d (0.25 Bcm/d).

In the GCC region, Qatar recently announced that it has signed a 15-year deal to supply LNG to China starting January 2022. According to Naturalgasintel.com, the deal stipulates that Qatar Petroleum would supply 3.5 million tons/year (4.83 bcm/y) of LNG to China's National Offshore Oil Corp. The deal was concluded on the back of global natural gas prices jump. Qatar has also been strengthening its position as a leading LNG exporter by signing major LNG supply deals around the world. In July-2021, Qatar signed a supply and purchase deal with Royal Dutch Shell to deliver 10 million tons/year (13.8 Bcm/yr) of LNG. In the UAE, Abu Dhabi National Oil Company (ADNOC) has started plans to construct LNG exporting terminal with 9.6 million tons/year (13.2 bcm/yr) of LNG exporting capacity. ADNOC plans the terminal to provide LNG to various markets such as India, Pakistan and China.



Sources : Bloomberg, Kamco Invest Research

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