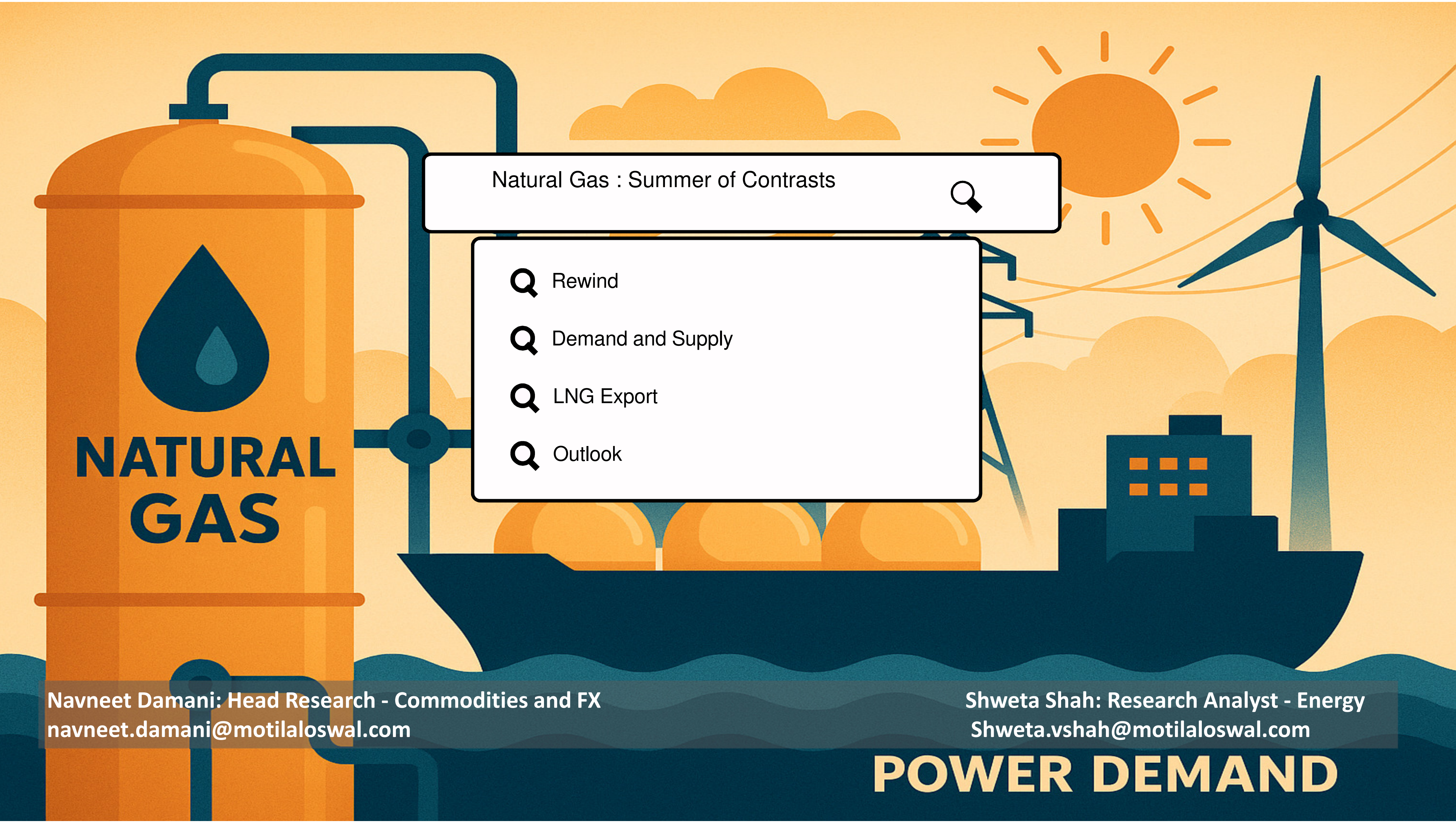

Natural Gas : Summer of Contrasts

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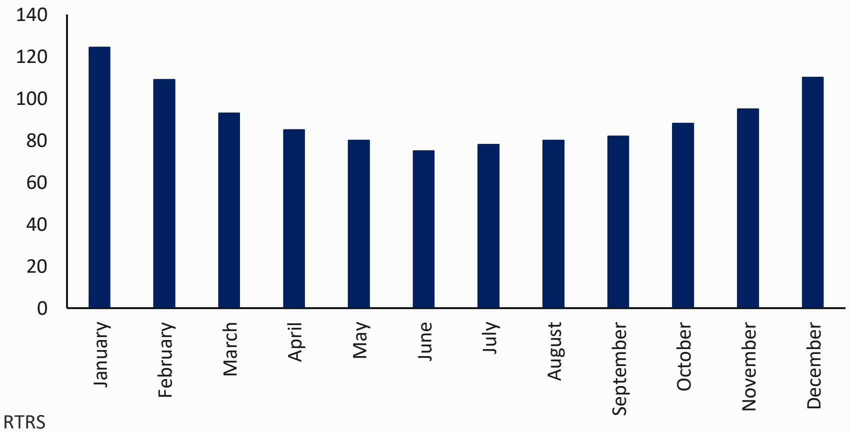
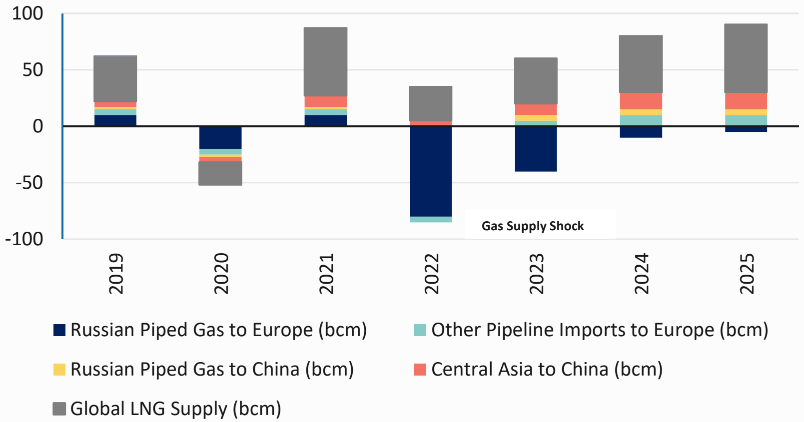
Rewind : What's Happening!

Projected Demand for 2025 (Bcf/d)



Source: RTRS

Tighter supply, expected to linger into 2025 YoY

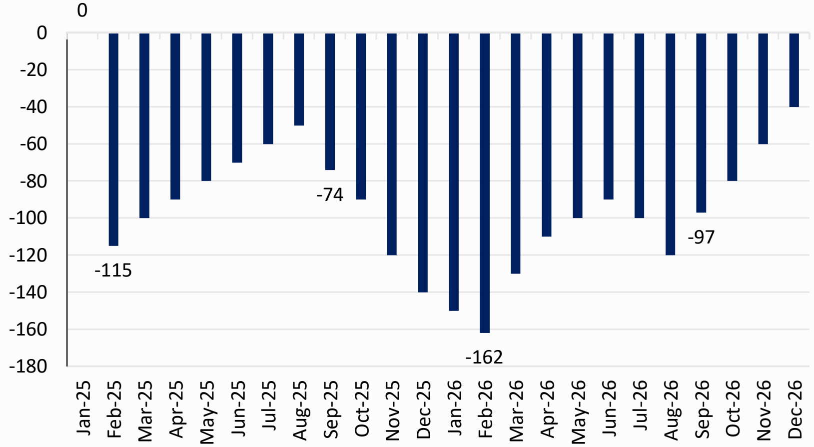


Source: EIA

- Natural gas prices saw a one sided rally in 2024-25 winter season, with prices trading at nearly double from where it stood at last summer season
- Now, as summer season begins, market Dynamics are shifting with recession fears out of market as U.S. China trade deal has cheered investors
- During the shoulder gas season, lack of catalysts, making it extremely volatile for traders
- Demand has remained steady, with more demand from increased U.S LNG export was offset by a warmer-than-normal start to spring
- High winter price is encouraging stronger production and reducing demand from power sector, where coal-to-gas switching played critical role last summer
- Power demand—which surged last summer amid economic coal-to-gas switching—is expected to ease back this season
- Geo Politics such as U.S. Proposed peace offer in Ukraine are on cusp of cooling relations, opening potential for brining some Russian supply back
- Weather softness restrained upside momentum, despite geopolitical uncertainties like threatening tariffs on Canadian gas
- LNG volumes has risen, adding to export demand in the face of firm demand from Europe and Asian consumers
- Europe prices remain subdued under policies altering storage and robust renewable generation

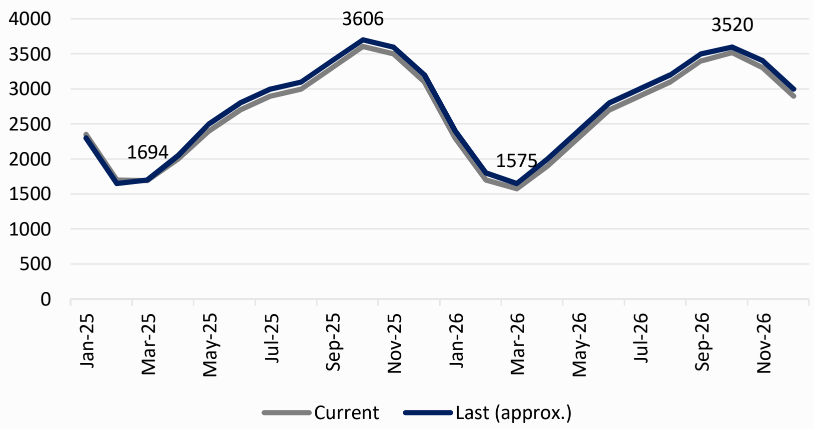
Demand

STEO Gas Storage Forecast Change (Bcf)



Source: RTRS

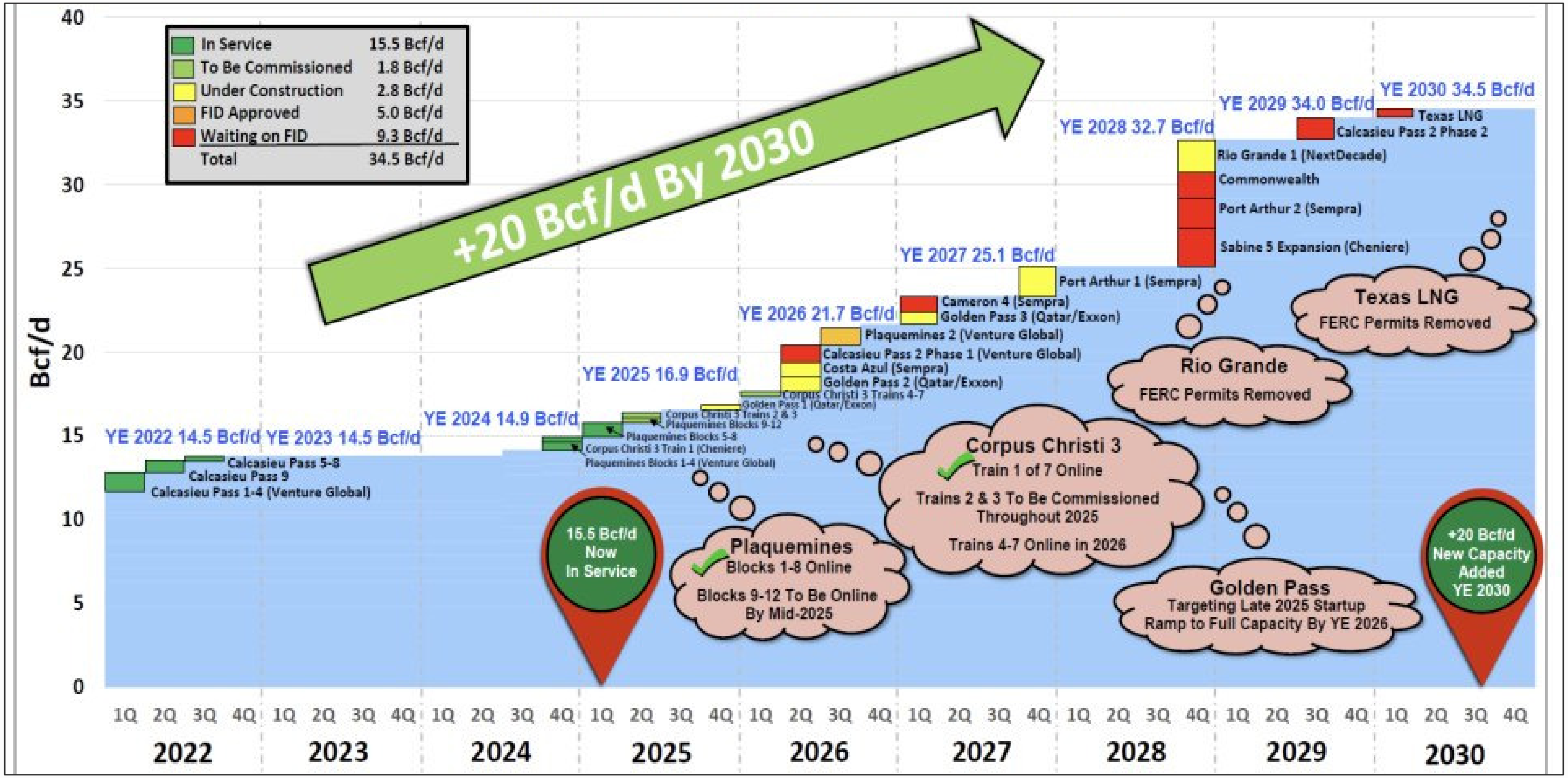
EIA Gas Storage Forecast



Source: EIA

- Global natural gas demand growth is expected to slow to approximately 1.5% in 2025 after a surge in 2024
- Demand has remained steady, with more demand from increased U.S LNG exports offset by a warmer-than-normal start to spring
- Asia remains the primary driver, contributing around one-third of the incremental demand, though its growth rate is moderating
- U.S. power consumption will hit record highs in 2025 and 2026 amid economic coal-to-gas switching is expected to ease back this season
- LNG exports are expected to see 3 bcfd of YoY growth, however this will get offset by pullback in domestic power generation demand
- Storage builds are expected to run stronger this summer, with injection rates projected to be higher compared to last year
- Storage currently sits about 0.5 Tcf below year-ago levels and to close that gap and return inventories to comfortable position above 5 Year average
- High natural gas prices is shifting gas-fired power generation in favour of coal, reversing some progress in transition to cleaner energy sources
- Mild weather led to lower levels of residential and commercial demand, combining to bring natural gas inventories back to 5yr average(2020-2024)
- The next few months will be pivotal in determining how quickly inventories can recover as storage levels at comfortable levels

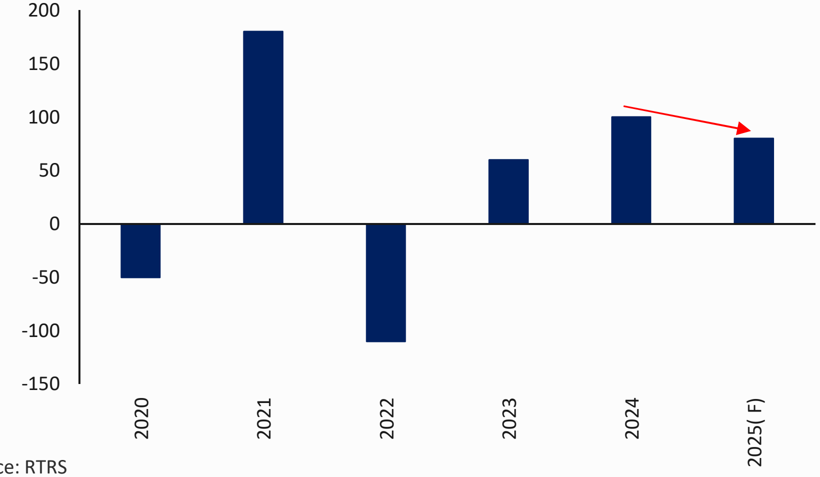
U.S. LNG export capacity addition



Source: Natural Intelligence

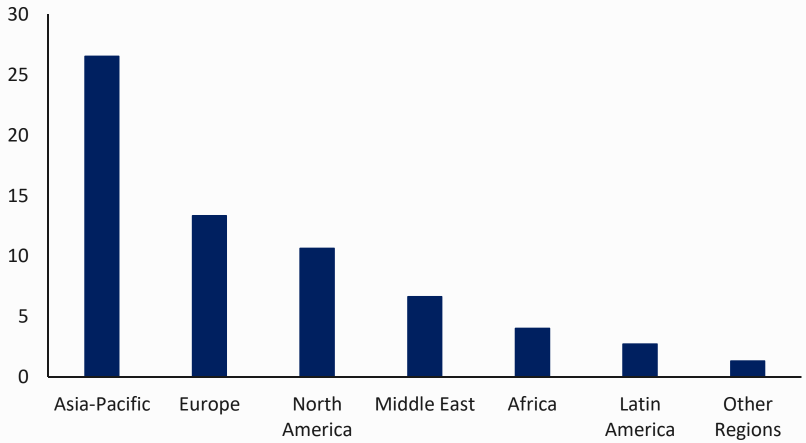
Europe

YoY Change in Natural gas demand



Source: RTRS

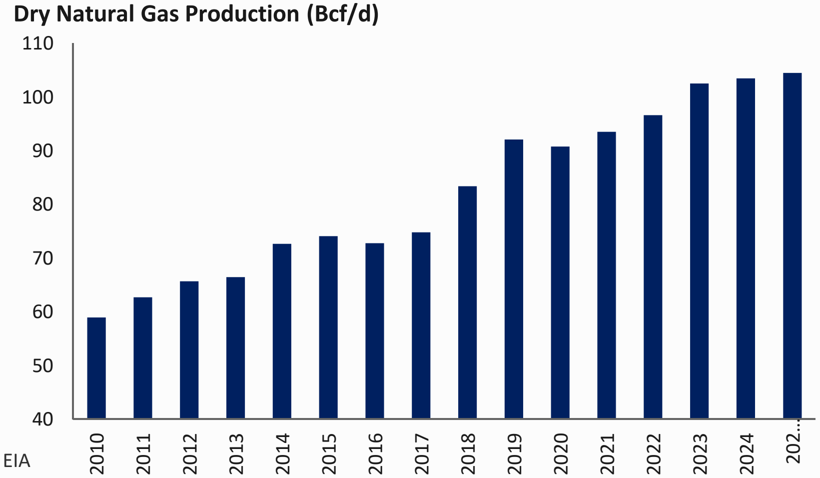
Projected global LNG Export Demand (Bcf/d) for 2025



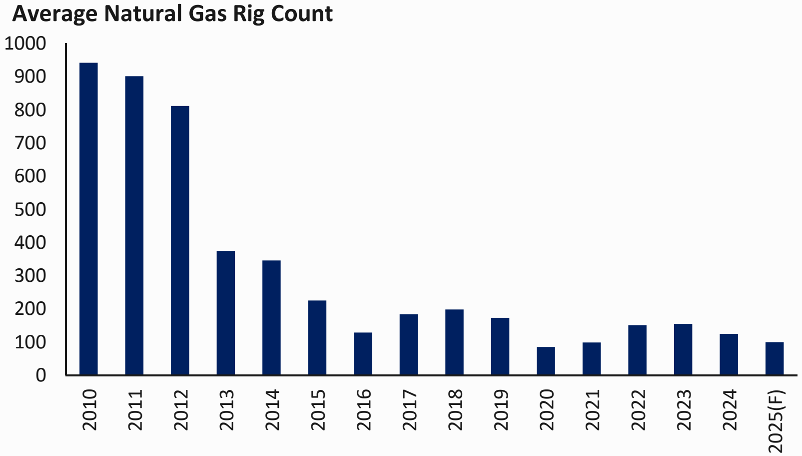
Source: EIA

- Europe Natural gas prices continue to remain at multi month lows, as short term demand is weak and regulatory developments are in flux
- European inventories remain at steep deficit that has only marginally recovered from its seasonal lows
- The European Union is set to propose measures to ban Russian gas imports by the end of 2027, as the bloc pushes to sever ties with the country that was once its biggest energy supplier
- Currently, EU is debating over reducing mandatory Natural Gas Storage requirement before next winter
- The change is due to fact that inventories are currently at moderate lower levels and renewable production continues to balance fossil fuel dependence
- Gas demand from the power sector may fall year on year thanks to greater nuclear power plant availability and higher renewables generation
- EU is readying itself for to reduce Russian Natural gas dependency, although Russia has a significant portion of imports in pipelines and LNG
- Even if Europe fills storage to the bare regulatory minimum, it will need to raise its imports to support a year-on-year increase in the stock build
- The extent to which Europe refills its storage is perhaps the biggest unknown for this summer and will set the tone for winter 2025-26 and beyond

Supply



Source: EIA



Source: EIA

- Global Natural gas production is projected to reach record levels, driven by increased output from major producers such as U.S., Russia, and Qatar
- Growth is attributed to rising demand for LNG exports and improved market conditions, prompting producers to ramp up output
- Permian Basin continues to play significant role in production growth, supported by advancements in drilling technologies
- U.S. dry natural gas production is forecasted to increase from 103.2 Bcf/d in 2024 to 105.2 Bcf/d in 2025, reaching 107.5 Bcf/d by 2026
- The resilience has contributed to stable supply levels, ensuring that the market remains well-supplied even as demand reaches new highs
- US crude oil production is seeing material weakness with April finishing at ~12.86 Mbpd
- Lower 48 production averaged ~105.4 Bcfp/d in April production remains elevated and continues to track near record levels
- Gulfport Energy Corp. intends to significantly increase its Lower 48 natural output, with daily production set to climb 20% by the end of the year
- Dry gas output is forecast to reach 105.3 bcfd, with demand peaking at 91.2 bcfd
- Gas-directed rig count remains stable but efficient, with higher output per rig due to improved productivity and completion rates

Outlook

- Natural gas prices are expected lower with spring temperatures suppressing demand, production staying strong, and storage builds running above average, the short-term outlook for natural gas remains bearish
- A mild spring shoulder season will help cushion inventories, bringing lower 48 stocks back above the five-year average
- Assuming WTI at around $60/bbl, lower 48 gas production will increase to ~106.5 Bcf/d and injection season averaging around ~105 Bcf/d
- LNG exports offer some upside, with about 3 bcfd of YoY growth projected. However, this is likely to be largely offset by expected pullback in domestic power generation demand
- Storage builds are expected to run stronger this summer, with injection rates projected to be higher compared to last year
- The pricing environment has set up a summer of contrasts.
  - Supply side - elevated prices are supporting robust year-over-year production growth
  - Demand side - the same price signal is discouraging the hefty kind of economic switching that helped boost gas-fired power burn to all-time highs last year
- This summer of contrasts dynamic is expected to create a more balanced, but less demand-heavy summer profile
- In the near term, Prices are expected to slide towards levels of Rs. 240 – Rs. 250 on MCX and hence selling is advised
- Bargain hunters might bring some short term spikes, but a lack of fundamental support will limit the gains

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