

## Natural Gas Market Update

October-2023

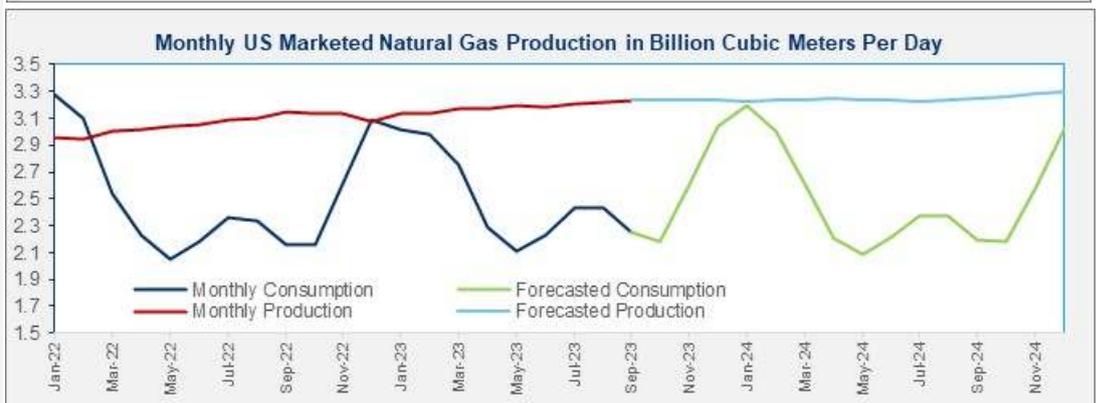
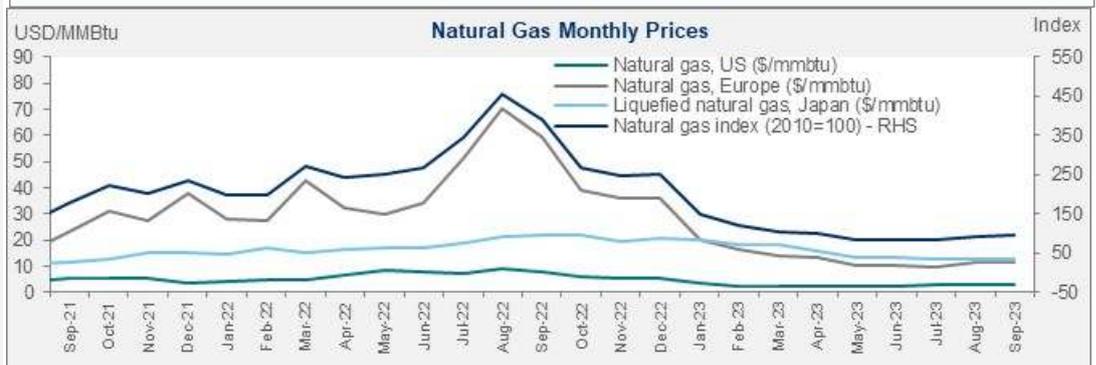
### Geopolitical tensions lift gas prices momentarily...

Natural gas prices surged to an eight month high as uncertainty shocked markets due to the Middle East turmoil of the Palestine attack that started on the 7th of October 2023. The conflict led to the closure of the Tamar gas field in the Mediterranean Sea. Furthermore, the instability in natural gas markets was added to fears of interference and sabotage after a leak was found on the Baltic Sea gas pipeline that carries gas between Finland to Estonia. The Dutch TTF Natural Gas Futures which stood 36.650 Euro/MWh on 6th October 2023, witnessed a jump of 36% growth to reach 49.9 Euro/MWh by the 23rd of October 2023.

Nevertheless, despite the sudden recent increase in natural gas prices as a result instability in the Middle East, natural gas prices have been on a downward trend. Before the recent instability in the Middle East, European natural gas prices were under pressure as compared to Asian and US natural gas prices which strengthened during the second quarter of this year.

Natural gas prices remained under pressure during 9M-2023 as compared to significant gains seen last year after the Russia-Ukraine conflict that pushed prices to record highs. The monthly World Bank Natural Gas Index dropped 62.1% during the first nine months of the year underlining the commodity's weaker global sentiment and gas price stabilization after a turbulent year. Moreover, fears of sluggish global economic growth has also had adverse effect on natural gas demand which in turn put downward pressure on the prices of the commodity. In its latest world economic outlook report, the IMF downgraded global real GDP forecast by 10 basis points for 2024 to 2.9% from its earlier forecast in July-2023. Moreover, according to the IEA, global natural gas demand growth is expected to slowdown from 2.5% growth per annum during 2017 to 2021 to 1.6% average growth rate during 2022-2026.

In terms of monthly price performance, according to the World Bank, US natural gas prices for September-2023 decreased by 66.0% y-o-y to reach USD 2.64/MMBtu. Similarly, European natural gas prices for September-2023 declined by 80.5% y-o-y averaging the month at USD 11.55/MMBtu, while average monthly Japanese LNG price for September-2023 witnessed 42.4% y-o-y drop at USD 12.50/MMBtu.



Sources : EIA, World Bank and Kamco Invest Research

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On the other hand, natural gas prices and LNG spot prices in Europe recorded a bullish trend, recording growth during August and September-2023 even before the Palestine conflict has sparked. The gas price increase was mainly driven by labor strike action at Chevron's Gorgon and Wheatstone LNG facilities in Australia. On the demand front the Gas Exporting Countries' latest report, natural gas prices are expected to remain in an upward trend for the coming few months because of expected increased LNG demand in Asia as well as the recently sparked Middle East conflict which is feared to exacerbate natural gas market instability.

<b>EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day</b>				
	<b>2021</b>	<b>2022</b>	<b>2023-e</b>	<b>2024-e</b>
Marketed Production	94.60	99.60	103.72	105.13
Consumption	83.96	88.46	89.17	88.38
LNG Exports	9.76	10.59	11.62	13.15
Henry Hub Spot Prices (\$/thousand cubic feet)	3.91	6.42	2.61	3.23

Sources : EIA and Kamco Invest Research

Comparatively, US gas consumption increased by 3% y-o-y during September-2023 driven by growth in natural gas consumption of the Residential sector which recorded 1% y-o-y uptick. Similarly, gas consumption in the US's Commercial and Power Generation sectors also recorded growth during the month at 1.8% and 6.3% respectively.

On the supply side global natural gas production is forecasted to witness a marginal growth of 1.2% during 2023. This growth is expected to come mainly from North America, the Middle East, Asia Pacific, and Africa as European gas production has been declining so far throughout 2023. According to GECF, European natural gas production is expected to decline by 4.2% during 2023 to reach 222 bcm while North America's natural gas production is forecasted to expand 4.2% to reach 1281 bcm. On the other hand, natural gas production of the CIS counties is expected to dip 3% to reach 794 bcm during the year.

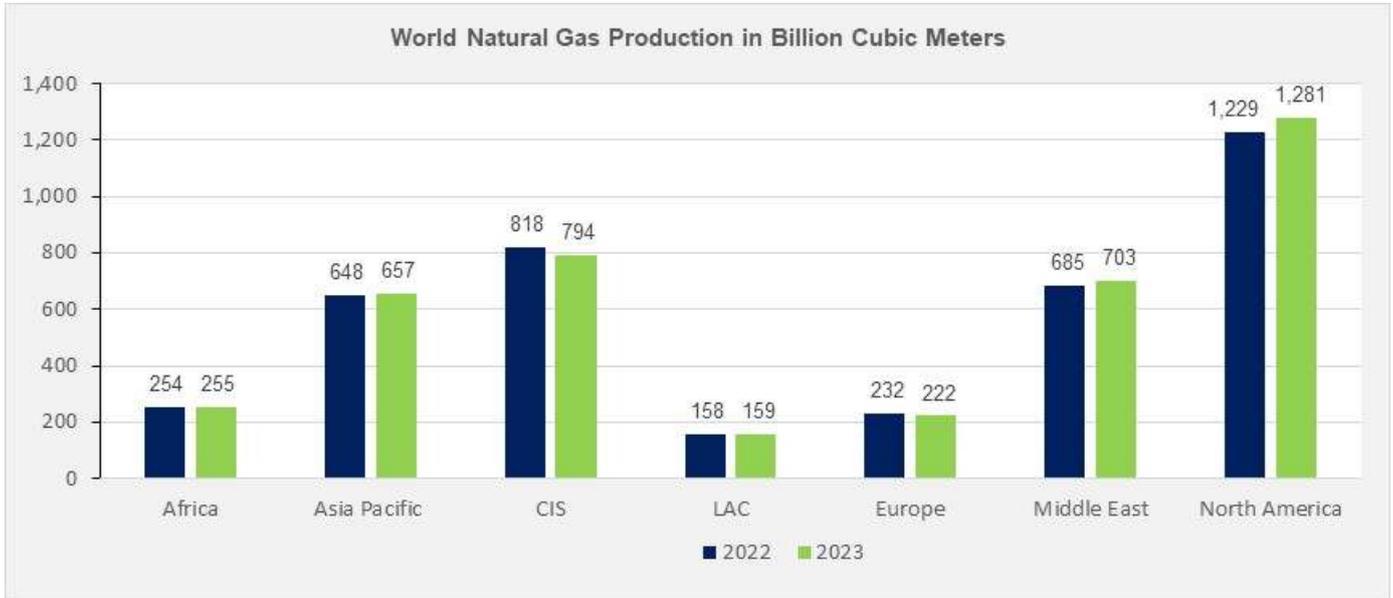
As natural gas demand in Europe declines, gas demand in Asia witnessed a fresh growth during the first nine months of the year. In August-2023, natural gas demand in China increased by 11% y-o-y to reach 33 bcm underlining China's continued economic activity revival. Moreover, natural gas demand surge in key sectors of the economy (residential and industrial) is expected to have compensated for a 1% y-o-y decline in electricity production from natural gas during August-2023. In context, China's natural gas consumption recorded a 7.4% y-o-y growth to 260 bcm for the first eight months of 2023. However, there are fears that China's robust and continued growth in natural gas demand might be derailed by milder temperatures in October and November of this year. In comparison, India witnessed growth in natural gas consumption for all the first eight months of the year. According to the GECF, natural gas consumption in India rose by 6% y-o-y to reach 6.1 bcm during August-2023 mainly due to a jump in gas consumption in the Power Generation Sector which registered 84% y-o-y jump during the month. According to the IEA, overall, natural gas consumption in the Asia Pacific region witnessed 2.5% or 12 bcm during the first eight months of 2023 with China doing most of the heavy lifting in driving demand in the region.

According to the IEA, global natural gas demand would remain tight during the year due to the unavailability of extra gas supplies to the drop in Russia's natural gas supplies to Europe. There is an estimated 18 bcm of LNG available to compensate for the over 35 bcm hole left by the fall of Russian pipeline supplies. Natural gas consumption in the North American region, the world's largest gas market, is expected to witness a gradual decline. This region's natural gas demand witnessed an average of 12% growth between 2017 and 2021 mainly driven by the switching from coal to gas trends in the USA and Canada. The North American region witnessed an increase of nearly 5% or 53 bcm in gas consumption during 2022 as compared to 2021 due to higher gas consumption in the Power Generation sector as well Residential and Commercial Sectors.



Sources : Bloomberg and Kamco Invest Research

In 2023, the IEA expects natural gas demand in the North American region to stall as drop in gas consumption in the Industrial, Commercial and Residential sectors offsets higher gas consumption in the Power Generation sector. The IEA forecasts that gas demand in the region would decline an average of 0.5% per year between 2022 to 2026. Comparatively, natural gas demand in the Asia Pacific region witnessed 4% growth per annum between 2017 and 2021 as the region remained setting the pace for global natural gas demand growth on the back of strong economic growth from the region and supported by China’s mandated policy to switch coal power generation plants to gas power plants.



Sources : IEA, Bloomberg and Kamco Invest Research

In its latest short-term energy outlook, the EIA forecasted that US natural gas consumption in 2023 would reach 0.8% higher than the consumption in 2022 at 89.17 bcf/d (2.53 bcm/d) reflecting an overall expected consumption stabilization in the country. The EIA also estimates that US natural gas marketed production to reach 103.72 bcf/d (2.93 bcm/d) in 2023 witnessing an increase of 4.1% from 2022 to 2023. In terms of sectors, the EIA forecasts that the US natural gas share of electricity generation to reach 42% in 2023 as compared to 39% in 2022 and then witness a marginal drop to 41% 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 2.61/MMBtu during 2023 and then increase to USD 3.23/MMBtu in 2024 due to expected rising demand LNG exports which is expected to reach an annual record in 2023. According to the EIA, US net LNG exports would grow 20% in 2023 to reach 12.8 bcf/d (0.362 bcm/d) driven by growth in LNG exports as well as pipeline natural gas exports to Mexico. The US managed to export more LNG than any other country during the first six months of 2023.

In the GCC region, Qatar, recently signed a 27-year LNG gas contract with Eni Spa underscoring Qatar’s third major gas contract with a European company this month. According to reports by Bloomberg, the contract is for the delivery of up to 1.5 bcm of LNG per year to a floating LNG terminal in Piombino, Italy. This deal was preceded by similar deals that TotalEnergies SE and Shell Plc signed with Qatar during October-2023. As European countries seek to fill their gas storage facilities for the second winter without Russian pipeline natural gas Qatar has become one of the few countries together with Australia and the USA that are able to deliver necessary LNG to European countries.



Sources : IEA, Bloomberg and Kamco Invest Research

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