

# INDIAN GAS UTILITIES INDUSTRY

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**Spot LNG prices rise to multi-year  
summer highs**

**AUGUST 2021**





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*Asia's spot LNG prices have soared to multi-year summer highs; domestic gas prices expected to almost double in the next revision*



- Asia's spot LNG prices have soared to multi-year summer highs owing to strong regional demand and surging gas prices in European gas hubs and have exceeded Rasgas term LNG price significantly



- Henry hub prices have risen to ~\$4.2/mmbtu levels in August 2021 from ~\$2.4/mmbtu in April 2021 owing to strong exports and heat wave in the US.



- The US natural gas inventories were at about 2.8 tcf in July 2021, which is 6% lower than the past five-year average for this time of the year.



- European gas inventories are at the lowest for this time of the year providing support to gas prices.



- EU carbon prices have reached the levels of Euro 57/tonne from about Euro 33/tonne at the start of the year; high carbon prices aid in the consumption of gas.

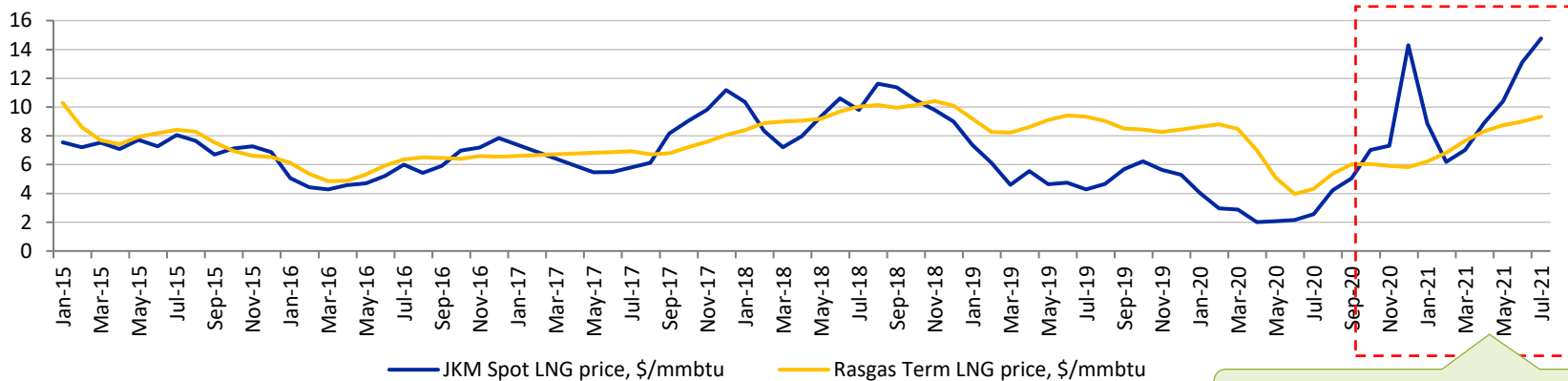


- Domestic gas prices are expected to almost double in the next revision owing to increase in prices at various international hubs.



- Going forward global LNG liquefaction capacity additions would outpace demand growth which would exert downward pressure on prices.

## Exhibit : Natural Gas Prices

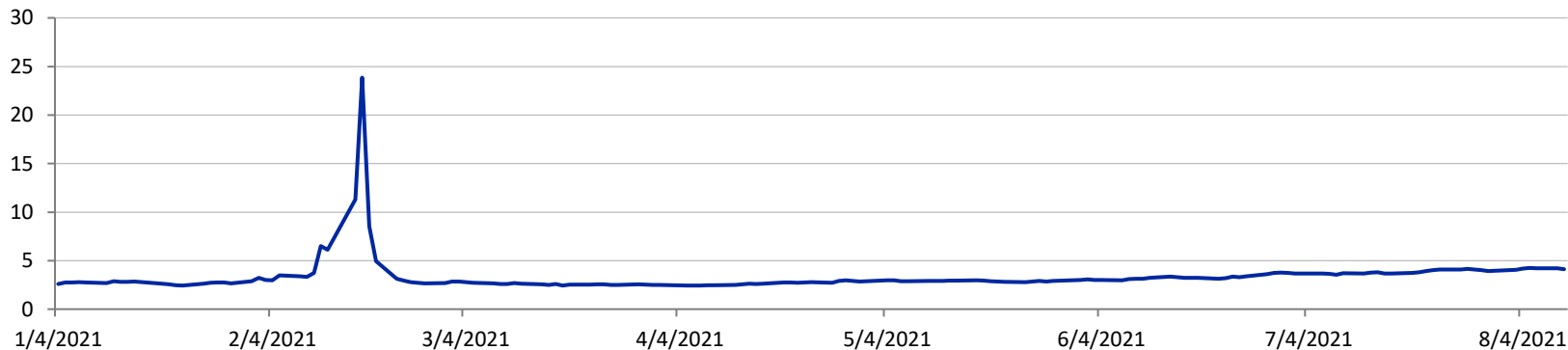


Source: Bloomberg, ICRA Research

Spot prices significantly above term

- The average spot LNG price for September delivery into North-east Asia are estimated at about \$17.05/mmbtu and for October at \$17.3/mmbtu
- Asia's spot LNG prices have soared to multi-year summer highs owing to strong regional demand and surging gas prices in European gas hubs
- Indian buyers generally refrain from spot LNG purchases at high prices; however, spot demand from India has been strong to cover positions for meeting fertiliser and chemical industry demand
- The summer heatwave has stoked demand for gas-driven power generation from China
- Spot prices are unlikely to see significant downward pressure with the winter approaching

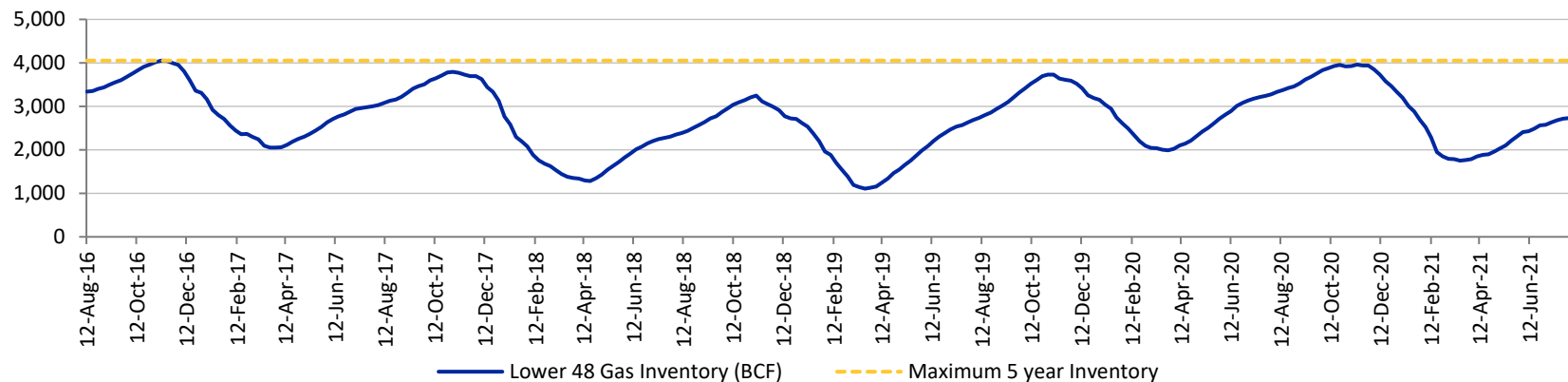
Exhibit : Trend in Henry hub prices (\$/mmbtu)



Source: EIA, ICRA Research

- Henry hub prices have risen to ~\$4.2/mmbtu levels in August 2021 from ~\$2.4/mmbtu in April 2021 owing to strong exports and heat wave in the US. June 2021 was the hottest June on record in the US. Additionally, drought conditions in western USA have contributed to increased natural gas-fired generation to offset decreased hydroelectric generation
- EIA expects that Henry Hub spot prices will average \$3.71/mmbtu in Q3 CY2021

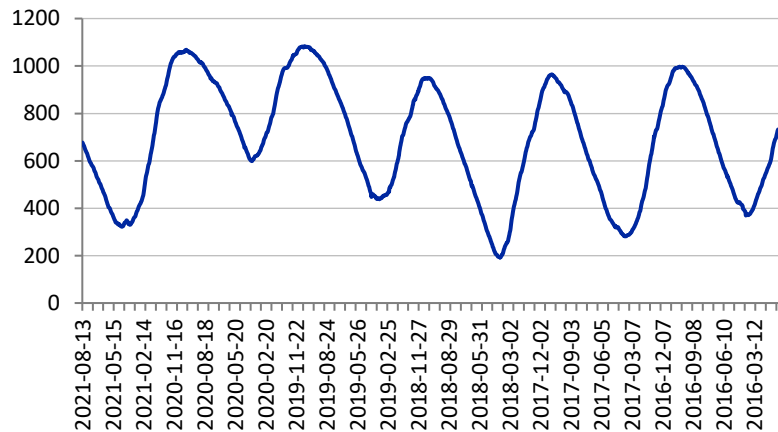
## Exhibit : US Natural Gas inventories



Source: EIA, ICRA Research

- The US natural gas inventories were at about 2.8 tcf in July 2021 which is 6% lower than the past five-year average for this time of the year
- Less natural gas has been injected into storage in the US than average this summer, exerting further upward pressure on prices

Exhibit: EU Natural Gas Inventories (TWh)



Source: GIE AGSI+, ICRA Research

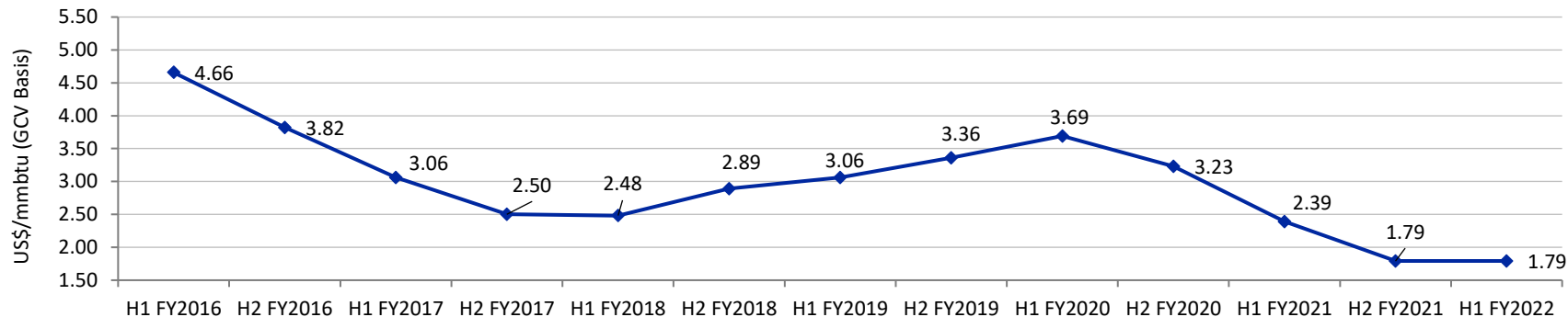
Exhibit: EU Carbon Prices (Euro/Tonne)



Source: Ember-climate.org, ICRA Research

- Europe's storage stocks are at their lowest ever for this time of the year
- EU carbon prices have reached the levels of Euro 57/tonne from about Euro 33/tonne at the start of the year. High carbon prices aid in the switch to gas

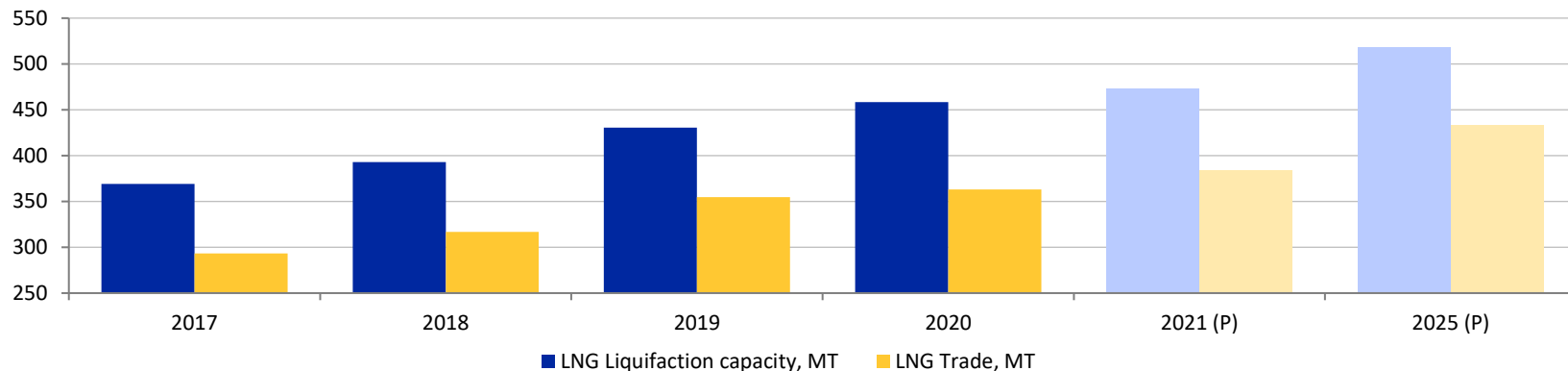
## Exhibit : Domestic Gas Prices



Source: PPAC, ICRA Research

- The domestic gas price was notified at \$1.79/mmbtu (GCV basis) for the period H1 FY2022 and remains the lowest since the institution of the modified Rangarajan formula. At such low gas prices, gas production remains a loss-making proposition for most fields for the Indian upstream producers.
- Domestic gas prices are expected to almost double in the next revision owing to increase in prices at various international hubs.

## Exhibit : Global LNG Capacity and Demand



Source: IEA, Bloomberg New Energy Finance, ICRA Research

- The global demand for LNG is expected to grow to 383 MT in CY2021 from 363 MT in CY2020. Going forward global LNG liquefaction capacity additions would outpace demand growth which would exert downward pressure on prices.
- Domestic demand for LNG is expected to grow at a slower pace over the next few years owing to increasing domestic production as production ramps up from RIL-BP's KG-D6 field (peak production of ~30 mmscmd) and ONGC's KG-98/2 field (peak production of 15 mmscmd).





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