

Natural Gas Market Update

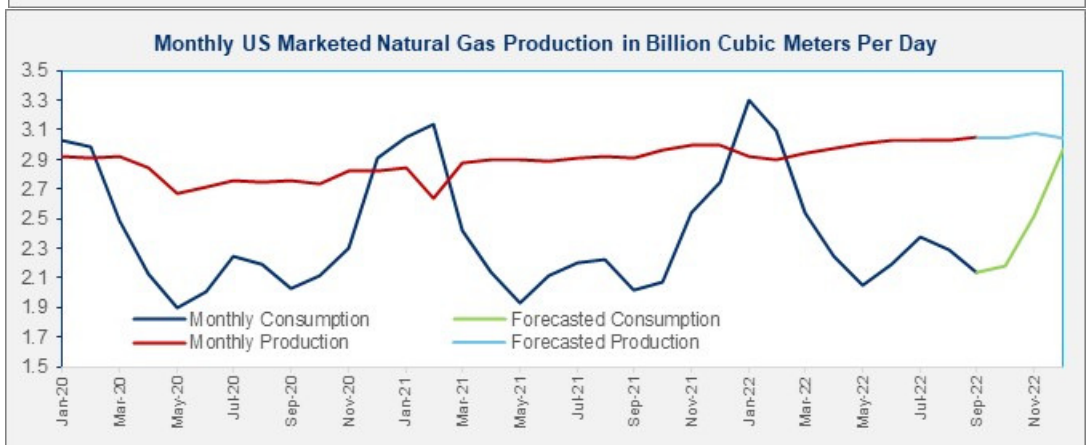
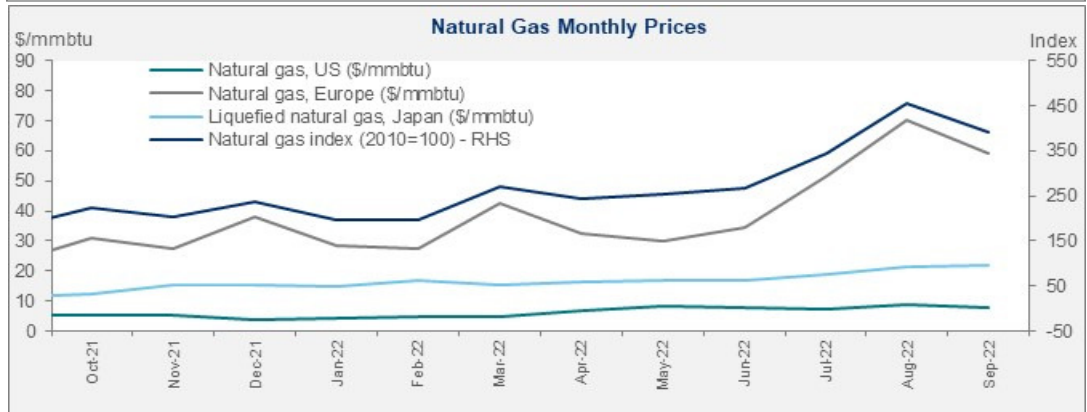
October-2022

Prices remain elevated as the Russia-Ukraine conflict drags on...

Global natural gas prices reached record highs during the third quarter of 2022 as a result of the ongoing Russia-Ukraine war that continues to have a severe impact on global energy prices particularly natural gas. Recently, there has been major disruption to Europe's gas supply infrastructure after the supplies from the Nord Stream 1 gas pipeline has been disrupted. However, despite the escalating conflict and the growing threats to the European gas infrastructure, the EU countries have succeeded in replenishing their depleted natural gas storage up to 90% this year exceeding their 80% goal to build stocks by November-2022. Furthermore, EU nations have continued their mission to increase their non-Russian gas supplies, importing more LNG and developing new natural gas infrastructure. According to Refinitiv, European countries could import 52 bcm (5.5%) more LNG than last year. Furthermore, increased competition for LNG from South Asian importers due to higher demand caused by the weather phenomenon La Nina could always raise gas prices higher for the European countries.

According to the IEA, the increase in European demand for LNG necessitated by their mission to wean themselves off from Russian gas has started global competition for natural gas supplies despite gas demand declining in Europe and levelling off in Asia. This has been one of the main factors keeping natural gas prices elevated during 2022. To make up for the politicized and instable Russian gas supplies and to adhere to sanctions on Russian energy exports due to the Russia-Ukraine conflict, European countries have increased their LNG imports.

On the other hand, the US/EU sanctions on Russian energy exports have taken some effect. Gazprom, Russia's state-owned energy company, has recently announced that natural gas deliveries to non-CIS countries have declined by almost 40% to 84.8 bcm during the period between the beginning of 2022 till September-15-2022, according to Natural Gas Intelligence.



Sources : EIA, World Bank, Kamco Invest Research

Junaid Ansari
Head of Investment Strategy &
Research
+(965) 2233 6912
jansari@kamcoinvest.com

Mohamed Ali Omar
Analyst
+(965) 2233 6906
momar@kamcoinvest.com

The IEA estimates that European countries will import over 60 bcm of LNG in 2022 or more than twice the amount of global energy LNG export volume additions, that could result high international LNG prices for the short to medium term period.

Since the start of the war European countries have signed LNG contracts amounting to 16 bcm which is almost two times their five-year average LNG contracts. It is expected that as the Russia-Ukraine conflict drags on and European countries continue to look for alternatives to Russian gas, global natural gas prices are set to stay elevated and volatile.

According to World Bank, US monthly natural gas prices for September-22 increased by 52% y-o-y to reach USD 7.76/MMBtu compared to USD 5.11/MMBtu in September-21. In context, US natural gas prices reached an all-time monthly average high of USD 8.79/MMBtu in August-2022 as soaring global LNG prices maintain demand for US LNG exports putting upward pressure on US gas prices. Similarly, European monthly natural gas prices for September-2022 jumped 158.8% y-o-y to reach

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2020	2021	2022-e	2023-e
Marketed Production	98.91	102.27	106.16	108.43
Consumption	83.37	84.01	87.89	85.30
Imports	6.97	7.69	8.07	7.47
Henry Hub Spot Prices (\$/thousand cubic feet)	2.11	4.06	7.15	6.00

Sources : EIA, Kamco Invest Research

USD 59.1/MMBtu while monthly Japanese LNG price for September-2022 witnessed 89.7% y-o-y rise at USD 21.7/MMBtu.

In the Asia Pacific region, according to the IEA, high LNG prices have had negative impact on demand on most of the gas importing countries. China's power generation sector witnessed a 9% y-o-y natural gas burn decrease during the first eight months of the year despite an overall 4% rise in electricity demand during the same period. The price impact of expensive LNG imports prompted China's gas-fired power generating plants to reduce operating hours. In India, natural gas burn for power generation fell by approximately 30% during the period between January-2022 till August-2022 because of higher imported LNG prices. According to the IEA, overall natural gas consumption in India fell by 4% y-o-y for the first eight months of the year as compared to 11% growth in oil consumption during the similar period. On the other hand, Japan and South Korea which primarily rely on long-term LNG contracts have witnessed lesser gas demand response than their LNG importing counter parts in the region.

The unexpected rise of the European gas market as new premium market for LNG has had significant impact on LNG trade across Asia. The monthly volume of spot LNG imports in Asia declined over 60% y-o-y for the first seven months of 2022. The fall was mainly driven by record high global spot LNG prices. China witnessed the largest y-o-y decline by volume of LNG imported recording 59% y-o-y decrease during January-August 2022. China's overall decrease of LNG imports was not only driven by the higher LNG prices but there have been other reasons such as weakening economic activity, new Covid-19 induced lockdowns and milder winter temperatures. In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption in 2022 would reach 4.6% higher than the amount of consumption in 2021 at 87.89 bcf/d (2.49 bcm/d) reflecting consumption growth in most of the major sectors. The EIA also estimates that US natural gas marketed production to reach 106.16 bcf/d (3.0bcm/d) in 2022 witnessing an increase of 3.8% 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 grow from 30.88 bcf/d (0.87 bcm/d) in 2021 to 32.64 bcf/d (0.92 bcm/d) in 2022. The EIA have updated their forecast of US industrial natural gas consumption and expects it to increase slightly as compared to previous forecasts in 2022 averaging at 23.15 bcf (0.66 bcm/d) up from 22.73 bcf/d (0.64 bcm/d) in 2021. In terms of natural gas prices in the US, the EIA forecasts the Henry Hub natural gas spot price to average at around USD 7.4/MMBtu during Q4-2022 and then fall to USD 6/MMBtu in 2023 due to expected rise in natural gas production. US monthly natural gas prices during September-2022 witnessed 52% y-o-y growth to reach USD 7.76/MMBtu.

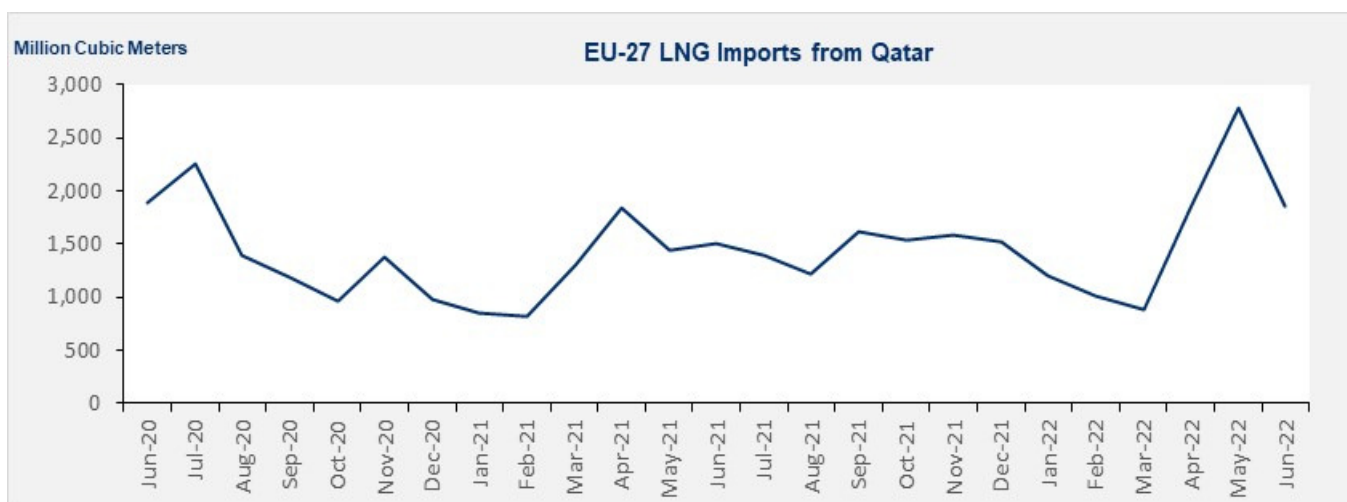


Sources : Bloomberg, Kamco Invest Research

However, the elevated US gas prices have not reduced US LNG exports to Europe. The US government have recently announced that it will not restrain US LNG exports to Europe underlining its commitment to alleviate natural gas shortages in Europe. According to Refinitiv, approximately 6.3 bcf/d (0.18 bcm/d) or 60% of US LNG exports went to Europe for the first nine months of the year as compared to 2.8 Bcf/d (0.08 bcm/d) or 29% of US LNG exports during the similar period in 2021.

The GCC region has been one of the key regions eyed by the EU countries LNG supplies in their bid to diversify away from Russian energy. Leading natural gas consumer countries such as Germany are currently undertaking a diplomatic and deal making offensive in the GCC to secure LNG supplies for their countries in both the near and distant future. Recently German utility company RWE has declared that it will receive the first LNG shipment of 137,000 cubic meters from Abu Dhabi National Oil Company (ADNOC) by the end of 2022.

Qatar which is the world's largest LNG exporter has already increased its LNG exports to EU-27 countries. According to data from Statista, Qatar's EU-27 LNG exports for the three months (April, May, June) after the start of Russia-Ukraine conflict reached 6.5 bcm as compared to 4.8 bcm that it exported during the similar period in 2021. Qatar which currently supplies 5% of Europe's natural gas, has most of its LNG production tied in long term contracts but the country is currently expanding its natural gas production capacity. The USD 30 Bn North Field Expansion project which is expected to increase Qatar's LNG production by 64% to 126 million tonnes of natural gas per annum by 2027 is already in progress. The country has chosen Exxon Mobil, TotalEnergies, Royal Dutch Shell and ConocoPhillips as partners in the mega project.



Sources : Statista, Kamco Invest Research

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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

Website : www.kamcoinvest.com

Kamco Invest