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Investment Strategy & Research

Natural Gas Market Update

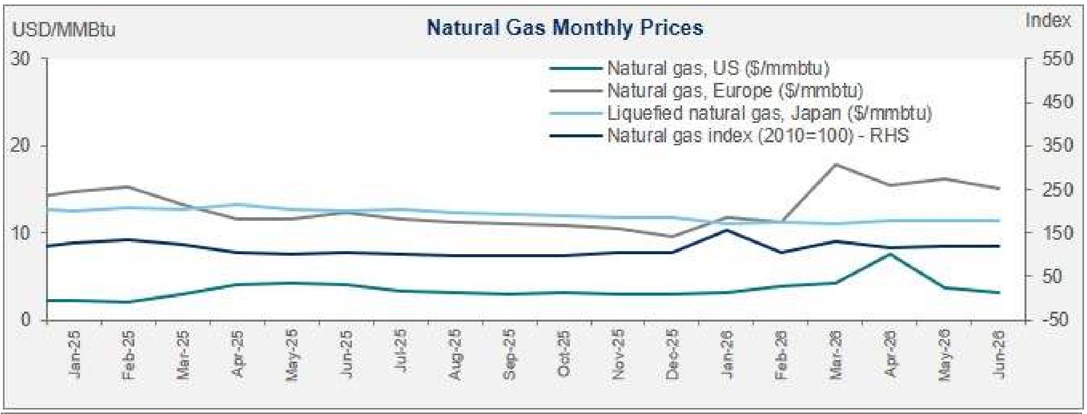
July-2026

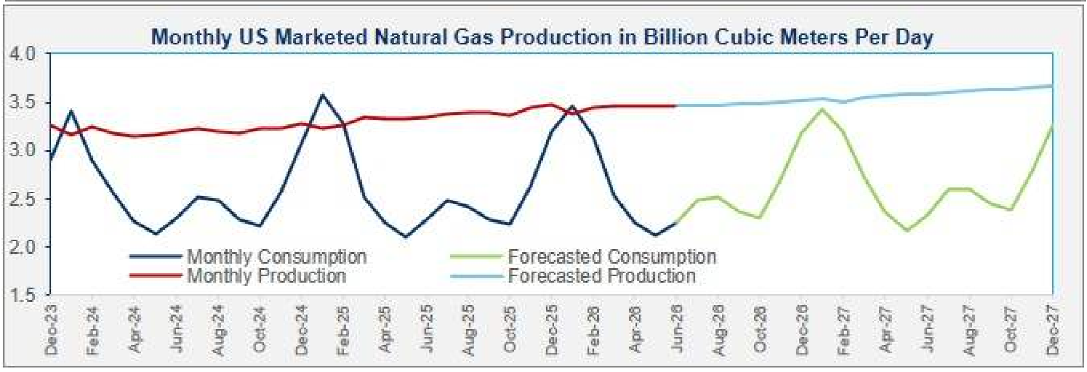
Natural gas prices surge due to persistent instability in the Middle East...

The recent escalation of hostilities between the US and Iran, coupled with the reinforcement of naval blockades on Iranian ports and the renewed closure of the Strait of Hormuz, has exerted significant upward pressure on global energy markets, including natural gas prices. Looking back, global natural gas prices registered moderate growth during Q2-2026. A notable exception to this trend was observed in the United States, where average natural gas prices declined by 7.5% y-o-y to settle at USD 2.95/MMBtu. Comparatively, Q2-2026 average natural gas prices for Europe increased by 31.2% y-o-y to reach USD 15.58/MMBtu, while average LNG prices for Japan witnessed 11.3% y-o-y growth to reach USD 13.79/MMBtu. The growth in natural gas prices in Asia and Europe was mainly supported by the ongoing geopolitical instability and supply disruptions affecting LNG shipments transiting through the Strait of Hormuz. Although price levels in these regions moderated from their March-2026 highs, overall prices remained higher than the 2025 benchmarks. The growth in European and Asian gas prices was also supported by Europe's ongoing structural transition away from Russian gas imports following the Russia-Ukraine conflict. Moreover, global natural gas spot prices are widely expected to remain firm and elevated in the near term, supported by seasonal demand increases associated with cooling requirements during the summer months.

The recent re-closure of the Strait of Hormuz, prompted by the resurgence of hostilities, has reignited longstanding concerns over the drag-on of potential disruptions to LNG supplies from the Gulf region. This development follows the June-2026 US-Iran ceasefire agreement, which had initially included provisions for the waterway’s reopening and allowed a limited number of LNG and crude oil tankers to resume transit. Nevertheless, industry experts anticipate that a meaningful recovery in LNG supply from Gulf producers notably Qatar and the United Arab Emirates will require considerable time before returning to pre-conflict operational norms.

According to the IEA, LNG deliveries from the GCC (Qatar and the UAE) contracted by 35 bcm y-o-y, over the three-month period from March through June-2026. This supply deficit was largely offset by concurrent growth in LNG production from new projects commissioned in North America and Africa.





Sources : EIA, World Bank and Kamco Invest Research

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Meanwhile, non-GCC LNG production increased by nearly 27 bcm y-o-y across the same March to June-2026 period. Despite the compensatory expansion in non-Gulf LNG output, global LNG supply registered a net 8 bcm y-o-y contraction during the three months between March and June-2026.

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2024	2025	2026-e	2027-e
Marketed Production	103.07	107.65	111.25	115.30
Consumption	90.33	91.88	92.14	95.02
LNG Exports	11.90	15.10	17.40	18.60
Henry Hub Spot Prices ($/thousand cubic feet)	2.19	3.53	3.67	3.49

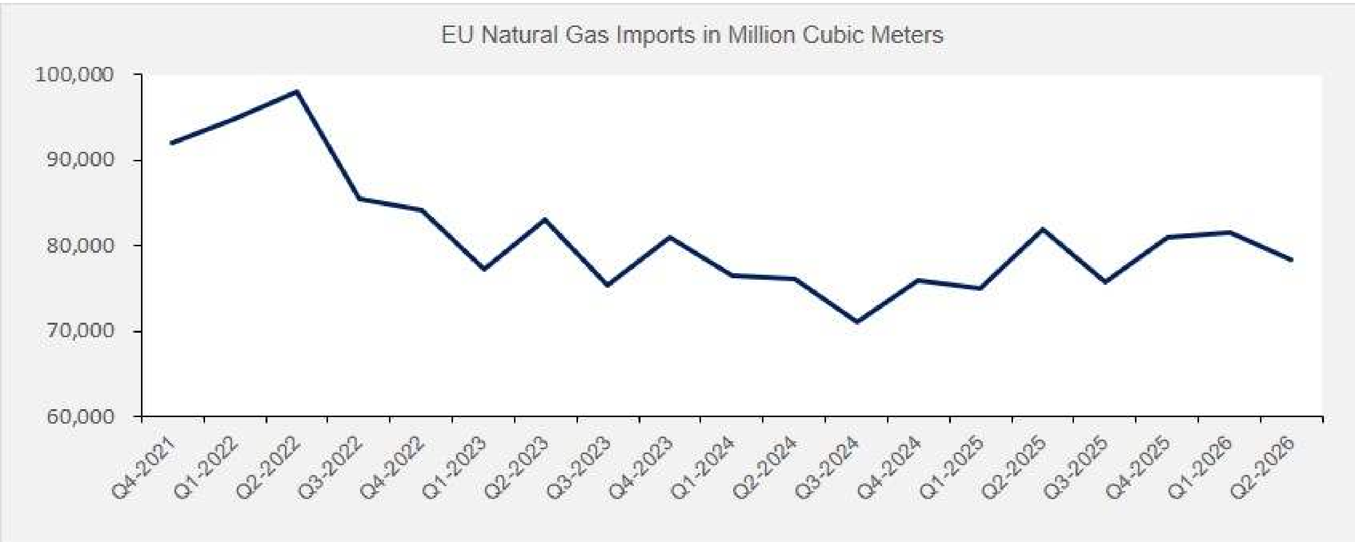
Sources : EIA and Kamco Invest Research

This shortfall is primarily attributed to severe damage at Qatar's Ras Laffan Industrial City, the flagship facility for Qatari LNG production, on two of its key gas-processing units during the early weeks of the US-Iran war. These strikes effectively curtailed approximately 17% of the plant's production capacity, forcing a complete operational halt. Compounding these difficulties, the same production complex experienced a significant explosion in June-2026 resulting from a technical accident that occurred during an attempt to restart operations.

Beyond the physical infrastructure damage, several additional factors are likely to delay a full recovery of GCC LNG supply, including higher insurance premiums for Gulf transits, persistent geopolitical uncertainties, and accumulated shipping backlogs that continue to delay logistical normalization. The combination of higher natural gas spot prices and the disruption of LNG supply has contributed to a decline in global natural gas demand during 1H-2026.

Natural Gas Consumption

According to the IEA, Asian natural gas demand declined by an estimated 1% y-o-y or 5 bcm, in 1H-2026, driven by the disruption of LNG flows via the Strait of Hormuz, which has prompted fuel switching measures across many Asian countries since the onset of the Middle East conflict. The IEA has revised its previous forecast of 4% gas demand growth for Asia in 2026 downward to a decline of 0.5%, primarily due to the LNG supply disruption via the Strait of Hormuz. Natural gas demand declined for all three of the largest LNG importers in Asia China, Japan, and Korea during the first six months of the year compared to the same period in 2025.



Sources : Bruegel and Kamco Invest Research

Aggregate gas consumption across some of the major gas consuming countries, which collectively account for three-quarters of global gas demand, witnessed a 1% y-o-y decline to reach 1,073 bcm for the first four months of 2026, according to the GECF. This drop was primarily registered in the North America and Southern Asia regions. Meanwhile, the Middle East and the EU regions recorded growth during the same period. Overall, global natural gas consumption is expected to decline by 1% for FY2026. For Japan, natural gas demand dropped by 1.5% y-o-y mainly due to lower gas usage in power generation resulting from government-led initiatives to promote coal-fired power plant consumption, coupled with the restart of the Kashiwazaki-Kariwa nuclear power plant. Comparatively, natural gas demand in Korea also fell during 1H-2026, largely driven by the direct impact of the supply disruption caused by the closure of the Strait of Hormuz.

According to the IEA, Korea receives approximately 20% of its LNG from the Middle East, whereas Japan garners only around 7% of its supplies from the same region. In OECD Europe, natural gas consumption in 1H-2026 declined by 0.5%, mainly due to lower gas usage in the power sector, which was largely offset by an increase in natural gas usage in the residential and commercial sectors during the period.

Despite this marginal decline in gas demand, EU natural gas imports improved by 1.9% y-o-y during 1H-2026 to reach 159.9 bcm, according to Bruegel. EU LNG imports from the US (43.9 bcm) represented twice the volume of natural gas imports from Russia during 1H-2026.

In the North America region, natural gas consumption fell by 1% y-o-y during 1H-2026, driven by milder winter temperatures that exerted downward pressure on natural gas usage in the commercial and residential sectors. In this context, gas consumption in the US declined by 1.5% y-o-y during 1H-2026, while gas consumption in Canada remained flat over the same period. In the latest EIA short-term outlook, natural gas demand in North America is expected to record a marginal decline during 2026, primarily due to lower natural gas consumption in the residential sector.

Natural Gas Production

Global gas production was estimated to have declined by 1% y-o-y to reach 1,390 bcm for the first four months of 2026, compared to 1,404 bcm during the same period in 2025, according to the GECF. For April-2026 alone, global natural gas production dropped by 3.6% y-o-y to reach 338 bcm. This decline was mainly attributed to a substantial reduction in output from the GCC region's major gas and LNG producers. Qatar witnessed the largest reduction in its LNG production capacity as a result of infrastructure damage to its LNG facilities and the closure of the Strait of Hormuz. However, natural gas production growth in the North America and Eurasian regions partially offset the impact of the GCC LNG supply disruptions on global gas supply.

In Europe, total natural gas production for the first four months of 2026 declined by 3.2% y-o-y to reach 61.8 bcm, compared to 63.8 bcm during the same period in 2025, according to the GECF. This represented the lowest total production in the region over the last five-year period. The fall in gas production was mainly attributed to a notable decline in UK production, which witnessed a 10.7% y-o-y drop to reach 9.3 bcm. Meanwhile, Norway, which produces approximately 68% of Europe's cumulative natural gas production, recorded a marginal 0.4% y-o-y growth to reach 42.3 bcm.

In Asia Pacific, cumulative natural gas production for the first four months of 2026 improved by 1.1% y-o-y to reach 238.3 bcm. This moderate growth was mainly attributed to a rise in China's natural gas production during the period, which increased by 2.8% y-o-y to reach 89.9 bcm. It is expected that China's natural gas production will continue at least in the near future, as Sinopec, the state-owned oil and petrochemical company, has secured approval to explore China's first ultradeep shale gas field.

In the USA, cumulative natural gas production for the first five months of 2026 improved by 4.1% y-o-y to reach 471 bcm, compared to 452 bcm during the same period in 2025. The growth in US gas production stemmed from an increase in dry shale gas production, which accounted for 82% of the country's total gas output. According to the GECF, US dry gas production increased by 2.8% y-o-y during the five months between January and May-2026. The establishment of new LNG export terminals continues to increase feed gas requirements, driving demand-side dynamics and providing a rising pull-on gas production year to date. Much of the incremental growth in US natural gas production originates from the Permian Basin, which witnessed 6.5% y-o-y growth in 1H-2026, while dry gas production in the Appalachian Basin remained broadly unchanged during the first six months of the year, recording a marginal drop of 0.1% y-o-y . According to the IEA, US dry natural gas production is expected to increase by 3% y-o-y in 2026, mainly driven by rising LNG exports and momentum in both gas and oil market fundamentals.

GCC Market Outlook

The interim agreement brokered between the US and Iran in June-2026, which established a framework for the reopening of the Strait of Hormuz, has encountered a significant setback following the recent resumption of hostilities between the two nations. The ongoing instability in the region has significantly impaired the ability to forecast the resumption of LNG supplies from GCC countries via the Strait of Hormuz, as well as the conditions surrounding its reopening. Currently, the prevailing consensus among market analysts is that the Strait is expected to be fully re-opened in Q3-2026. To date, the closure of the Strait of Hormuz has reduced the delivery volume of LNG from the GCC by 32 bcm for 1H-2026 as compared to 1H-2025. According to the IEA, the aggregate volume of LNG supply to global markets from Qatar and the UAE is expected to decline by approximately 45% y-o-y or 55 bcm, for FY-2026. This contraction is expected to constrain global LNG trade growth, which is projected to remain flat in 2026.

The ongoing instability in the region has also affected the UAE's natural gas exporting and production systems. The Emirates' LNG exports have been hindered by the closure of the Strait of Hormuz, while its gas processing facilities have suffered damage from military strikes. The Emirates' Das Island liquefaction plant saw cargo loadings slow to only one or two cargoes per month during the three months between March and June-2026, as compared to an average of seven LNG cargo loadings during the same period in 2025,according to the IEA. Meanwhile, the Habshan gas complex, the Emirates' largest domestic gas supply processor, suffered damage due to military strikes in April-2026. The damage caused the gas complex to temporarily shut down. It is expected that the processing capacity of the gas complex, which is currently operating at approximately 60% capacity, will recover to 80% capacity by the end of 2026 and reach full capacity by 2027.

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