

Natural Gas Market Update

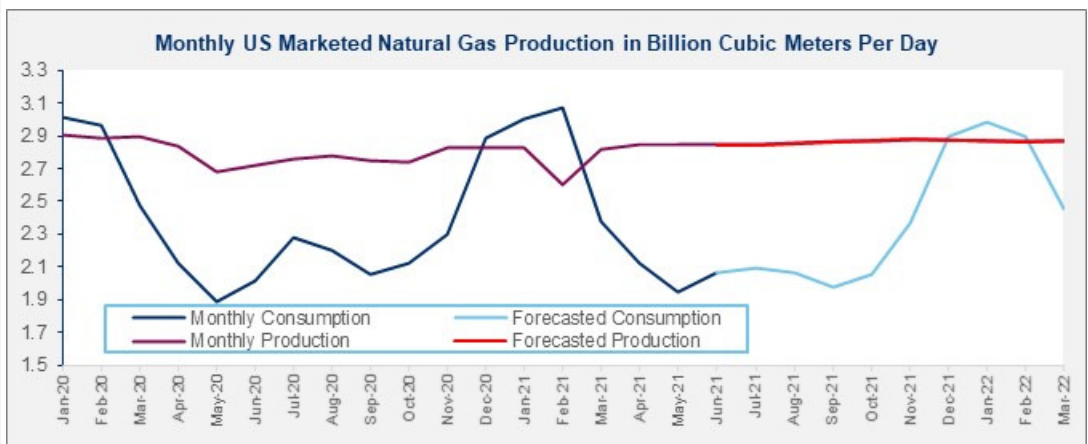
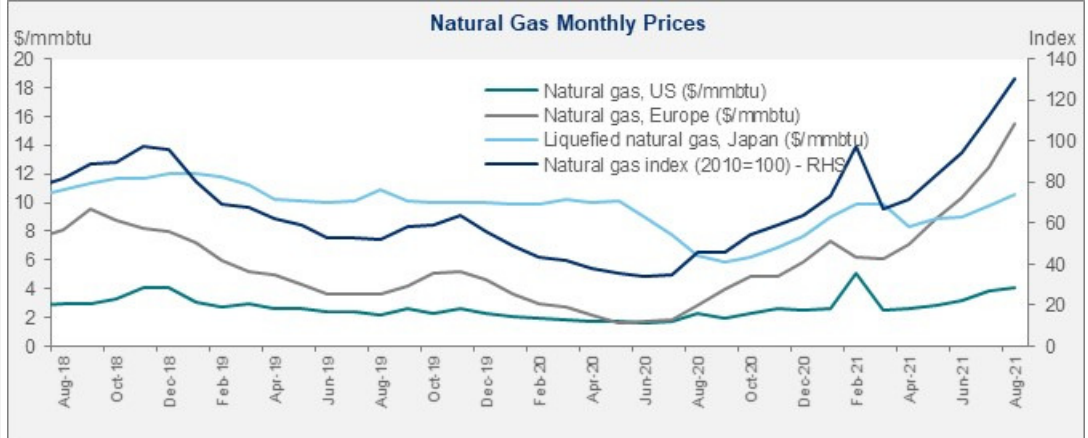
September-2021

Global natural gas prices jumped to historical highs during the second half of the year due to the sweltering heat which induced high demand for the fuel used as electricity generation. In some parts of the world such as the US, the rise in natural gas prices was also affected by the concern of shortages in the winter. In addition, the re-opening of economies around the globe has also uplifted the demand for natural gas contributing to the increase in prices. The cost of the fuel which has already reached record heights during this summer, is threatening to derail the economic recovery from the Coronavirus pandemic.

According to World Bank, US natural gas prices for Aug-21 jumped 76% y-o-y to reach USD 4.05/MMBtu. Soaring electricity demand induced by high summer temperatures combined with increase in LNG exports attributed the jump in natural gas prices. Similarly, European monthly natural gas prices soared 441.2% y-o-y to USD 15.49/MMBtu. The recovery of economic activity in mainland Europe to almost pre-COVID levels has led to rise in natural gas demand. Moreover, low gas inventories and higher demand and purchase from Asian countries where some of the numerous reasons that contributed to the record natural gas prices in the European continent.

Similarly in the Asia Pacific region, (LNG) prices continued to increase as demand in the region remained strong. According to the World Bank Monthly Commodity data, Japanese LNG prices surged 25.8% y-o-y to USD 9.8/MMBtu during July-21. Global LNG deliveries increased by 5.2% to reach 30.4 million tones (41.3 bcm) during June-21 compared with 28.9 million tones of LNG (39.3 bcm) during the corresponding period in 2020. Asian countries accounted most of the natural gas demand during the month at 74.6% of global demand. Comparatively, natural gas demand in Europe decreased during June-21 falling to 4.4 million tones (6 bcm) down from 5.5 million tones (7.5 bcm) during June-20.

According to Oilprice.com, Europe is expected to face natural gas shortages during this winter. This is because of Asian countries snapping up most of the LNG receipts around the world. LNG deliveries in Europe in June-21 were at the lowest in three years.



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

According to Gas Infrastructure Europe, the EU has a facility to store over 117 bcm of natural gas which is currently at 60% capacity which needs to reach over 80% to be a buffer against market fluctuations. The diminished natural gas reserves have been attributed to the rise in economic activity in the continent which has picked up after most of the pandemic induced restrictions have been lifted this year. Furthermore, another reason which is attributed to Europe's dwindling reserves is the recent decrease of Russian pipeline load to the EU due to a political controversy between Russia and Germany. However, this slowdown of Russian pipeline gas delivery to the EU is expected to stop when Russia's Nordstream 2 pipeline supplies starts to reach Germany.

US natural gas monthly benchmark the Henry Hub spot prices stood USD 3.84/MMBtu in July-21 a 17.8% increase from the June-21 average price of USD 2.66/MMBtu. According to EIA, US Henry Hub spot price is expected to average USD 3.71/MMBtu during the third quarter of 2021 and USD 3.42/MMBtu for the whole of 2021.

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2019	2020	2021-e	2022-e
Marketed Production	100.04	98.83	99.81	102.92
Consumption	85.15	83.25	82.46	83.78
Imports	7.51	6.97	7.37	6.92
Henry Hub Spot Prices (\$/thousand cubic feet)	2.67	2.11	3.55	3.20

Sources : EIA, Kamco Invest Research

In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption would fall about 1% to reach 82.5 Bcf/d (2.3 Bcm/d) in 2021. The EIA also estimates that US natural gas marketed production to reach 99.8 Bcf/d (2.8 Bcm/d) in 2021 witnessing a slight rise 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 29.5 Bcf/d (0.83 Bcm/d) in 2021. The forecasted decline is bigger than expected and is 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 CNN, over 50% of eligible population in the US has taken the vaccine and economic activity recovery has now reached 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 93%.

According to the EIA, US natural gas exports (both LNG and pipeline) during July-21 increased 2.2% y-o-y to reach 18.2 Bcf/d (0.51 Bcm/d) up from 17.8Bcf/d (0.5 Bcm/d). The EIA forecasts US natural gas exports (both pipeline and LNG) to continue to grow through out 2021 and 2022 and estimates the combined exports (pipeline and LNG) to average 18.3 Bcf/d (0.51 Bcm/d) in 2021 and 19.3 Bcf/d (0.54 Bcm/d) in 2022. On the other hand, the EIA forecasts US natural gas imports to average 7.4 Bcf/d (0.2 Bcm/d) in 2021 witnessing a 6% increase from 2020 before it falls to 6.9 Bcf/d (0.19 Bcm/d) in 2022. Asian countries have become the main destination for US LNG exports while Canada supplies most of the US's gas imports.

In the GCC region, Qatar Petroleum awarded Spain's Técnicas Reunidas a contract for the Northfield Expansion. This project is expected to expand Qatar's LNG output by 64% by 2027. The project is aimed to develop and expand existing liquid products storage and loading facilities. Another aim of the project is to increase the import of mono-ethylene glycol in Ras Laffan Industrial City. Qatar estimates the two-phase North Field contracts will increase its LNG exports 64% by 2027 making it the leading LNG exporter in the world. According to SPGLOBAL, the first phase of the expansion will cost USD 28.75 Bn making it one of the largest projects in the world.



Sources : Bloomberg, 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