

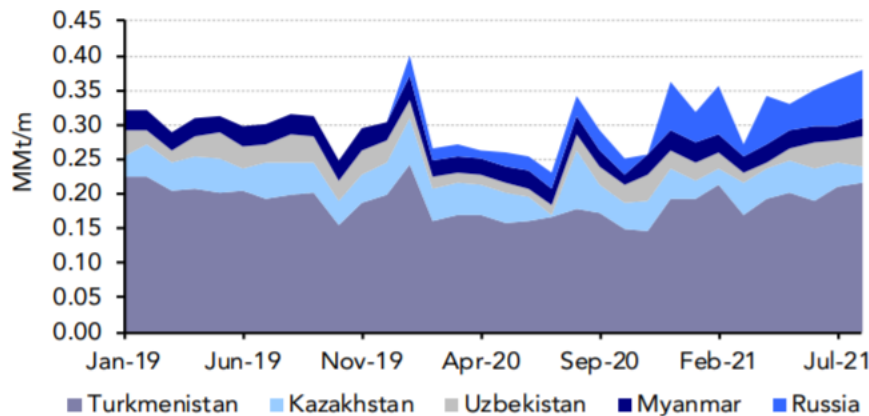


LNG Market Outlook

Coal production rising, LNG imports to be affected for China

Chinese LNG imports are forecast to climb by 20% in 2021 to nearly 81 MMt. We expect continued reliance on LNG imports despite rising prices is forecast through the winter. Through 4Q 2021 and 1Q 2022, imports are forecast at 42.4 MMt which is 8% higher than the total seen in the 2020/2021 winter. Gas demand is seeing the most growth in the residential and commercial sectors where development in urban areas necessitates expansion of the natural gas grid.

Chinese domestic gas production

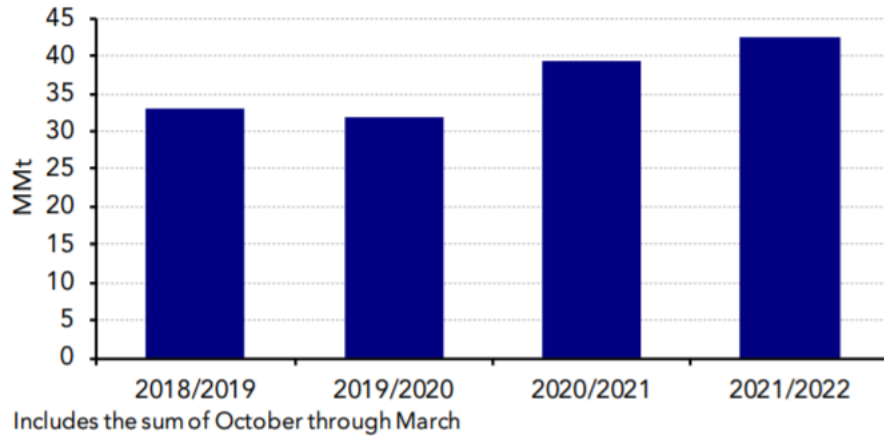


Source: OGP

However, current market conditions have propelled China to rethink consuming less coal in the power sector. Attempts to reduce their reliance on LNG imports have been put forward in recent weeks amid the ongoing power crisis. The Chinese government has commissioned the opening of 150 coal mines as emergency supply to increase domestic production and to ensure sufficient baseload electricity supply this winter.

In 4Q 2021, coal production is expected to reach 55 MMt and daily coal production is setting new highs for the year already. Pipeline imports have also increased. Turkmenistan, Uzbekistan and Russia have increased supply to China while imports from Myanmar are flat and Kazakhstan has sent less. Russia is now the second largest pipeline gas exporter to China next to Turkmenistan. Increasing coal consumption and the attempts to maximize pipe imports will affect LNG imports. Demand for spot cargoes is diminishing due to current prices and is not expected to return this year. However, sustained cold spells will push Chinese buyers back into the spot market.

Chinese winter LNG imports



As part of the initiative to decarbonize the economy and increase energy independence, China is stepping up domestic production. Heavy investments in exploration and technology are anticipated to lead to higher gas production even in the near term. Starting in 2022, domestic gas production is forecast to reach 20 Bcm/month at its highest but will average roughly 19 Bcm/month for most of the year. China plans to spend \$120 billion on drilling between 2021 and 2025.

Chinese domestic gas production

