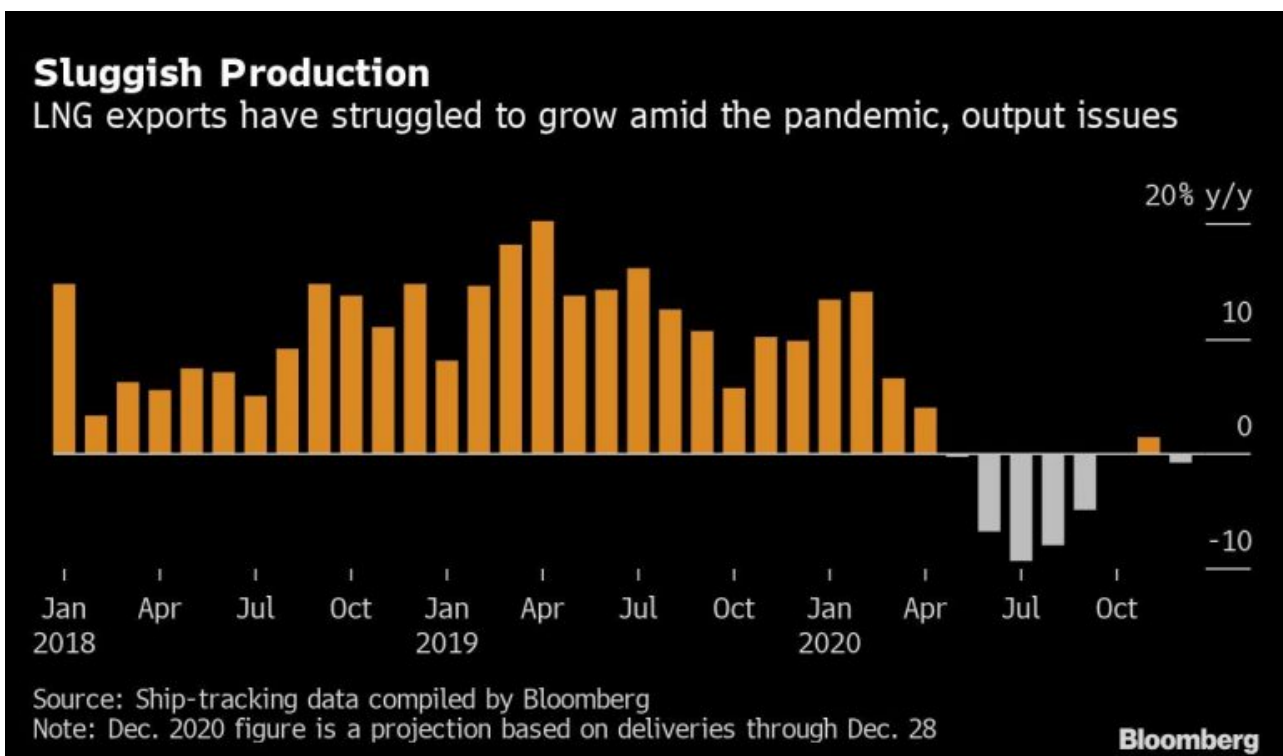


# The Cleanest Fossil Fuel Is Set for a Post-Pandemic Rebound Read more at: <https://www.bloombergquint.com/global-economics/lng-is-back-on-path-to-global-dominance-after-pandemic-pause> Copyright © BloombergQuint



(Bloomberg) – Liquefied natural gas traders anticipate a swift demand recovery in 2021 after a year in which the coronavirus pandemic prompted dramatic price swings.

Colder weather in key importing nations, outages at major

production hubs and congestion along global shipping routes already have combined to push spot prices in Asia to the highest level since 2014. That's a more than sixfold jump from a record low in April, making Asian LNG the best performer among major commodities in 2020.

Demand for the fuel used in heating and power generation is growing faster than for any other fossil fuel as nations look for a cheap, reliable and cleaner alternative to coal. The pandemic derailed that growth for 2020, but China and India are emerging as major sources of demand.

"A lot of countries are looking to import LNG," Tom Holmberg, a partner at law firm Baker Botts LLP in Washington D.C., said by phone. "I still think we are going to see growth in the LNG market." Below are the key areas likely to shape the market in 2021:

#### Uneven Demand Recovery

Global LNG imports in 2020 were roughly equal to the previous year, according to ship-tracking data compiled by Bloomberg. That was a big disappointment for an industry that has enjoyed 10% annual growth rate since 2016.

However, global gas demand is expected to resume growth next year. LNG demand, which makes up roughly 10% of the total, may rebound even faster, depending on how Pakistan, India and Bangladesh perform, said Manas Satapathy, a managing director in Accenture's Energy business.

Shipments of the fuel into Asia have mostly recovered since the height of the pandemic, and the region's LNG demand will rebound sharply next year, according to S&P Global Platts.

On the last day of 2020, spot Asian LNG price – the Japan-Korea Marker benchmark – rallied above \$15 per million British thermal units for the first time since April 2014. "It has been interesting to see how quickly Asian demand seems to have ramped up," Holmberg said.

The picture in Europe is very different as countries grapple with a new surge of infections and lockdowns that sap energy demand. The continent is headed for a “very neutral recovery” in 2021, according to Satapathy.

Europe mainly relies on storage and pipeline gas shipments, which may be boosted with flows from a new link from Azerbaijan and the controversial Nord Stream 2 project that’s nearing completion.

### Supply Woes

Unplanned maintenance at LNG export facilities from Australia to Qatar to Malaysia has led to a tighter than expected market in the second half of the year. And delays in navigating the Panama Canal curbed supplies to Asia. If these disruptions persist well into the year, then prices could remain elevated well above current levels.

The Gas Exporting Countries Forum, which represents 60% of global LNG exports, expects supply to climb by 6% to 7% next year, up from 2% to 2.5% in 2020. LNG trade was much more resilient to this year’s challenges than imports in the fuel’s gaseous form, the group said in its short-term outlook.

The market will likely remain oversupplied next year, according to Vitol SA and Trafigura Group Ltd., two of the biggest trading houses active in LNG. Beyond that they expect the market to tighten.

### More Cancellations?

Traders will be watching to see if buyers of U.S. LNG scrap any cargoes next year. About 200 cargoes were canceled in the summer after the pandemic hit spot prices in Europe and Asia. While there’s unlikely to be a repeat of that in 2021, traders do expect some cancellations to help balance the market.

American gas exports are rising to fresh records every month as new facilities come online. But any dip in demand could force

suppliers to shut-in cargoes. The nation has become a swing supplier because its contracts allow for scrapping deliveries, which enables exports to quickly respond to volatile markets.

China-U.S. Relations Trade relations between the U.S. and China will be a key focus. China is the fastest-growing LNG importer, and the U.S. is ramping up exports. There's few long-term supply deals between the two nations even though LNG was a focus of President Donald Trump.

Joe Biden takes over as president on Jan. 20. A number of proposed U.S. LNG projects are hoping for more normal relations to help them sign deals with Chinese buyers.

"This certainly affects the LNG markets, particularly the LNG coming from the U.S.," Holmberg said. And with Chinese economy roaring back and offices open, Jack Fusco, chief executive officer of Cheniere Energy Inc, anticipates that "deal making environment looks good for 2021."

Green Ambition Environmentalists are increasingly looking at natural gas as a major polluter. After years of focusing on coal and oil, they're turning their attention to how to zero out emissions from all fossil fuels. That shift has suppliers, buyers and shippers thinking green initiatives to clean up activities linked to methane and greenhouse gas emissions.

Half of the carbon footprint in the life cycle of an LNG cargo comes from upstream, Fusco said. The LNG producer is pushing for more transparency on carbon emissions for the fuel.

"Our customers are going to want to be sure that they can validate and audit what we're telling them our carbon signature is," he said.

The world's first supply contract that required a declaration of emissions was signed this year while so-called carbon-neutral cargoes started flowing to China and Japan as nations outline ambitious targets to effectively zero out emissions.

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# Eskom Bailout Emerging as Equity Swap by Biggest Bondholder



South Africa's biggest pot of available cash – 1.91 trillion rand (\$128 billion) of civil-servant pensions and unemployment funds managed by the Public Investment Corp. – is emerging as the key to rescuing the debt-stricken national power monopoly.

The money manager has approached its parent agency, the National Treasury, with a proposal to ease the 464 billion-rand load of obligations crushing Eskom Holdings SOC Ltd., signaling officials are gearing up for the complex financial and political operation to convert about 95 billion rand of Eskom debt held by the PIC into equity.

“There’s still a need to undertake a due diligence to confirm the viability of this proposal,” the Treasury said in a Dec. 11 response to questions from Bloomberg, its first statement connecting the PIC to an Eskom bailout. “It is important that the PIC be allowed space to follow its internal governance processes in line with its standard investment evaluation process to mitigate against any possible breach of governance or what could be perceived as political interference.”

While international investors are cheering efforts to contrive a durable fix for Eskom, the idea of tapping the fund is already drawing warnings over the potential fallout. The swap, which could put Eskom into technical default, would pit the government against its own employees, set a precedent that could see other flailing state-owned companies knocking on the PIC’s door and rattle a private sector concerned that its money could be next.

Speculation of a PIC role has intensified in recent weeks since President Cyril Ramaphosa told Bloomberg that “innovative ideas” were being discussed, and Finance Minister Tito Mboweni said the fund was willing to contribute to a solution for Eskom. Labor, business and the government last week agreed to work jointly to reduce the utility’s debt in the so-called Eskom Social Compact.

“The sustainability of Eskom’s debt and the risks it poses to state finances are now arousing political interests who are increasingly interested in grasping a solution,” said Peter Attard Montalto, head of capital markets research at Intellidex. “Eskom’s debt needs to be solved.”

The scope of the task has increased since Goldman Sachs Group Inc. described the utility in 2017 as the biggest threat to South Africa’s economy, which is just exiting its longest recession in 28 years. Eskom’s inability to provide reliable power since 2008, when outages began, has crimped output and disrupted everything from aluminum smelters to household kitchens.

The deterioration was worsened by years of looting under Ramaphosa's predecessor, Jacob Zuma, leading to the 2019 bailout that totaled 128 billion rand over three years. But that's merely keeping the wolf from the door and the search for a long-term solution is under way for the too-big-to-fail operation.

## **'Materially Cheap'**

Plans to rescue Eskom, which has said it can't afford to service more than 200 billion rand of debt, have also included dipping into the surpluses of state-run unemployment and compensation funds and converting some of its mostly government-guaranteed debt into sovereign bonds.

Credit analysts have been talking up Eskom as a 2021 top pick, citing the government's efforts, says Lutz Roehmeyer, the chief investment officer at Capitulum Asset Management GmbH in Berlin, who holds Eskom dollar bonds and isn't adding any more. "Investors are very bullish on the name and expect the sovereign to solve the problem," he said.

JPMorgan Chase & Co. this week called Eskom bonds "materially cheap" compared with sovereign debt.

## **Multiple Bailouts**

South Africa's Eskom is surviving on government support.

"As long as debt declines and becomes more sustainable, that's really the number one priority," said Guido Chamorro, co-head of emerging-market hard-currency debt at Pictet Asset Management in London, which manages \$10 billion in developing-nation assets, including Eskom 2028 notes. "There are 101 different ways to do it. I mean, the government as the sole shareholder could even assume the debt. Or use its lower funding costs to borrow and then transfer the funds to Eskom."

The PIC is recovering from a government inquiry last year into

how political meddling influenced decision-making. The probe led to the departure of several senior executives following disclosures that included bailing out one of the country's biggest retailers ahead of a national election against the advice of its investment professionals.

While the Congress of South African Trade Unions, a key ally of the ruling African National Congress, has backed using PIC funds to help Eskom, other labor groups, including the 235,000-member Public Servants Association, and business leaders have opposed it.

Eskom's own employee pension fund has signaled resistance to the idea. It doesn't want to change the "risk-return characteristics" of its 2 billion rand investment in the company's debt or add to the holding, said Chief Investment Officer Ndabezinhle Mkhize.

## **Pitfalls**

All of the options being considered have their pitfalls. A debt-to-equity swap may have to be offered to all creditors and could be classified by ratings firms as a default. Converting Eskom debt into sovereign bonds could flood the market and unnerve holders of South Africa's 2.62 trillion rand of junk-rated government bonds.

"We could lower the rating by one or more notches if the utility undertakes a debt restructuring, which, in our view, could be tantamount to a default," Standard & Poors' said in a Nov. 25 statement.

Eskom CEO Andre de Ruyter has been credited with improving operations since taking over January but has said the debt question is in the hands of the government. He has spoken of using green finance to help reduce coal use and cut its debt. He didn't give specifics.

Ultimately, unpalatable as it might be, the government may



find it just has to meet the utility's obligations by paying off its debt at it falls due.

"Everybody knows Eskom needs to do something about its debt, no one knows what that looks like," said Olga Constantatos, head of credit at Futuregrowth Asset Management, which has 194 billion rand under management, including Eskom debt. "It's in a utility death spiral as well as a debt spiral."

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## **OPEC+ Treads a Narrow Path as Demand Outlook Weakens Again**



Producers need to maintain supply restraint amid a sluggish recovery if they're to shrink stockpiles

The light at the end of the tunnel isn't getting any

closer for OPEC and allied oil-producing countries, as forecasts of the world's need for their supplies next year are cut again.

The world's three major oil agencies – the International Energy Agency, the U.S. Energy Information Administration and the Organization of Petroleum Exporting Countries – all reduced the outlook for global oil demand in 2021 in their latest monthly reports. With two of them also increasing their forecasts for non-OPEC crude production next year, the gap that needs to be filled with barrels from the OPEC countries continues to get smaller.

The most difficult period for the producer group will be the first half of the year, before vaccinations against the Covid-19 pandemic are sufficiently widespread to allow governments to lift restrictions on movement and gatherings that have had such a dramatic impact on people's lives and on demand for oil in 2020.

In a normal year, the first quarter is typically the weakest for oil demand, and 2021 will still be far from normal. The usual early-year weakness will be compounded by the fact that, even in the affluent countries that have secured large quantities of the most advanced vaccines, the roll-out of inoculations will take time. Working-age people outside the key healthcare sector could be among the last to benefit, which may continue to dampen economic activity and energy demand.

All three forecasters see global oil demand in the first quarter of next year remaining between 4.5% and 5% below the level seen during the same period in 2019. Any quarter-on-quarter increase from the current period will be small, with the IEA seeing no growth at all.

In that context, the decision by the OPEC+ group of countries to limit the easing of their output cuts to just 500,000

barrels a day in January, about one-quarter of the initially planned increase, makes sense.

Among the three forecasters, only the EIA saw stockpiles continuing to fall in the first half of next year if the OPEC+ countries had gone ahead with the 1.9 million barrel a day output increase they had originally planned for January (see chart below).

Limiting the output increase to 500,000 barrels a day would suffice to drive the supply/demand balance into deficit, with stockpiles falling at a rate of between 800,000 barrels a day and 2 million barrels a day in 1Q21, according to the three outlooks. Stock draws in the second quarter would be between 1 million barrels and 2.4 million barrels a day and they would increase further in the second half of the year (see chart below).

## **The Old Plan**

How global oil stockpiles would change if OPEC+ eased output as originally planned

Limiting the output increase to 500,000 barrels a day would suffice to drive the supply/demand balance into deficit, with stockpiles falling at a rate of between 800,000 barrels a day and 2 million barrels a day in 1Q21, according to the three outlooks. Stock draws in the second quarter would be between 1 million barrels and 2.4 million barrels a day and they would increase further in the second half of the year (see chart below).

## **The New Plan**

How global oil stockpiles would change if OPEC+ doesn't ease production limits any further after the increase agreed for January

The producer group has retained the ability to make further

monthly adjustments to supply targets, either upward or downward, but the latest forecasts suggest that they may want to hold off on any further easing, unless oil demand recovers faster than expected.

## **Slow Drain**

A weaker demand outlook means OPEC sees stockpiles falling more slowly than it did in October, despite a smaller easing of output cuts

Despite keeping a tighter rein on oil supply, the deteriorating global oil demand outlook means that OPEC's own analysts now expect stockpiles to be higher throughout 2021 than they saw them just two months ago (see chart above). By the end of next year, even with no further easing of output cuts beyond the 500,000 barrels a day agreed for January, the producer group expects global oil stockpiles to be some 670 million barrels higher than they were at the end of 2019.

The goal of bringing inventories back down to more normal levels seems ever more elusive. Since July, when OPEC first began publishing its quarterly forecast for next year, its estimate of global demand over the five quarters from 4Q 2020 to 4Q 2021 has come down by an average 2 million barrels a day, while its assessment of non-OPEC output over the same period has risen by 1 million barrels a day. That combination has cut the anticipated call-on-OPEC crude by an average 3 million barrels a day. OPEC and its allies are going to have to maintain discipline amid supply restraint for longer than they had hoped.

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# U.S. petroleum stocks nearing normal after wild 2020



Total stocks of crude and products, excluding oil stored in the strategic petroleum reserve, ended the year 6% above the seasonal average for the previous five years, down from a surplus of 14% at the start of July.

Excess petroleum inventories were still in the 74th percentile for all weeks since the start of 1995, on the high side, but down from a surplus in 92nd percentile at the middle of the year.

Total inventories, including the strategic petroleum reserve, have declined in 21 out of the last 26 weeks, by a total of 136 million barrels.

Gasoline and distillate stocks have shown the fastest return to normal while commercial crude stockpiles have faced a more sluggish adjustment.

By the end of December, gasoline inventories had been reduced to almost exactly in line with the five-year average, down from a surplus to the five-year average of nearly 13% in April.

Distillate stocks, which include road diesel and heating oil, had been reduced to a surplus of 7%, down from 29% at mid-year, according to weekly statistics from the U.S. Energy Information Administration.

Commercial crude stocks were still 10% above average, down from 19% in the middle of the year, indicating slower progress ("Weekly petroleum status report", EIA, Jan. 6).

## **NEARING BALANCE**

Oil producers and refiners have adjusted at an exceptionally fast pace following the record shock to oil consumption caused by the first wave of the coronavirus and the associated lockdowns.

On the crude side, excess inventories have been cut by lower output from domestic shale producers and a fall in imports especially from Saudi Arabia.

On the products side, stocks have been cut by slower crude processing and a decision to focus on gasoline at the expense of middle distillates such as diesel and jet fuel.

In final week of December, U.S. refineries processed 14% less crude than average for the previous five years, even though domestic consumption was down by just 7%.

Processing restrictions are likely to persist in for the next 2-3 months which should ensure stocks of products end the first quarter below average.

Lower product stocks will support higher refining margins and a sharp increase in crude processing during the second

quarter.

Based on futures prices, refining margins for gasoline and distillate delivered at the end of the second quarter have already risen by 40% and 60% from their post-crisis lows.

The principal risk to rebalancing comes from a resurgence in coronavirus and the possibility of new lockdowns to contain it, which could force fresh cuts in margins and processing.

## **DISTILLATE REBOUND**

Consumption of petroleum products has recovered strongly, ending the year 7% below the five-year average up from a deficit over 30% at one point in April.

The strongest rebound has come in distillate, where consumption ended the year running above the five-year average.

Distillate use is closely linked to the business cycle, especially manufacturing and freight transportation, so it has bounced back in line with the surge in manufacturing.

The resurgence in diesel use is consistent with the widespread reactivation of manufacturing reported in the Institute for Supply Management's monthly surveys and the Federal Reserve's industrial production index.

Gasoline consumption has also recovered, ending the year 10% below the five-year average, but improvement has stalled and even reversed since the end of third quarter, when consumption was down 5%.

Gasoline consumption has been hit by the new wave of coronavirus infections and reimposition of travel restrictions and work from home orders.

The worst-affected segment remains jet fuel, however, where

consumption ended the year 35% below the five-year average as a result of international travel restrictions and nervousness about flying during the epidemic.

But the reduction in excess distillate inventories and the strength of diesel demand is encouraging refiners to end their focus on gasoline production and target a more normal distribution of product outputs.

U.S. refiners boosted their combined production of distillate and jet to 74% of their output of gasoline in the final week of the year, up from a recent low of just 55% in mid-October.

If manufacturing and freight transport remain strong, while private motoring is hit by renewed coronavirus controls, refiners will shift to prioritise distillate consumption by the end of the first quarter.

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## **Nordic States Set Electric-Planes Pace After Green-Cars Push**





The Nordic region's pace-setting push into green transport is set to extend from cars to the air-travel market.

Iceland this month signaled plans to move toward carbon-free domestic flights by the end of the decade, while Sweden's Heart Aerospace aims to deliver an electric plane specifically designed to ply routes linking remote Scandinavian settlements within six years.

Coordinating the region's initiatives is the Nordic Network for Electric Aviation, founded last year and tying together airport authorities and five airlines including Finnair Oyj, Icelandair Group and SAS AB, alongside Heart and other technology innovators. The emphasis on cleaner flights follows Norway's strides toward banishing the combustion engine, with more than half the cars sold there now electric.

"We have an opportunity here to show the world what's possible, and also to give the industries in our countries the opportunity to be front-runners and build this market," said Maria Fiskerud, the NEA's project manager and former adviser to the Swedish government on aviation biofuels.

The group has received 12 million kronor (\$1.4 million) in combined funding from its members and the governments of Sweden, Denmark, Norway, Finland, Iceland and Greenland.

Iceland's plan to embrace electric planes is being led by its parliament's environment and transport committee, which has asked the government to establish a group of experts to lay the groundwork for environmentally friendly domestic services by 2030.

While Norway's success in encouraging electric autos has been driven by generous tax incentives and concern about the economy's reliance on oil production, the region's focus on greener aviation is more directly rooted in the unique nature of a market characterized by flights between sparsely populated areas with limited surface transport links.

Iceland's compact size makes it particularly well-suited to first-generation electric aircraft, which will be limited in passenger capacity by the weight of batteries needed to get even a small number of people off the ground.

Fiskerud said Icelandic domestic trips offer the perfect testbed, since "routes are all within an hour's reach." The greater size of Sweden, for example, might be too much of a stretch for early models so that a pledge to render its domestic market fossil-free by 2030 is likely to require a mix of electric planes, sustainable jet fuel and possibly hybrid technology, she said.

British Airways said Saturday that it's working with startup ZeroAvia, which has demonstrated a six-seater plane powered by a hydrogen fuel cell, as part of a push to reach net-zero emissions. ZeroAvia aims to extend its technology to longer trips and fly for more than 1,000 miles with a 100-seat-plus aircraft by 2030.

Icelandair Chief Operating Officer Jens Thordarson said he's enthusiastic about the application of electric technology, especially in light of the island's abundant geothermal and hydro-power green-energy resources. The carrier's domestic arm Air Iceland Connect currently uses three 37-seat Q200

turboprops and two 70 seat Q400s from Bombardier Inc., now De Havilland Canada.

“We’re still a long way away from being able to have electric long-distance flights,” he said in an interview. “However many projects are underway for developing aircraft for shorter distances. Being able to utilize electric planes for domestic flights would change the business.”

Thordarson said a plane carrying about 20 people using locally sourced electricity could even be cheaper to operate than kerosene-powered models, opening up the prospect of increased frequencies with fewer passengers than existing services in order to keep down takeoff weights.

Heart, based in Gothenburg, plans to win certification for its ES-19 regional plane by 2026, according to the company’s website.

The model, named for its 19-seat capacity, will have a range of about 400 kilometers (250 miles) and feature a conventional wing and propellers. It will be able to operate from a runway as short as 800 meters (2,600-foot).

Thordarson said it may take two or three years beyond certification to establish the reliability of electric planes for commercial services and for them to enter mass production. Airport infrastructure will also need to be adapted to provide adequate access to charging, and the reduced performance of batteries in cold climates must also be addressed, he said.

Government support may be required, paralleling that provided for eco-friendly vehicles. Norway, which aims to turn domestic flights all-electric by 2040, is looking at making subsidies for individual routes conditional on switching away from fossil fuels, or offering tax incentives for electric services.

The Nordic region’s combination of ready access to renewable

electricity, high relative wealth and geography favoring smaller planes will provide a litmus test for the viability of carbon-free flying more generally, Fiskerud said.

“This is a good part of the world to start working with electric aviation,” she said. “If we can’t do this here then it is difficult to see where it can be done.”

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## QP strives to bolster global energy lead of Qatar: Al-Kaabi



QNA/Doha

HE the Minister of State for Energy Affairs as well as president and CEO of Qatar Petroleum, Saad bin Sherida al-Kaabi, has said Qatar National Day unites Qataris and all those who love Qatar in expressing loyalty to the beloved homeland, and in renewing allegiance to the wise leadership of

His Highness the Amir Sheikh Tamim bin Hamad al-Thani, who is leading the country to greater pride and development built on the foundations laid by the late founder Sheikh Jassim bin Mohammed bin Thani.

In remarks to Qatar News Agency, al-Kaabi said that National Day is an occasion of glory and pride for the State of Qatar, which reinforces the belonging to the country.

He added such feelings are reflected every day in the manifestations of solidarity, unity and cohesion that unites all spectrums of the Qatari society, whether during the unjust blockade, or in the face of the global pandemic.

Al-Kaabi noted that just as the founder united the people of the country and strengthened their cohesion and harmony, the wise leadership has deepened the connection to the great land and created a generation with strong sense of belonging to the nation.

On QP's achievements this year, al-Kaabi said QP has strengthened its strategy and institutional values on the road to achieving its vision to become one of the best national oil and gas companies in the world by strengthening the position of Qatar on the global energy map and expanding its international presence in the field of exploration.

He said QP received the "New Venturer of the Year Award" as part of the Wood Mackenzie Exploration Awards 2020, in recognition of its outstanding and growing exploration presence across the globe.

QP is the first national oil company to win such award after it was won by Total in 2019 and ExxonMobil in 2018, he said, noting that the company signed a number of long-term agreements to buy and sell LNG with brotherly and friendly countries.

Al-Kaabi pointed out that QP signed agreements with three Korean companies to reserve LNG ship construction capacity in South Korea to support the ongoing expansion projects in the LNG production.

By signing these agreements, QP secured approximately 60% of the global LNG shipbuilding capacity through 2027 to cater to its future LNG fleet requirements.

QP has announced the start of operations of QP Trading as its dedicated LNG trading arm.

Wholly owned by QP and based in Doha, QP Trading is mandated

to build a globally diversified portfolio of third party and equity LNG.

To enhance its national human resources, al-Kaabi said QP has spared no effort in providing education, training and development opportunities for the widest possible segment of the promising young men and women of the country.

Al-Kaabi affirmed that QP has worked on the immediate response to manage the outbreak of Covid-19 and limit its effects on QP and the rest of the energy sector.

A crisis management team and a number of work groups and project teams were formed to lead response efforts and implement key measures to protect employees while minimising risks to the continuity of QP's operations.

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**Blue hydrogen, carbon capture technologies to play key role in transition to sustainable energy future, says GECF**



The Gas Exporting Countries Forum (GECF) has joined a growing global consensus that blue hydrogen production from natural gas, coupled with carbon capture or CCUS technologies will play a “significant” role in the world’s transition to a sustainable energy future.

This was highlighted by GECF secretary-general Yury Sentyurin at a special virtual event ‘Blue Hydrogen Strategy’, organised by it. The event made special note of the potential for enriched natural gas, which is a blend of natural gas with hydrogen.

The hydrogen economy is the use of hydrogen as a fuel, but is subject to intensive comparison, particularly between “various colours” of hydrogen. The most popular green hydrogen is obtained from renewables but is sub-scale, while the blue is produced from natural gas after pairing with carbon capture.

“Looking at the alternative of blue hydrogen, it builds on natural gas and we already have this technology in place and the network to carry this volume is in place, for example through pipelines for natural gas,” Steinar Eikaas, Equinor’s vice president for Low Carbon Solutions.

Currently, the cost of producing blue hydrogen is 50-100%

above natural gas production; however the resultant fuel is completely carbon dioxide free. The cost of green hydrogen, meanwhile, is 2-5 times above blue hydrogen.

Energy experts believe that hydrogen is the next frontier as it can fill the same purpose as, for example, natural gas, and decarbonise many of the same sectors fuelled traditionally by hydrocarbons.

“When it comes to the type of hydrogen, blue hydrogen has advantages simply because the infrastructure already exists and the oil and gas industry has the investment muscle,” he said.

Giving a European example, he said the European Union’s new hydrogen strategy, announced this July, has set very aggressive target of 40 gigawatts of green hydrogen by 2030 but left another 40 gigawatts for imports, thereby leaving the opportunity for blue hydrogen to fill in the gap. According to the latest available figures from the GECF Global Gas Outlook 2050 (2020 edition), natural gas is projected to remain the fastest growing fossil fuel with a share of 28% in the global energy mix by 2050 against the current 23%. Along the way, it will play a vital role in decarbonisation options, such as the blue hydrogen.

Referring to the Global Gas Outlook 2050, the GECF Head of Energy Economics and Forecasting Department Sokolov, said the forum developed a dedicated scenario called the “Hydrogen Scenario”, the results of which suggest blue and green hydrogen to dominate the future of hydrogen production.

“According to the results of the scenario, almost half of the produced hydrogen will be sourced from natural gas by 2050, in the form of blue hydrogen. It is also forecasted that more than 10% of the total natural gas production in 2050 will be consumed by hydrogen,” he added.

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# Oil Rises From the Ashes as the Big Coronavirus Recovery Trade



Brent crude topped \$50 a barrel last week for the first time since March, a milestone for an oil market that's been grinding its way back out of a deep slump for months.

Things aren't back to normal yet, but the positive signals are proliferating. The enormous glut of fuel that accumulated this year on everything from tiny barges to giant supertankers is being steadily depleted.

While the coronavirus pandemic is worse than ever in the U.S., demand in Europe is bouncing back as a second wave of lockdowns eases and Asia continues to pull in huge volumes of crude.

But there's more to this than a realignment of supply and demand – huge financial flows are also driving the price

rally. In a world that's expecting to see travel recover sharply next year, crude has become a hot Covid-vaccine trade.

"Oil is the cheapest of all reflation assets," said Amrita Sen, co-founder of London-based consultant Energy Aspects Ltd. "With vaccines slowly rolling out, we expect investors to start returning to the oil sector and for prices to continue firming."

In some corners of the world, the recovery in demand is almost complete. India's largest refiner said last week its plants are processing at full capacity and it's expecting a v-shaped rebound in fuel use. Consumption of gasoline is also at or near pre-Covid levels in China and Japan, the world's second and fourth biggest oil consumers.

European motorists are hitting the roads again as governments relax national lockdowns in countries including the U.K., Spain, and France, according to an index of road usage and traffic compiled by Bloomberg News. Road freight is sharply higher as companies rebuild inventories and the Christmas shopping season gets in full swing.

As demand is recovering, the Organization of Petroleum Exporting Countries and its allies are keeping tight limits on production. The group canceled January's 1.9-million-barrel-a-day supply hike and will instead add no more than 500,000 barrels a day to the market each month in the new year. Estimates for U.S. shale oil output are still falling.

Cargoes of crude are changing hands at higher prices from the North Sea to the U.S. shale heartland of Midland, Texas as consumers trawl the globe for extra supplies. Saudi Arabia raised the cost of its oil for Asia – a benchmark for the world's refiners – by the most since August last week.

## Hot Money

A more subtle shift in the market has also got traders excited. For most of December, nearby crude futures have been trading at a premium to later-dated ones, a price structure known as backwardation.

That buying of contracts at the front of the so-called price curve is evidence that managed money is flowing into the market, Eagle Commodities said in a note. The steeper the backwardation, the greater the return from holding futures from one month into the next, which encourages further buying in a “self-reinforcing cycle,” the brokerage said.

In recent weeks, cash has poured back into energy markets. Holdings of energy contracts rose by \$3.6 billion through early December, according to JPMorgan Chase & Co., driven by inflows into Brent and West Texas Intermediate. Investors pumped money into U.S. exchange-traded energy funds last week, with a swing of almost \$400 million from the prior period’s outflows.

## Price Risks

“Right now, oil has priced in that promising future,” said Victor Shum, vice president of energy consulting at IHS Markit Ltd. in Singapore. “While we have to deal with the immediate dark Covid winter.”

There are reasons to think \$50 could be oil’s ceiling for now. The price could tempt producers from Baghdad to Oklahoma to increase production. There are already tensions within OPEC+, with some members chafing at the cartel’s self-imposed supply limits.

“A persistent rally could turn OPEC+ much less conservative, in turn driving a price pullback,” said Citigroup Inc. analysts including Ed Morse.

The backwardation that’s attracting speculators could also

draw real barrels into the market, because the price structure isn't profitable for any traders still storing physical crude.

On the west coast of South Africa, a supertanker loaded oil from the tanks at the Saldanha Bay storage terminal earlier this month before sailing to Asia. It's a reminder that there are still plenty of barrels left over from the spring surplus.

Relentless Asian buying may pause at some point, especially with Lunar New Year celebrations starting in early February. Higher-cost crude will start to dampen the profitability of refiners in the region. A standard refining process in Singapore is now loss-making when using five of the eight oil grades tracked by Oil Analytics Ltd.

For now, positive trends in fuel consumption are buoying traders' desire for both real and paper barrels. And there could be more hot money coming down the pipe.

At the start of 2021, billions of dollars of commodities investments will be affected by a broader rebalancing of portfolios. The move could attract \$8 billion of inflows into Brent and WTI futures, according to Citigroup.

"There's been a distinct shift in the financial oil market," said Michael Tran, an analyst at RBC Capital Markets. Speculators are buying futures and holding onto them, scared that they'll miss out on a further rally, he said.

*– With assistance by Sarah Chen, and Sharon Cho*

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**IGU stresses key role of**

# natural gas in world's sustainable energy future



The International Gas Union (IGU) has welcomed analysis in the International Energy Agency's latest World Energy Outlook (WEO), demonstrating the vital economic and environmental role natural gas will play in a sustainable energy future.

In this year's Stated Policies Scenario (STEPS), the share of natural gas in global primary energy demand expands to about 25% by 2040. Gas will also retain a critical role in the Sustainable Development Scenario (SDS), retaining the 23% share in energy in two decades' time that it held last year. The WEO also states that "There is a robust long-term case for gases in the energy system. In the SDS, there are services that gases provide that it would be difficult to provide cost effectively using other sources. These include high temperature heat for industry, winter heat for buildings and seasonal flexibility for power systems."

Furthermore, "gas infrastructure is a valuable asset that can be repurposed over time to deliver large volumes of bio-methane or, with modifications, low-carbon hydrogen."

IGU President, Professor Dr Joe M Kang, said the report again confirms the critical role gas will play in the global energy transition.

"Natural gas is a clean and versatile energy source that unlocks an opportunity for the planet to reliably meet the globally growing energy demand, reducing GHG emissions and urban pollution and allowing economies to grow," Kang said.

"Gas demand has fared better than oil and coal amid the

continuing fallout from the Covid-19 pandemic. The WEO recognises that without structural changes in the way energy is produced and consumed and prudent policy choices, the emissions reductions seen this year will be short-lived. The gas industry has a critical role to play.

“Switching to gas from dirtier fuels, like coal, oil, or conventional biomass is possible now and can be achieved quickly, with immediate benefits of cleaner air, safer environment, cut emissions, and solid path to the integration of clean technologies for continued reductions in emissions.”

Further findings and projections relating to the natural gas market in the WEO include:

- n Natural gas demand will decline by only 3% in 2020 as a result of the Covid-19 pandemic, proving more resilient than oil and coal, which will see annual falls in consumption of 8% and 7% respectively. Less gas use in commercial and public buildings has been offset by increased residential consumption, while the decline in industrial demand was mitigated by fuel switching.

- n In STEPS, global gas demand will expand by 15% by 2030 from the 2019 level, and by 30% by 2040. This growth will be driven by gains in south and east Asia, supported by competitive prices, a push to improve air quality and manufacturing growth.

- n Even in a ‘delayed recovery scenario’, gas demand recovers to the pre-pandemic level in 2024, and climbs 24% by 2040.

- n Significant investment in new gas infrastructure will also be key, with the IEA predicting that \$70bn will be needed annually.

- n While China and India will account for around 45% of the demand increase over the next decade, growth will also be robust in Southeast Asia and the Middle East.

- n In carbon-intensive economies, gas use can reduce emissions by replacing coal. In countries planning a pathway to net-zero emissions, the gas industry will need to demonstrate progress in methane abatement, via alternative gases such as bio-methane and low-carbon hydrogen, and technologies like carbon

capture, utilisation and storage.

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## Gas is natural partner of the world in recovery: GECF



### The Peninsula

Doha: Natural gas embodies all the attributes required to achieve the multidimensional challenges of environmental protection, energy access, and affordability in a world stepping onto the road of recovery, the Secretary-General of the Doha-based Gas Exporting Countries Forum (GECF) Yury Sentyurin has said at the 7th IEF-IGU Ministerial Gas Forum, which was hosted virtually by the Malaysian government recently.

“As the world reaches the end of the pandemic tunnel, it will need an energy partner that can help prevent environmental degradation, ensure a stable and uninterrupted supply of energy, and bring affordable and reliable energy for all.



Natural gas is that partner,” said Sentyurin.

He added: “The GECF member countries are amongst the lowest cost producers globally and are able to weather the current storm, or any other. We understand our duty to the world and are committed to strengthen global energy security as reliable suppliers of this important energy source. Natural gas will become the leading source in the global energy mix by mid-century, increasing its share from currently 23 percent to 28 percent”.

During the event, the Minister of State for Energy Affairs and President and CEO of Qatar Petroleum, H E Saad Sherida Al Kaabi also struck a positive chord by maintaining that the gas industry, particularly LNG, has several milestones yet to achieve.

“I believe the economic and environmental realities of the post-COVID-19 era will help to increase the competitiveness of LNG and I have no doubt that the best for the LNG industry is yet to come,” said Al Kaabi.

The high-level gathering embraced the exponential growth of natural gas since the first edition in 2008 and highlighted the role of natural gas as it pertains to strengthening energy security and facilitating an orderly energy transition in an increasingly carbon constrained world.

Most of the energy ministers who spoke during the day-long conference – from India to Qatar to Malaysia – pinpointed Asia as the main demand node for natural gas on the back of rising populations, environmental pledges, and phasing out of coal. Currently coal meets 47 percent of Asia’s energy consumption, while natural gas provides just 12 percent of primary energy consumption in the world’s largest region.

According to the GECF Global Gas Model, ASEAN and East Asia countries’ energy needs will account for around 60 percent of global energy demand increase between today and 2050. This



growth will account for 42 percent of the global gas increments within the outlook period, driven by China, India, emerging markets such as Bangladesh, Pakistan, and a few others in South East Asian countries.

“Increasing Asia’s share of gas energy consumption to 20 percent would add the equivalent of more than 400 million tonnes of liquified natural gas (LNG) to annual gas demand, almost doubling the size of the LNG market,” said H E Tan Sri Muhyiddin Yassin, Prime Minister of Malaysia, in his inaugural address. Malaysia – a member of the GECF coalition – is the fifth largest exporter of LNG in the world, delivering over 11,000 cargoes since 1983. But now the country is reimagining the role of natural gas.

According to India’s Minister of Petroleum & Natural Gas and Steel, H E Shri Dharmendra Pradhan, the demand for natural gas and other energies in the world’s second populous nation has already returned to pre-COVID-19 levels.

“I’m happy to mention that the energy demand in India, particularly of the petroleum products and natural gas, has returned to pre-Covid-19 level. As the third largest global energy consumer, I am confident that India will continue to remain a key global energy demand centre, particularly for natural gas,” added Pradhan.

Meanwhile, ministers from Nigeria, Egypt, Azerbaijan and Iraq further discussed the opportunities that exist in growing gas markets and various policy pathways to achieve net-zero emissions in two sessions of the meeting.

Announcing that major oil exporter Iraq will increasingly switch to natural gas to generate power for its citizens, Minister of Oil H E Ihsaan Abdul Jabbar, said: “Our target is to utilise more and more gas, from associated gas fields and from free fields, to use it as a fuel for power generation for all of Iraq. This is our priority.”

Other ministers at the Ministerial Gas Forum joined from Bangladesh and Bahrain, including the Secretary of Energy from the United States of America, and ministers' representatives from Brunei Darussalam, Canada, Morocco, Turkey and Kingdom of Saudi Arabia. Amongst the private sector were Total, Tellurian, Royal Dutch Shell, Dana Gas, Eni, to name a few.