

Natural Gas Market : 2022 - The Year That Was...

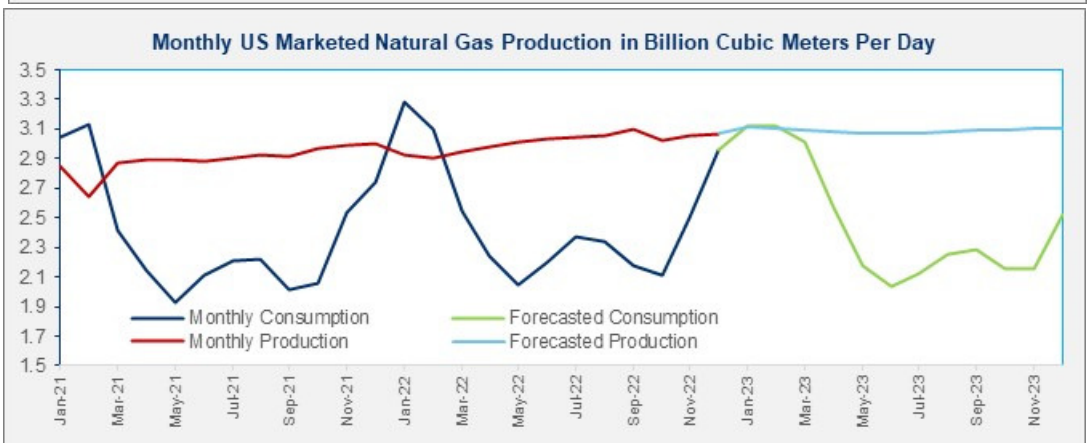
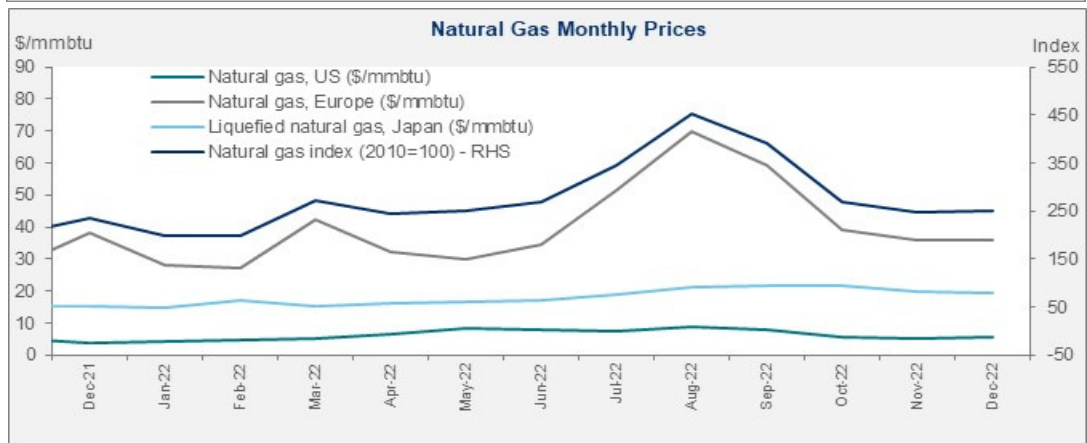
A volatile year for natural gas...

Global natural gas prices reached record highs during 2022 as a result of the ongoing Russia-Ukraine war that continues to have severe ramifications on global energy prices and China's strict controls to battle the Covid-19 pandemic. China, which has now relaxed its Covid-19 containment measures, is expected to have higher natural gas demand in 2023 than it had in 2022. According to S&P Global, China is forecasted to register a 1.4% y-o-y natural gas demand decline in 2022 to reach 363.1 billion cubic meters, its first ever natural gas demand decline as compared to its demand of 369 billion cubic meters in 2021.

On the European front, the EU/US response to the Russia-Ukraine conflict which included putting sanctions on Russian energy exports including natural gas exports to EU countries, has severely disrupted the EU as well as global gas prices. According to ACER, natural gas consumption comprises 21.5% of the EU's total primary energy consumption and around 40% of the bloc's households are connected to a gas network. The European Union states import roughly 80% of their total gas needs of which roughly 50% of the supplies comes from Russia. The EU has had a tough year in finding replacement for Russian natural gas as they seek to isolate and punish Russia for the Russia-Ukraine conflict. The pivot to forego cheap natural gas from Russia and to import higher priced LNG from distant locations such as the USA and Qatar has driven global natural gas demand as well as global natural gas prices upwards all throughout 2022.

2022 -

On the demand side, imports of LNG in the European Union increased during 2022. Countries in the EU block bought 139.3 billion cubic meters of LNG during the year, a growth of 58% when compared to imports during 2021. Total imports of LNG into the EU accounted for 24% of global LNG imports.



Sources : EIA, World Bank, Kamco Invest Research

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The Russia-Ukraine conflict severely disrupted the European natural gas imports supply infrastructure from Russia during the year. In February-2022, Germany cancelled the Nord Stream 2 certification process. The Nord Stream 2 natural gas pipeline was expected to deliver about 65% of Russia's natural gas supplies to the EU bypassing Ukraine and certain eastern EU

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2021	2022	2023-e	2024-e
Marketed Production	94.57	98.02	100.34	102.29
Consumption	83.90	88.72	86.74	85.79
LNG Exports	9.76	10.65	12.06	12.59
Henry Hub Spot Prices (\$/thousand cubic feet)	3.91	6.42	4.90	4.80

Sources : EIA, Kamco Invest Research

member states. As the conflict dragged on to the second part of the year, Russia's natural gas supply infrastructure to the EU faced more than sanctions. The Nord Stream 1 and 2 pipelines which supply Russian natural gas to Germany through the Baltic Sea witnessed forced disruptions at the end of September-2022. The Nord Stream 1 pipeline has a capacity to deliver around 55 billion cubic meters or around 14% of the EU's total gas consumption in 2021. However, the disruption has not worsened the European energy crisis very much or caused a supply shock despite the importance of the compromised pipelines as Russia has been gradually reducing natural gas supplies going through Nord Stream 1.

In its quest to wean itself from cheap Russian natural gas, some EU states have already started building LNG regasification terminals during the year. Germany, which receives around 40% of its natural gas from Russia making it one of the heavily impacted countries in the repercussions of the Russia-Ukraine conflict is currently building five new FSRU's (floating storage and regasification units). Overall, according to S&P Global, currently there are 25 new FSRU's which are planned to be installed across the EU in the near future.

Russia's natural gas exports to the EU witnessed a decline during the year. According to Gazprom, natural gas exports to outside the former Soviet states have declined by nearly 46% this year to 100.9 billion cubic meters witnessing its lowest export levels since the year 2000 according to Oilprice.com. The severe fall of exports has been attributed to a combination of issues such as the US/EU sanctions to Russian energy exports as a retaliation to the ongoing Russia-Ukraine conflict. Other major reasons for Gazprom's gas exports decline included: the EU countries pivot to LNG imports to reduce their dependence on Russian gas despite the higher LNG price tag, and the overall drop in global natural gas consumption by 65 billion cubic meters during 2022 where 55 billion cubic meters came from Europe alone. The EU's decision to reduce Russian natural gas imports has also prompted Russia to look to the east in order to find new export destinations for its energy stock especially natural gas. Asia is set to become Russia's primary energy export destination as China is set to comprise 40% of global natural gas growth in 2022.

In the Asia Pacific region, as Russia seeks to compensate for lost gas market share in Europe throughout South Asia, China has become one of its main targets for natural gas export destinations. Currently Russia is constructing the Power of Siberia 2 pipeline which will deliver gas from Russia to China and is expected to be completed by 2030 enabling China to overtake the EU as the biggest consumer of Russian natural gas. However, China's 2022 natural gas demand is forecasted to have dipped for the first time in 20 years due to weak demand from sectors which have been disrupted by the pandemic measures driving China's LNG imports down during the year. Japan overtook China as the world's largest LNG importer in 2022. On the other hand, as China eases pandemic measures in 2023, natural gas demand is expected to recover in 2023 in the country.

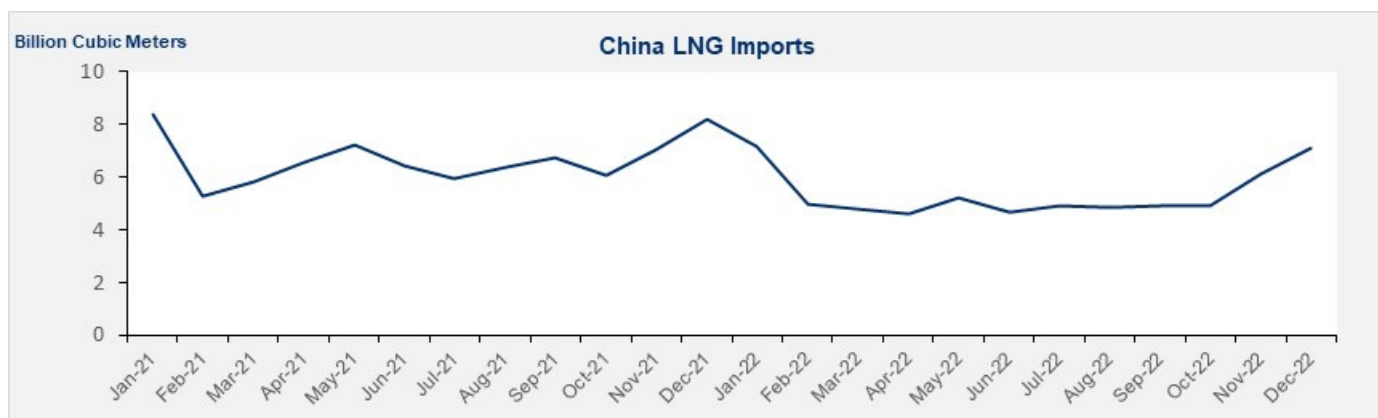


Sources : Bloomberg, Kamco Invest Research

In response to skyrocketing natural gas spot prices Japan and South Korea have turned back to nuclear power in a major policy change for the respective countries. The Japanese government has announced policies to restart decommissioned nuclear plants as well measures to consider developing next-generation reactors. Similarly, the South Korean government has also announced plans to defer decommissioning nuclear plants and increasing its nuclear share of energy mix to 30% by 2030. According to Reuters, the forecasted lower LNG consumption of Japan and South Korea in 2023 is expected to be offset by the higher LNG demand in China resulting Asia's global LNG demand to remain stable at 60% for the second year running.

As global natural gas supply market re-arranged due to the Russia-Ukraine conflict, the United States became the world's largest LNG exporter during the first half of 2022 according to the EIA. The US is also expected to remain the number one LNG exporter for the whole of 2022 overtaking Australia as the fire damaged Texas plant is restarted according to Reuters. Moreover, US natural gas exports are set to grow in 2023, mainly driven by LNG exports to Europe according to the EIA despite there being no new US LNG exports facilities planned to come online in 2023. US natural gas production is set to increase 2% in 2023.

The GCC region has been one of the key regions eyed by the EU countries for LNG supplies in their bid to diversify away from Russian energy. Leading natural gas consumer countries such as Germany undertook diplomatic and deal making offensive in the GCC to secure LNG supplies for their countries in both the near and distant future during the year. There has been some notable successes of such deals during 2022. The German utility company RWE has declared that it will receive the first



Sources : Statista, Kamco Invest Research

LNG shipment of 137,000 cubic meters from Abu Dhabi National Oil Company (ADNOC) by the end of 2022.

In November-2022, Qatar and China signed one of the largest ever LNG deals inking a USD 60 Bn LNG supply deal for 27 years. The deal entails state owned Qatar Energy to supply China Petroleum and Chemical Corporation with four million tonnes of LNG for 27 years starting from 2026. Qatar has signed major agreements to expand its natural gas production by 70% in 2027 with major oil and gas companies in 2022.

Qatar Energy and Total Energies have inked around five separate major partnerships worth up to USD 29 Bn for the construction and expansion of the North Field gas expansion. The North Field expansion project comprises of two distinct parts, namely Northfield East and Northfield South project. The Northfield East project is intended to increase Qatar's LNG production capacity from 77 to 110 million tons per year. Comparatively, the North Field South Projects is planned to further increase Qatar's LNG production capacity from 110 to 126 million tons per year.

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