

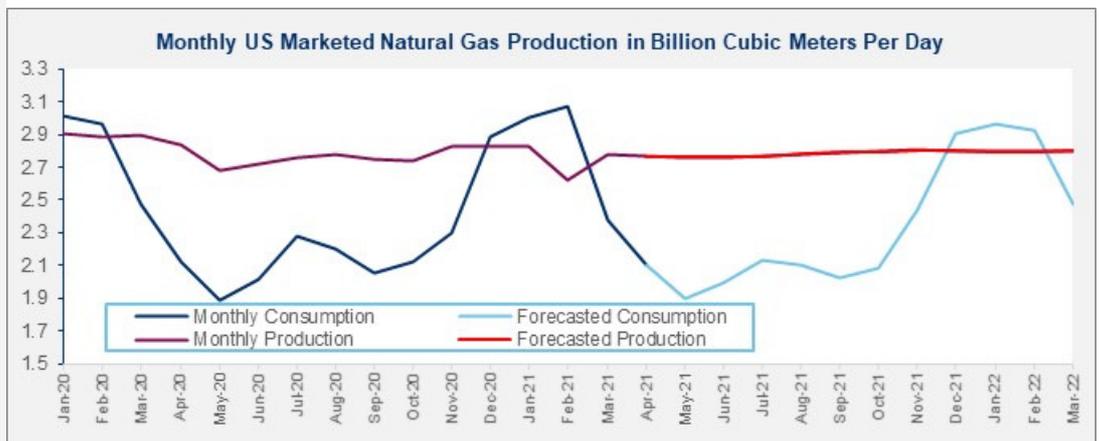
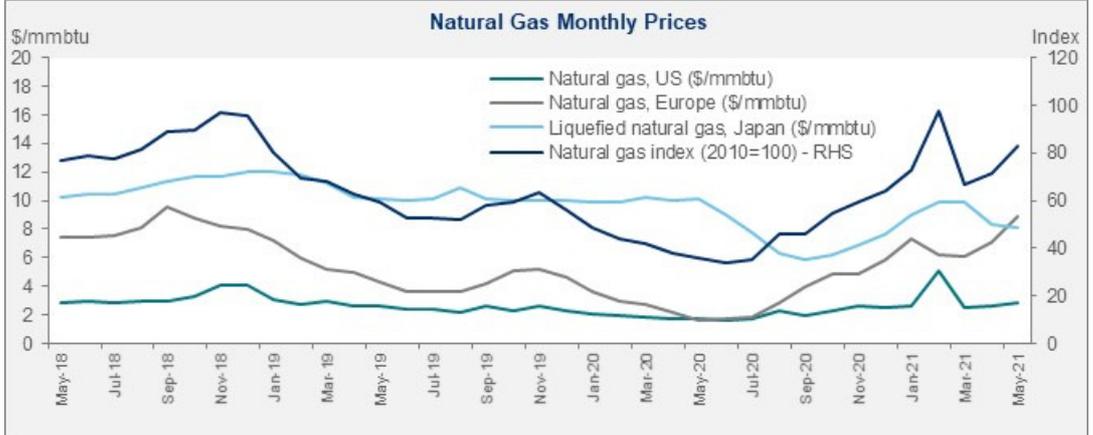
Natural Gas Market Update

June-2021

The easing of the pandemic restrictions combined with a number of sector-specific reforms and fiscal support have risen global energy demand during first three months of 2021. Demand outlook for 2021 was also boosted by the successful rollout of the coronavirus vaccine which promised the lifting of the pandemic restrictions altogether. According to the IEA, global energy demand is estimated to increase 4.6% in 2021, but will still be 3% lower than 2019 levels. Similarly, natural gas demand is set to rise 3.2% in 2021 driven by increasing demand in key consumer regions in Asia and the Middle East. Global electricity demand is expected to grow its fastest rate in ten years according to the IEA buoying the demand in natural gas consumption.

In terms of natural gas prices, according to World Bank data, US monthly natural gas prices for May-21 jumped 64.9% y-o-y to USD 2.89/MMBtu. Reduced natural gas production and the rise of US LNG exports were the main attributes which fueled the rise of US natural gas prices during the early months of 2021. Specifically, the winter storms in Feb-21 which caused the largest monthly drop in natural gas production in the US on record was one of the main contributing events especially the freeze-off in Texas. Similarly, European monthly natural gas prices jumped 465.6% year-on-year to reach USD 8.91/MMBtu in May-21. The cold winter spell and ease of pandemic related restrictions were the main reasons that contributed to the rise in natural gas prices in the European continent. Weaker natural gas imports from Russia and Norway combined with high carbon prices further incentivized the push up of natural gas prices in Europe.

In the Asia Pacific region, LNG Japan spot average monthly prices for May-21 stood USD 8.1/MMBtu compared to USD 10.1/MMBtu average of May-20. However, the Platts Japan Korea Market spot LNG prices ended May-21 at USD 10.4 MMBtu compared with USD 2.1/MMBtu in May-20. Moreover, according to Reuters, Asian LNG prices rose to 3-month high due to the increase of LNG summer demand in key importers. Strong natural gas demand from China and South Korea which lead to stockpiling natural gas for the winter has been attributed to the rise in prices.



Sources : EIA, World Bank, Kamco Invest Research

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Given that leading Asian natural gas importers such as China have recovered from the pandemic better than most of the countries in the world there has been a competition for LNG shipments between Asia and Europe which was one of the main causes for the rise in natural gas prices in Europe and Asia. According to IEA, strong economic recovery coupled with rising heat demand has led to an increase in China's natural gas demand. On the other hand, CNPC research estimates China's natural gas consumption to rise 8.6% to 354.2 billion cubic meters in 2021 driven by residential heating, power generation and industrial usage. This increase in natural gas demand in China will mainly be met with increase in LNG imports. CNPC research forecasts China's LNG imports to witness 12.5% rise to 158.2 billion cubic meters in 2021. Around 65.3% of the rise in China's natural gas imports are expected to come from LNG while the rest is estimated to come from increase pipeline exports.

US natural gas monthly benchmark the Henry Hub spot prices stood USD 2.91/MMBtu witnessing in May-21 a 9.4% increase from the April-21 average price of USD 2.66/MMBtu. The rise in prices were attributed to the market disruptions which drove prices during the early months of the year. The EIA forecasts that the Henry Hub natural gas spot prices will average around USD 2.78/MMBtu during Q2-21 and USD 3.05/MMBtu for the whole year of 2021.

EIA Forecast - US Natural Gas Supply and Consumption in Billions Cubic Feet Per Day				
	2019	2020	2021	2022
Marketed Production	100.04	98.83	97.86	100.04
Consumption	85.15	83.25	82.64	82.53
Imports	7.51	6.97	7.39	6.91
Henry Hub Spot Prices (\$/thousand cubic feet)	2.67	2.11	3.17	3.13

Sources : EIA, Kamco Invest Research

In its latest short-term energy outlook, the US EIA forecasted that US natural gas consumption would dip only 0.7% to reach 82.6 Bcf/d (2.3 Bcm/d) in 2021. The EIA also estimates that US natural gas marketed production to reach 97.9 Bcf/d (2.8 Bcm/d) in 2021 witnessing a slight fall 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 28.8 Bcf/d (0.82 Bcm/d) in 2021. The forecasted decline is attributed to the expected increase in natural gas prices for power generation in comparison with coal. In addition, although the COVID-19 vaccine rollout is currently going well in the US and is being administered efficiently, the US economy is not open fully yet. According to the EIA, US liquefied natural gas exports averaged 10.5 Bcf/d (0.3 Bcm/d) in Mar-21 and fluctuated an average of 9.2 Bcf/d (0.26bcm/d) in Apr-21, making Mar-21 the highest exporting month since the US started exporting LNG in 2016. More than half of US LNG exports went to Asia throughout 2020 and Jan-21. However, because of the rise in European natural gas spot prices more than half of the US LNG exports in the months of Feb-21 and March-21 went to Europe.

European natural gas demand is expected to rise 2% to reach 433.5 billion cubic meters in 2021 after suffering a decline of 4% in 2020, according to Norwegian Energy major Equinor. Continued lockdowns in response to the second wave of the coronavirus have impacted on the growth of gas demand in the continent. However, the rise European gas demand is not expected to reach the pre-covid levels this year.

In GCC countries, Qatar, the world's largest LNG exporter, approved the world's largest LNG project by capacity when it signed the final investment decision to build the Northfield East Project in Feb-21, according to Reuters. The project is expected to increase Qatar's LNG production capacity from 77 Million tons per annum to 110 million tons per annum by 2025. The project which is set to cost USD 28.8 Bn is expected to start production by 2025. Qatar accounts for 20% of the world's LNG exports and according to Reuters, it has the lowest cargo shipped price for its LNG estimated around USD 4/MMBtu compared with USD 5/MMBtu for Russia and USD 8/MMBtu for the USA. Qatar has recently signed two major LNG contracts with China and Pakistan. Qatar's recent deal with Pakistan was priced at 10.2% slope of Brent crude oil making it one of the lowest-priced LNG deals in the world.



Sources : Bloomberg, Kamco Invest Research

In terms of notable natural gas deals, Iran awarded a USD 1.8 Bn offshore gas field Farzad B block deal to Petropars Group. The gas block is located on the Iranian side of the Persian Gulf and is estimated to contain 23 Tr cubic feet of natural gas which is 60% recoverable and 5 thousand barrels of condensate per billion cubic feet of gas. In Africa, Algeria, Africa's largest natural gas exporter, recently launched the 210 Kilometer EGDPF pipeline which costed around USD 240 Mn and links to the international Medgaz pipeline which carries natural gas from Algeria to Europe. According to Offshore-technology news site, Algeria plans to expand its natural gas capacity from 8.2 bcm of natural gas per year to 10.2 bcm of gas per year.

Nigeria, which has the largest natural gas reserves in Africa and is Africa's largest LNG exporter, recently started an ambitious campaign to put natural gas at the heart of Nigeria's economy. Nigeria's LNG exports stood 27.6 bcm's in 2020 down 1% from 2019 and is expected to reach 41 bcm by 2030, according to S&P Global. Furthermore, Nigeria's domestic natural gas consumption was estimated to be about 15 bcm and is forecasted to reach 20 bcm by 2030, according to the International Energy Forum. The Nigeria Liquefied Natural Gas (NLNG) Limited has recently signed a ten-year LNG sales and purchase agreements with three other local companies to supply Nigeria's domestic energy market. NLNG agreed to supply 1 million tons of LNG per year to Asiko Power Ltd, Bridport Energy Ltd and Gas-Plus Synergy Ltd.

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