

GAS UTILITIES

LNG prices to remain elevated

NOVEMBER 2021





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ICRA expects domestic gas prices to rise substantially in the next revision owing to increase in prices at gas hubs



- The Asian spot LNG prices vis-à-vis oil prices are at multi-decadal highs



- Prices have soared to all-time highs owing to strong regional demand, weak hydroelectric and renewable power generation and surging gas prices in European gas hubs



- Only four countries of the world control 2/3rds of the global LNG supply making the market sensitive to supply disruptions



- Oil indexation fell from 16% to below 11% in recent years. This trend is expected to be reversed



- Relatively higher spot LNG & term LNG prices will have a negative impact on City Gas Distribution companies; margins on PNG (I) & PNG (C) could be impacted; refiners will switch over to liquid fuels

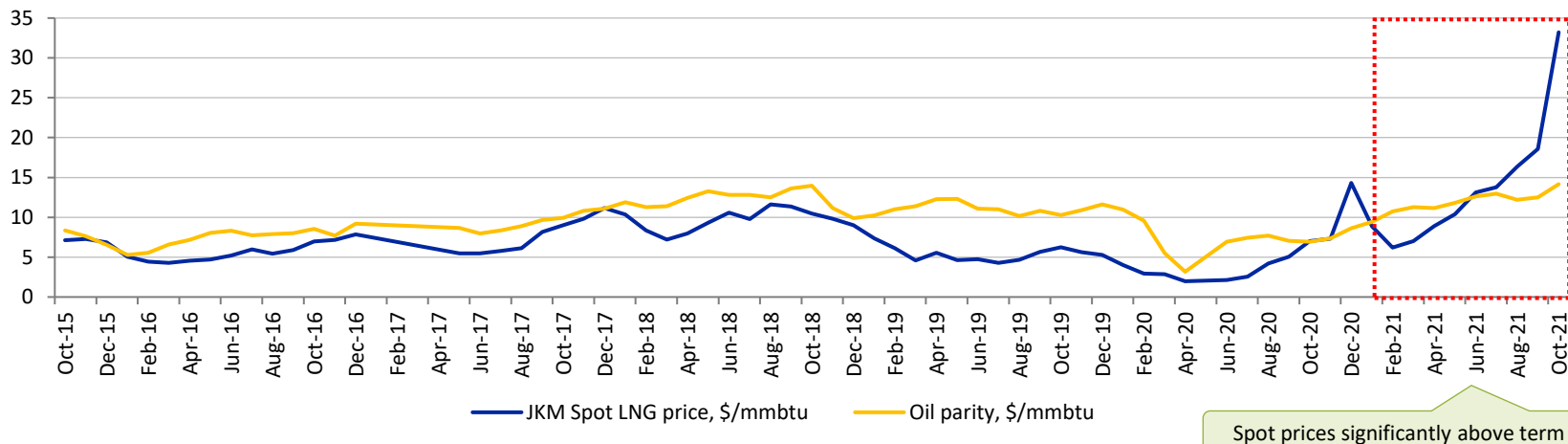


- Domestic gas prices are expected to rise substantially in the next revision owing to increase in prices at various international hubs



- There could be a structural shortage of LNG capacity, given the net zero commitments that different governments are making and under investments by global upstream companies due to ESG goals

Exhibit: Natural Gas Prices



- The Asian spot LNG prices vis-à-vis oil price are at multi-decadal highs
- Prices have soared to all-time 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
- Spot prices are unlikely to see significant downward pressure with the winter approaching

Reasons for Gas Price Surge

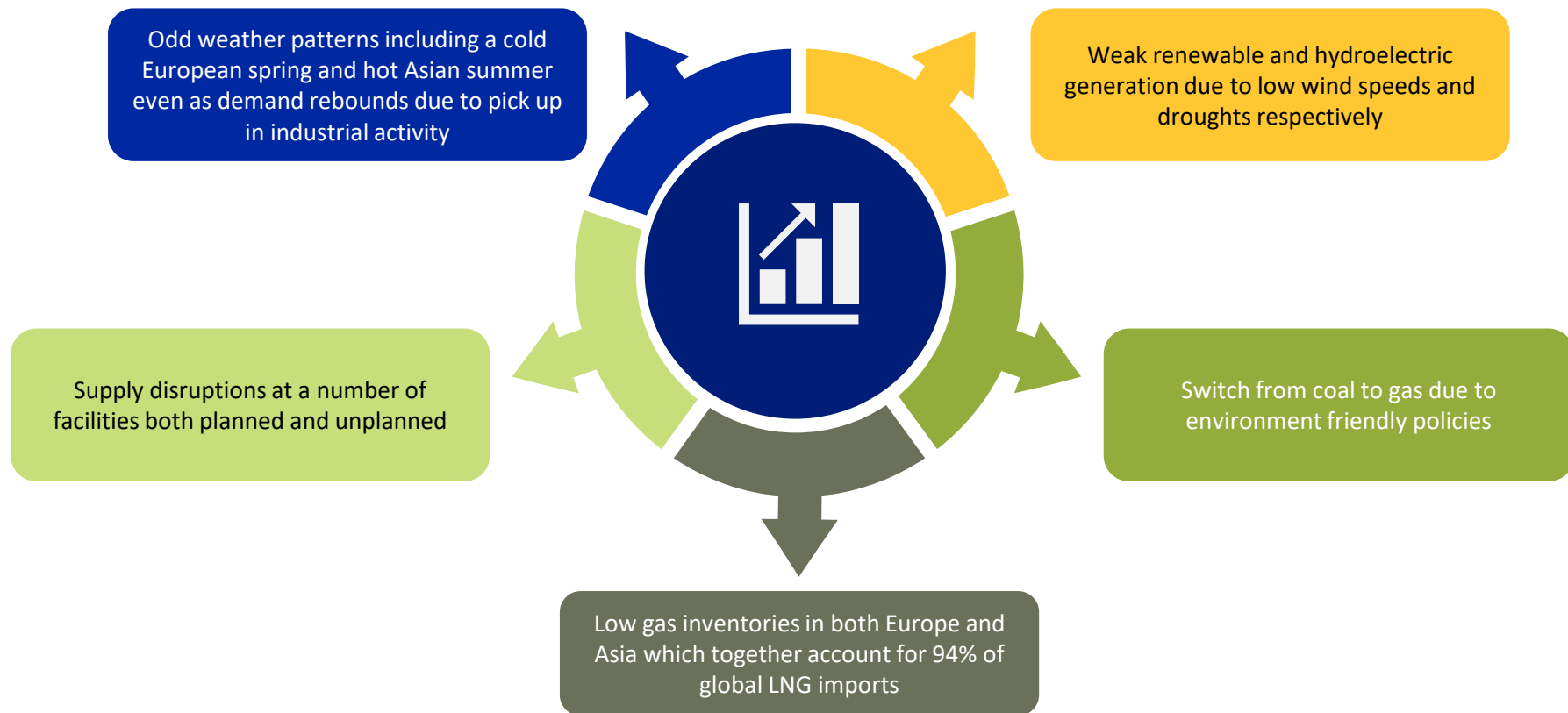
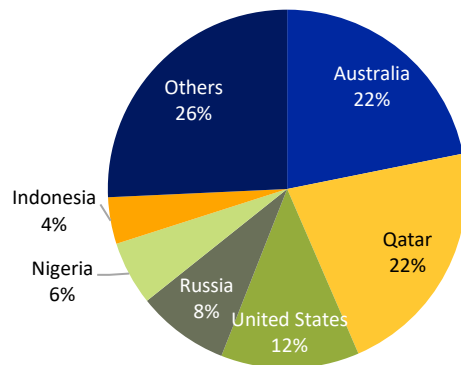


Exhibit: Sources of LNG Imports 2020



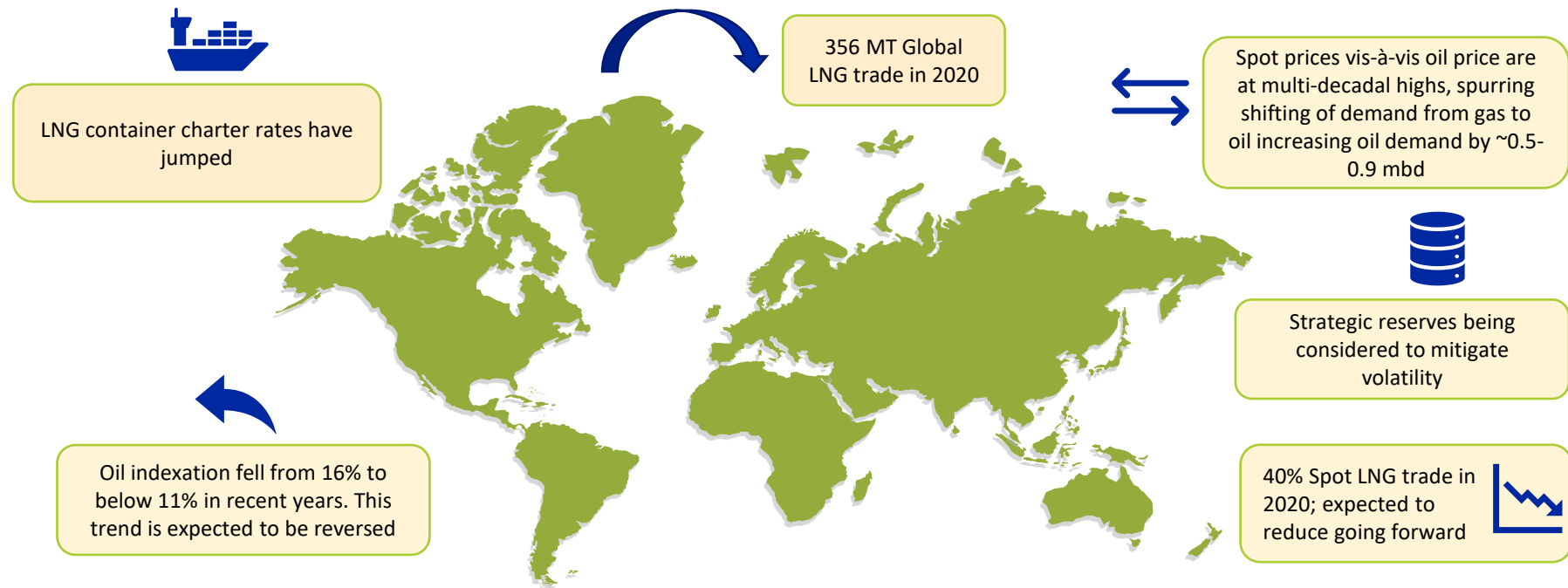
Source: GIIGNL, ICRA Research

Exhibit: EU carbon prices



Source: Ember-climate.org, ICRA Research

- Only four countries of the world control 2/3rds of the global LNG supply making the market sensitive to supply disruptions
- Only 8.9 mtpa of a total 139.1 mtpa of planned new liquefaction capacity is expected to come online in CY2021
- Some of additional capacity has been delayed by Covid-19 movement restrictions at several key sites including in Indonesia and Russia over the past year
- Logistics constraints have slowed delivery times
- High EU carbon prices forced power generators to cut coal use and burn more gas
- The global energy sector moving away from fossil fuels towards greener energy has slowed investment in LNG plants; subdued investment in fossil fuels may mean volatility will remain high



There could be a structural shortage of LNG capacity given the net zero commitments that different governments are making and under investments by global upstream companies due to ESG goals. There are limited prospects for softening of the market in CY2022



Low volumes of spot at ~10% of total gas consumption leading to limited impact



Relatively higher spot LNG & term LNG prices will have a negative impact on City Gas Distribution companies; margins on PNG (I) & PNG (C) could be impacted; Refiners will switch over to liquid fuels



Increasing domestic gas production has been displacing some volumes of LNG

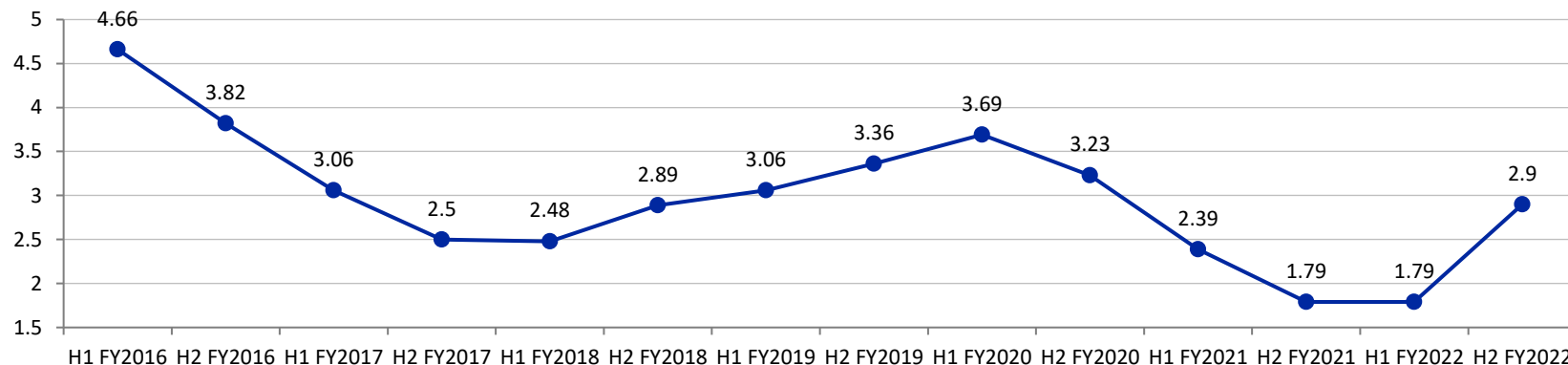


New LNG terminals would be seeking long-term contracts



PLL has asked Qatar gas to deliver in 2022 50 cargoes that were deferred in 2015; also seeking higher volumes, better price (10.19% DES signed by Sinopec in Sep 2020 compared to 12.7% FOB) for deal renewal

Exhibit: Trend in domestic gas prices (\$/mmbtu) GCV Basis



Source: PPAC, ICRA Research

- The domestic gas price was notified at \$2.9/mmbtu (GCV basis) for the period H2 FY2022. 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 rise substantially in the next revision owing to increase in prices at various international hubs.



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