

Natural Gas Market Update

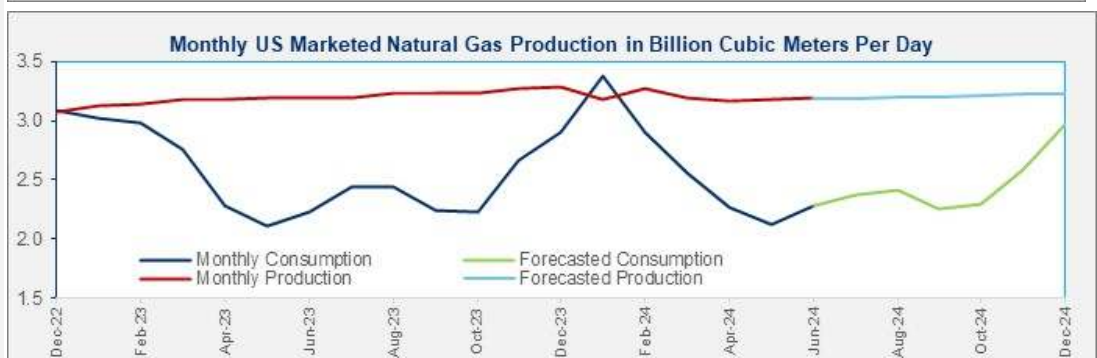
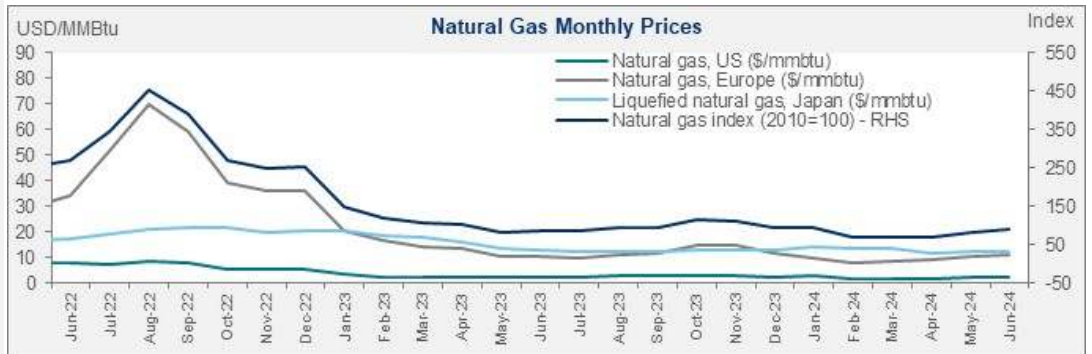
July-2024

Natural gas prices increase during Q2-2024 as geopolitical issues persist...

Global gas prices witnessed an increase during Q2-2024 led by a notable increase in average monthly natural gas prices in the US and the EU, on the back of recovering world economic growth partly due to the positive sentiment afforded by expected accommodative monetary policies in the second half of this year coupled with existing geopolitical downside risks. The uptick in natural gas prices in Europe and Asia were mainly attributed to the ongoing geopolitical instability coupled with outages at several LNG facilities. In Europe, the growth in natural gas prices was supported by the likelihood of further cuts to Russian natural gas pipeline supply and the disruption caused by unexpected outage in Norway's Sleipner Riser offshore hub which connects pipelines from the Nyhmna gas plant in Norway to the Easington terminal in the UK. According to Oilprice.com, currently Norway's is the EU's largest natural gas supplier delivering approximately 30% of the EU gas consumption. Further cuts to Russian natural gas supply to Europe is one of the key pressure points that might cause significant uptick in global gas prices during the H2-2024 because of the expected increase in EU LNG demand.

As the Russia-Ukraine conflict drags on, it maintains its impact on the European and global energy market instability and strengthens the continuing mission by the EU to cut off all Russian natural gas supplies to the EU countries. So far, between 2020 and 2023 the share of Russian in EU natural gas imports declined from approximately 50% (167 bcm) down to 15% (45 bcm) according to Bruegel. Consequently, EU imports of non- Russian natural gas increased as a direct rebalancing outcome of the ongoing conflict. According to the World Bank, average monthly prices for the EU countries increased by 5% y-o-y during June-2024 to reach USD 10.87/MMBtu as compared to USD 10.35/MMBtu in June-2023. Similarly, the World Bank average monthly prices for the US natural gas prices witnessed 15% y-o-y growth during June-2024 to reach USD 2.51/MMBtu up from USD 2.18/MMBtu. In China, natural gas prices stayed which limited buying interest in higher spot LNG prices as the country's pipeline imports witnessed 17% increase for the first five months of 2024 to reach 21.85 million metric tons.

Global LNG imports declined by 3.9% y-o-y during May-2024 to 45 bcm continuing the April-2024 fall in global LNG exports. European LNG imports witnessed 28% y-o-y (4.3 bcm) fall registering their eleventh consecutive month decline.



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Sources : EIA, World Bank and Kamco Invest Research

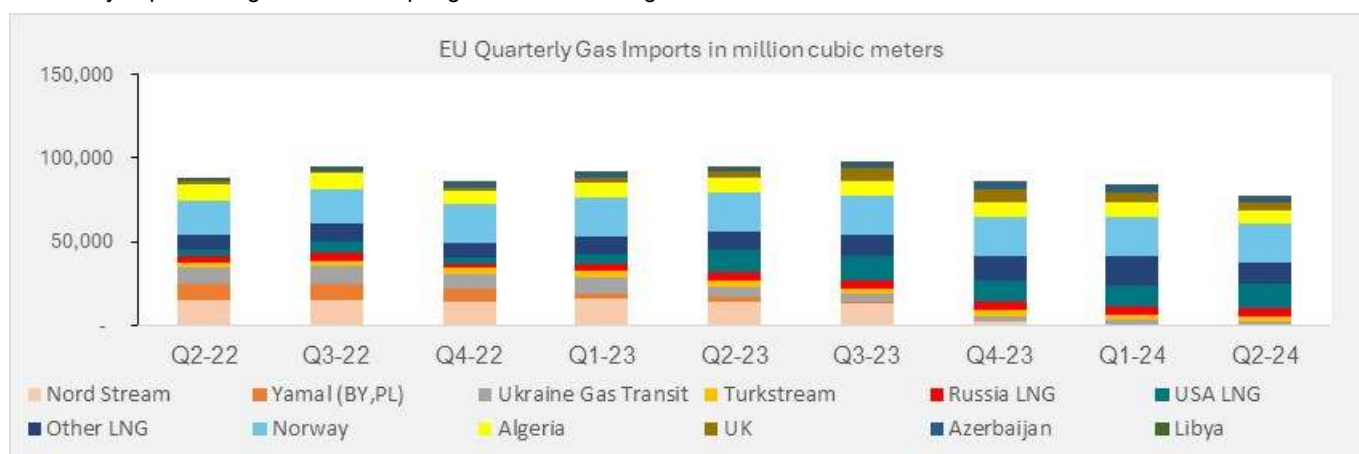
Overall natural gas consumption in Asia increased during Q2-2024 mainly due to growth in consumption in China. According to GECF, gas consumption in China during April and March-2024 recorded y-o-y growth of 8.5% and 11% to reach 34 bcm and 36.4 bcm respectively. This growth was mainly driven by the continued resurgence of economic activities in the country. Moreover, electricity production from natural gas in China increased by 2% y-o-y during April-2024 while overall electricity production in the country registered a 5% y-o-y increase to reach 730 TWh during the similar period. Similarly, natural gas consumption in India increased by 18% y-o-y to 5.9 bcm recording its sixteenth months of y-o-y consecutive growth. In contrast, natural gas consumption in Japan and South Korea declined during the two consecutive months of April and May-2024.

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2022	2023	2024-e	2025-e
Marketed Production	100.00	104.00	103.00	105.00
Consumption	88.00	89.00	89.00	89.00
LNG Exports	11.00	12.00	12.00	14.00
Henry Hub Spot Prices (\$/thousand cubic feet)	6.40	2.50	2.50	3.30

Sources : EIA and Kamco Invest Research

Natural gas consumption in Japan declined from 5.9 bcm in April-2024 to 5.4 bcm in May-2024 mainly due to declining demand from the Power Generation sector because of unusually mild weather conditions during the period. Gas consumption in South Korea fell from 3.7 bcm in April-2024 to 3.3 bcm in May-2024. This decline was also attributed to a drop in demand in the Power Generation sector.

Natural gas consumption in the EU continued its downward trend witnessing a decline during April and May-2024 as natural gas consumption reduction measures continue to take effect according to GECF. Gas consumption in April declined 12% y-o-y while gas consumption in May-2024 witnessed a 6% y-o-y fall to 18 bcm. Gas-based power generation in the block witnessed 22% y-o-y fall in April-2024 and 16% y-o-y contraction during May-2024 respectively. Natural gas consumption for mostly the large economic countries in the EU witnessed y-o-y decline during May-2024 led by Italy (-9.5%) Germany(-4%) and France (-2.9%). Unusually warm spring season was one of the key drivers of the fall in the block's gas consumption with Germany experiencing its warmest spring since records began.



Sources : Bruegel and Kamco Invest Research

Natural gas consumption in the US improved 1.7% y-o-y during May-2024 to reach 66 bcm as the shift from coal to gas continues in the power generation sector due to elevated gas prices coupled with growth in power for cooling demand in certain regions of the US. In May-2024, power generation from natural gas recorded 4.6% y-o-y growth while representing 42% of the country's power generation mix. Similarly, natural gas consumption in Canada increased by 4% y-o-y during May-2024 mainly driven by cold weather in significant parts of the country including British Columbia and Yukon which increased heating demand. In its latest short-term energy outlook, the EIA forecasted that US natural gas consumption would fall to 104 bcf/d (2.5 bcm/d) in 2024 reflecting an overall expected consumption decline in the country.

According to GECF, US shale gas production increased by 1% y-o-y to reach 87.4 bcm in May-2024 mainly from America's Appalachian region which accounted for 36% of the total shale gas production during the month. On the other hand, natural gas production in Canada edged up 1.3% y-o-y to reach 16.1 bcm during March-2024. Canada's Alberta region produced 60% of the country's natural gas production during March-2024. The EIA estimates that US natural gas marketed production to reach 103 bcf/d (2.91 bcm/d) in 2024 witnessing a decline of 1% from 2023 to 2024. In terms of sectors, the EIA forecasts that the US natural gas share of electricity generation to reach 41% in 2024, recording a marginal drop from 42% in 2023. In terms of natural gas prices in the US, the EIA forecasts the Henry Hub natural gas spot price to average at around USD 2.50/MMBtu during 2024 and then increase to USD 3.30/MMBtu in 2025 due to expected decline in natural gas production in the US and continued demand for LNG exports which is forecasted to reach an annual record in 2025.

In terms of exports, the EIA expects US (LNG) exports to average 12 Bcf/d (0.34 bcm/d) in 2024, in line with exports in 2023. Furthermore, US LNG exports are expected to increase by 2 Bcf/d (0.06 bcm/d) or 18% in 2025 to 14 bcf/d (0.4 bcm/d); due to the additional LNG export capacity that is expected to be afforded by three of the five LNG export projects currently under construction which are expected to start operations.



Sources : Bloomberg and Kamco Invest Research

Total European natural gas production in April-2024 witnessed a marginal decline of 0.6% y-o-y to reach 15.7 bcm. The drop in gas production was attributed to a sizable fall in natural gas production in the UK and Netherlands. However, natural gas production in Norway recorded a growth of 3.4% y-o-y to reach 10.7 bcm during April-2024 after 5% y-o-y growth in March-2024. According to GECF, Norwegian gas production during the period Jan-Apr 2024 increased by 4% y-o-y to reach 44.7 bcm mainly driven by the growth in natural gas output of the Troll field. Comparatively, natural gas production in the UK and the Netherlands declined by 6% y-o-y and 32% y-o-y to reach 2.8 bcm and 0.7 bcm, respectively. The drop in gas production for the two countries was both attributed to maturing and aging gas fields.

Natural gas production in China increased by 4.8% y-o-y to reach 19.8 bcm in April-2024. Comparatively, gas production in India witnessed a stronger growth at 6% y-o-y to reach 3 bcm during the similar period. according to the GECF, India's offshore gas field output represented approximately 74% of the total natural gas production in the country. On the other hand, natural gas production in Australia, the world's second largest LNG exporter in May-2024, recorded 2.7% y-o-y increase in March-2024 to reach 13.9 bcm.

GCC

According to data gathered by GECF, Qatar was the second largest LNG exporter in the world during April-2024 at 6.4 Mt (8.7 bcm) after Australia which exported approximately 6.5 Mt (8.84 bcm) of LNG during the similar period. However, in May-2024, Qatar's monthly LNG exports reached an estimated 8.2 bcm falling into the third place in the global top LNG exporters table behind the USA (10.5 bcm) and Australia (8.84 bcm). There has been significant contract activity in the GCC region during Q2-2024 including Qatari's agreement with China for the order to build 18 vessels with a capacity of 271,000 meters cubic each and valued at a total USD 6 Bn. There have been 6 new LNG sale agreements signed in May-2024 including the Ruwais LNG HOA contract in which the UAE will export an estimated 0.8 bcm per year of LNG to Germany for 15 years. Comparatively, four out of the five new sale LNG agreements signed in April-2024 where from the Qalhat LNG project in Oman including a sale and purchase agreement to provide 1.4 bcm of LNG per year to Turkey for ten years.

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