

## Natural Gas Market: 2023 - The Year That Was

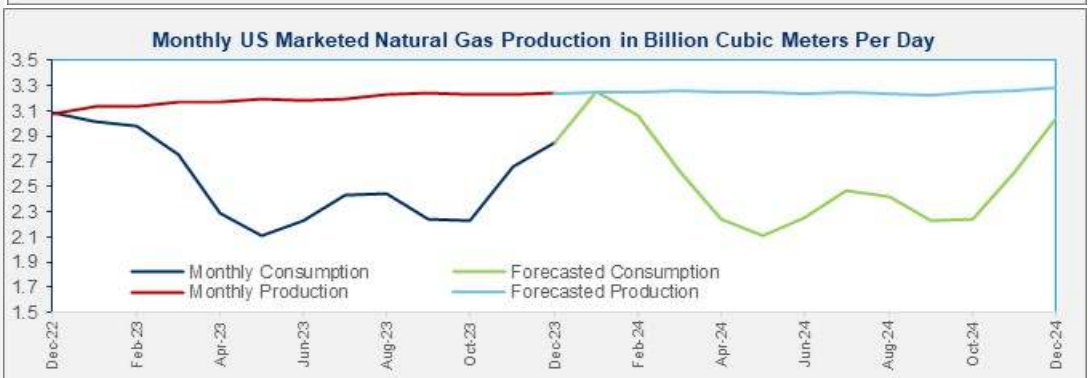
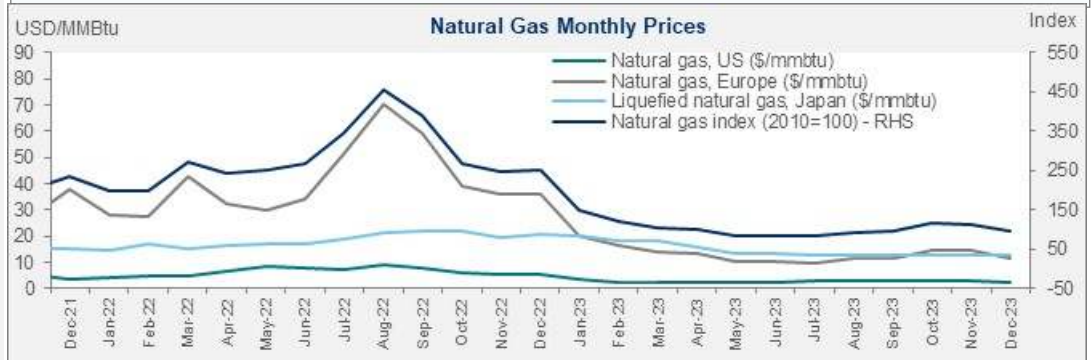
### *Natural gas market rebalances in 2023 despite new geopolitical challenges...*

After a tumultuous 2022 in which natural gas prices reached record highs, 2023 has been somewhat of a stabilizing year for the commodity. The ensuing repercussions of the Russia-Ukraine conflict forced a global natural gas rebalancing as European countries tried to find immediate substitute for their supply of cheap Russian gas. On the other hand, Russia had also to find new buyers for the excess natural gas stock that previously used to be supplied to European countries. Natural gas prices witnessed significant decline during 2023 but also managed to stay well above historical averages in Europe and Asia.

The European natural gas market remained constrained in 2023 as Russia supplied 38 bcm less gas to European countries than it did in 2022. On the other hand, global LNG production increased by only 13 bcm in 2023 which was inadequate to fill Europe's natural gas demand gap left by the restrictions on Russian pipeline gas. However, despite the shortfall in natural gas supplies in Europe, the combination of unexpected milder winter and increase in alternative sources of energy consumption such as renewables relieved pressure on natural gas consumption in Europe. China overtook Japan as world's largest LNG importer in 2023. Comparatively, natural gas consumption in Europe declined by 7% to its lowest level in 28 years. In terms of global natural gas trade, global LNG trade increased by 12 bcm in 2023 in which the US alone accounted for over 10 bcm.

In terms of monthly price performance, according to the World Bank, US average monthly natural gas prices for December-2023 decreased by 54.0% y-o-y to reach USD 2.53/MMBtu. Similarly, European natural gas prices for December-2023 declined by 68.1% y-o-y averaging the month at USD 11.51/MMBtu, while average monthly Japanese LNG price for December-2023 witnessed 38.7% y-o-y drop at USD 12.61/MMBtu.

According to the IEA, global natural gas demand is set to increase by 2.5% in 2024, mainly due to expected strong growth in the Industrial and Power sectors mainly in fast-rising economies in Asia as well as countries in the Middle East and Africa. Moreover, the return of average winter temperatures is expected to add to natural gas consumption growth primarily as a heating fuel in the Northern Hemisphere in 2024 after an exceptionally mild winter in 2023.



Sources : EIA, World Bank and Kamco Invest Research

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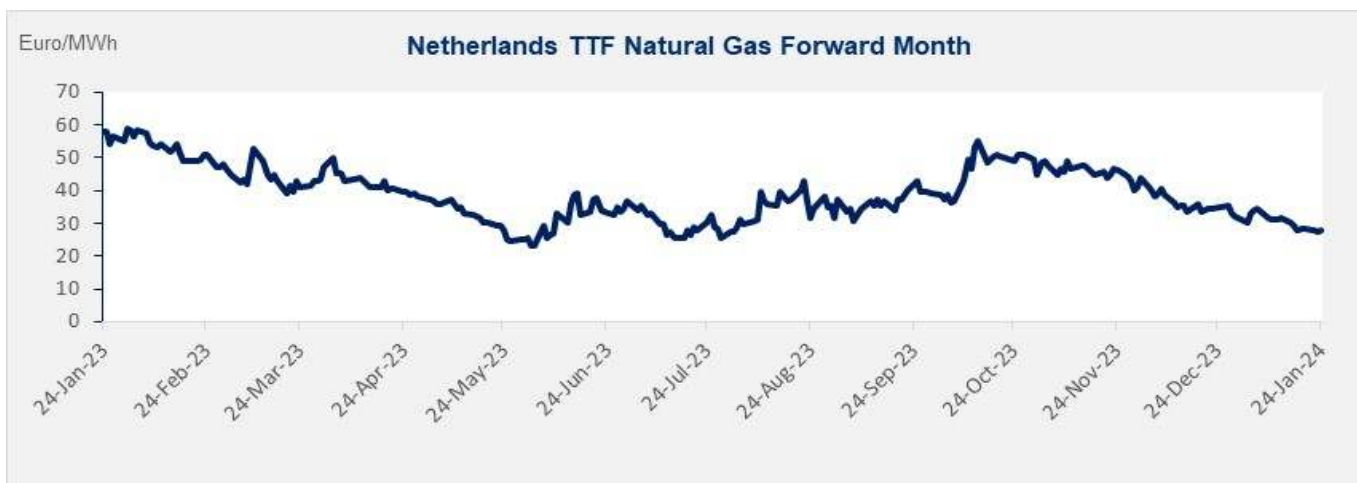
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Overall, according to LNGPrime.com, China's natural gas imports improved 9.9% in 2023 to reach 120 million tones. The surge in China's natural gas consumption was supported by decreasing spot prices, growth in terms of contracted volumes and extreme weather conditions in the country's southern parts during middle of the year. Natural gas consumption in China is expected to grow in the coming years as the country goes ahead with its plans to increase the share of natural gas in its power generation sector.

<b>EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day</b>				
	<b>2022</b>	<b>2023</b>	<b>2024-e</b>	<b>2025-e</b>
Marketed Production	99.60	103.55	105.04	106.38
Consumption	88.46	88.90	89.89	89.66
LNG Exports	10.59	11.84	12.36	14.43
Henry Hub Spot Prices (\$/thousand cubic feet)	6.42	2.54	2.66	2.95

Sources : EIA and Kamco Invest Research

On the other hand, Japan's LNG imports declined by 8% y-o-y in 2023 to 66.2 million metric tons marking it's lowest level in 15 years. The fall in Japan's LNG imports was mainly driven by the increase in the re-introduction of electricity generating nuclear reactor to the country's energy mix. Furthermore, Japan increased its renewable consumption including wind and solar as well as nuclear power that allowed the country to reduce its LNG imports.



Sources : IEA, Bloomberg and Kamco Invest Research

Natural gas consumption in North America increased by over 1% y-o-y mainly due to an increase in gas consumption in the region's Power Sector. Natural gas production in the US rose 4% to reach a record high of 1065 bcm in 2023. The combination of natural gas production growth and mild weather increased the downward trend and pressure of gas prices in the US which declined approximately 60% during 2023, according to the International Energy Agency.

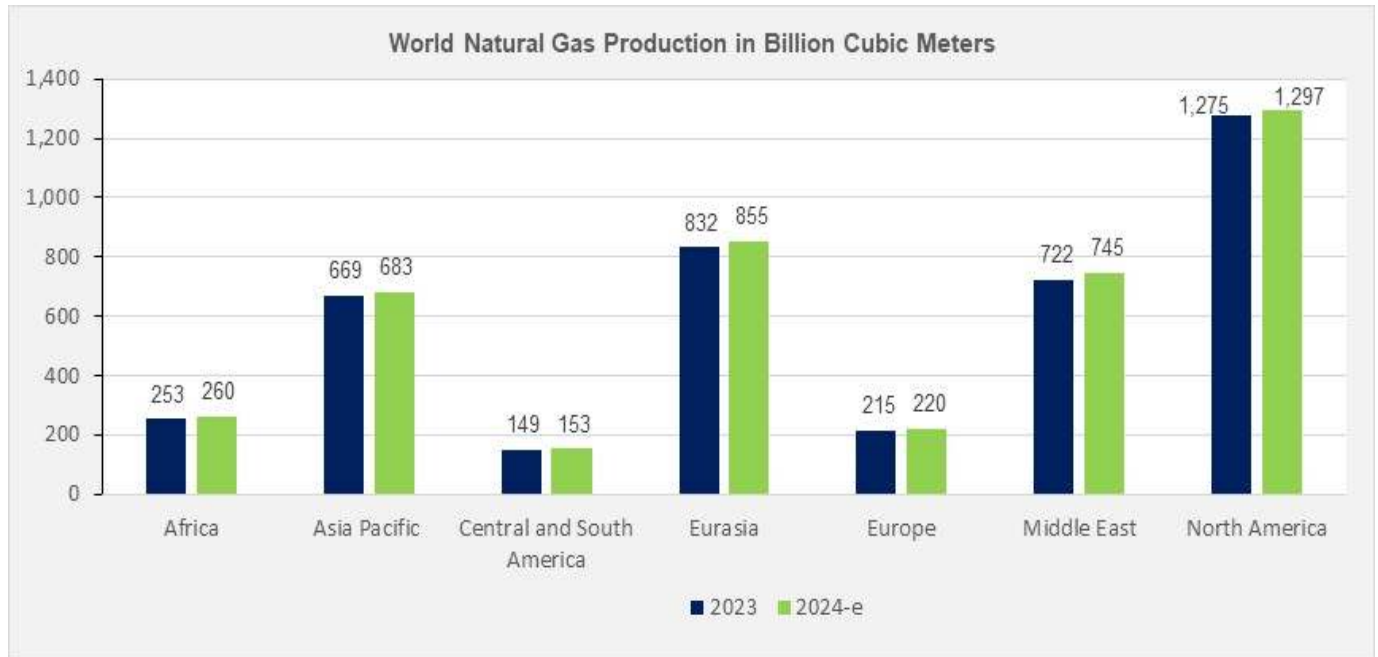
In its latest short-term energy outlook, the EIA forecasted that US natural gas consumption in 2024 would reach 1.1% higher than the consumption in 2023 at 89.89 bcf/d (2.54 bcm/d), reflecting an overall expected consumption stabilization in the country. The EIA also estimates that US natural gas marketed production to reach 105.04 bcf/d (3.0 bcm/d) in 2024, witnessing an increase of 1.4% from 2023 to 2024.

Overall, OECD Europe consumed 35 bcm less natural gas in 2023 (488 bcm) than it did in 2022 (524 bcm). Most of the decline in Europe natural gas consumption was because of the gas-to-power sector which recorded 15% y-o-y drop during 2023 mainly due to stronger renewable power output and falling electricity consumption. According to the IEA, natural gas demand in OECD Europe is expected to grow 3% in 2024 due to the expected growth of gas consumption in the residential, commercial, and industrial sectors. On the other hand, Europe's gas use in the Power Sector is expected to drop by 10% mainly due to accelerated growth of renewable energy usage and increasing nuclear power availability in France.

The EIA forecasts that the US natural gas share of electricity generation to remain at 42% in 2024 and then witness a marginal drop to 41% in 2025. In terms of natural gas prices in the US, the EIA forecasts the Henry Hub natural gas spot price to average at around USD 2.66/MMBtu during 2024 and then increase to USD 2.95/MMBtu in 2025 due to expected rising demand LNG exports which is expected to reach an annual record in 2025. According to the EIA, US net LNG exports would grow 17% in 2023 to reach 14.43 bcf/d (0.41 bcm/d) driven by growth in LNG exports Europe and South Asia. The US managed to export more LNG than any other country during 2023.

According to the IEA, the Middle East natural gas production increased from 716 bcm in 2022 to 722 bcm in 2023. The Middle East was natural gas net producing region in 2023. In comparison, the Middle East consumed 591 bcm of natural gas in 2023 up from 580 bcm in 2022. The IEA expects the Middle East region to be one of the key drivers of natural gas production in 2024 as it penciled the regions gas production to reach 745 bcm.

However, the region is facing security challenges due to the ongoing war on Gaza as well the recent attacks of the Yemeni Houthis to ships travelling their transit routes in the Bab Al-Mandab strait. In context, 4% of global LNG trade or 21 bcm passed eastward through the Suez Canal while another 4% of global LNG trade passed westward through the Suez Canal; all Qatari LNG deliveries passes through the Bal Al-Mandab straight and through the Suez Canal. Recently Qatar has announced that it is halting sending its LNG cargo through the Bal Al-Mandab straight due to Houthi attacks. This development is expected to put upward pressure on global natural gas prices.



Sources : IEA and Kamco Invest Research

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