Natural Gas Price prediction 2024: Is Natural Gas A Good Investment In 2024?

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Separation or re-cycling station where natural gas that cannot be used atthe time is burned off. The tanks in the background hold crude oil that is being stored before it is sent through the pipeline to Bougie.

From heating homes to powering industrial facilities, natural gas is the backbone of the global energy mix. As the cleanest burning fossil fuel, natural gas is a key transition fuel in the transition to low-carbon energy alternatives. The International Energy Agency expects natural gas demand to increase 31 percent by 2040, outpacing the expected 21 percent growth in oil demand.

At present, Europe currently has enough stock of natural gas, global economic growth is expected to remain weak, what is the forecast for gas prices in 2024? In this article, we will take a look at natural gas investments, analyze the factors affecting their prices, and make predictions for the price of natural gas in 2024.

What is Natural Gas?

Natural gas is a fossil fuel used in the manufacture of energy and products. Natural gas exists in reserves deep in the Earth, formed from the combination of ancient plants and animals, sand, mud and rock, and has endured pressure and heat for millions of years.

Natural gas is the backbone of the global energy mix, and it is a commodity that is increasingly in demand, with potentially significant trading opportunities. Natural gas is used in fuel production, and it is also an ingredient in the production of detergents, synthetic fibers, paints, plastics, and synthetic rubber.

Due to its relatively low price compared to crude oil, natural gas is used as a fuel for cars and trucks on a large scale. Uniform combustion temperatures, calorific value, automation of the combustion process, ease of regulation and no waste disposal problems are powerful advantages of all gas systems.

However, like most commodities, natural gas is vulnerable to geopolitical fluctuations. In addition, although natural gas is considered the cleanest primary energy source, it is still part of the fossil fuel industry, which brings a series of risks as climate change becomes more severe.

All of these factors make natural gas an important market for investors, but the market is highly competitive and complex. Therefore, it is important for retail investors to understand the past price performance of natural gas and the factors that will affect its future price before they start investing in natural gas.

2022-2023 Natural Gas Price Analysis

Due to Russian gas supply cuts to Europe in 2022, European gas prices soared to a record high that year. The gas crisis in Europe triggered a domino effect, with ultra-cooled liquefied natural gas (LNG) prices in Asia and the United States also surging to multi-year highs in 2022 due to surging demand in Europe.

However, the natural gas market took a breather at the end of 2022.

Heating demand was reduced in that warm winter, coupled with Europe's efforts to manage demand and improve security of supply in the face of Russian production cuts, causing natural gas prices to fall from their highs in late 2022.

According to the EU report, the gas storage in Europe was 94.9 percent full by November 1, 2022, and remained at 83.4 percent by December 31, 2022, well above the 80 percent target. To fill storage and make up for losses, the EU has increased LNG imports from the United States and Asia following Russia's decision to stop supplying gas through Nord Stream 1, Europe's main gas pipeline, in late August 2022.

On the demand side, EU member states have also agreed to reduce gas consumption by 19 percent between August 2022 and January 2023. These measures have put enormous pressure on natural gas prices.

Natural gas prices continue to fall in 2023 under pressure from sluggish demand.

According to the International Energy Agency (IEA), global gas consumption grew by just 0.5% in 2023, not enough to offset a 1.5% drop in demand in 2022.

According to World Bank data on March 4, in 2023, Netherlands TTF recorded the largest decline, falling from $40.34 per MMBtu in 2022 to $13.11 per MMBtu, a drop of 67.5%.

U.S. natural gas prices have also fallen by about 60% from $6.37 /MMBtu in 2022 to an average of $2.54 /MMBtu in 2023.

Meanwhile, Japanese LNG spot prices fell the least, falling about 21% from $18.43 /MMBtu in the previous year to $14.39 /MMBtu in 2023.

Factors Affecting Natural Gas Price in 2024

ANZ Research analysts David Hynes and Soni Kumari wrote in a March 7, 2024 report: "global natural gas prices appear to have found a base, with persistent supply issues satisfying weak demand. Concerns about energy shortages appear to have abated. Warmer weather and weak economic activity enabled consumers to restock after two turbulent years. Supply and demand look set to balance out in 2024."

Before we dive into natural gas price forecasts, let's explore what factors driving natural gas price higher this year.

Accelerated demand growth

In its Q1 natural gas market report, the IEA forecast that global gas demand could grow 2.5 percent in 2024, compared with only 0.5 percent growth in 2023. Rapid market growth in the Asia Pacific region and gas-rich countries in Africa and the Middle East will stimulate demand.

ANZ Research pointed out that emerging countries in Asia, particularly South and Southeast Asian countries led by India, will drive LNG demand this year to levels similar to 2023, driving by lower LNG spot prices.

Limited global LNG supply growth

Despite high production growth in Africa and the United States, which surpassed Australia and Qatar to become the world's largest LNG exporter in 2023, global gas supply growth will be limited by LNG supply growth.

IEA expected global LNG supply to grow 3.5 percent this year due to a number of reasons, including potential delays in starting new liquefaction projects and geopolitical tensions.

Meanwhile, ANZ Research expected that due to a slight decline in planned production from the Pacific Basin, global LNG supply to remain stable in 2024 after growing by about 1.5% in 2023. Small gains in the Middle East and Africa region and the Atlantic Basin will offset declines.

According to ANZ Research, six LNG projects in Russia, the United States, Mexico and Africa will start operation.

Geopolitical risk

Rising geopolitical tensions, particularly the ongoing war in Ukraine and disruptions to shipping in the Red Sea, pose risks to LNG supplies.

ANZ said Russian LNG exports are at risk of disruption as Ukraine expands its strategy of attacking Russian targets far from the front lines of the war. In January, Novatek was forced to suspend operations at its Ustyluga gas terminal on the Baltic Sea after a drone attack.

The security situation in the Red Sea has deteriorated over the past few months due to continued attacks on ships by Yemen's Houthi militia. The attacks were aimed at supporting Palestinians in the ongoing conflict between the Palestinian group Hamas and Israel.

The attacks disrupted global trade and posed a risk to LNG supplies, ANZ Research said, adding that about 15.5 tonnes of LNG arrived in Europe from the Middle East via the Red Sea in 2023. This represents about 13 per cent of Europe's total LNG imports.

Possible ban on natural gas exports in Russia

The EU has not imposed any sanctions on Russian pipeline gas and liquefied natural gas. However, according to Euractiv, an amendment to EU gas market rules agreed last year will allow EU member states to stop supplying Russian pipeline gas and liquefied natural gas.

According to ANZ Research, Russian gas, including LNG and pipeline gas, accounted for 13 percent of Europe's total supply last year, down from 40 percent in 2021. Europe imported 14.16 tonnes of LNG in 2023.

While any Russian gas ban would result in more Russian LNG cargoes going to Asia, enabling Asian cargoes to enter Europe, ANZ predicts disruption to trade flows until they make adjustments.

Natural Gas Price Prediction 2024

While analysts only provide natural gas price outlooks in certain markets, they generally expect prices to trend downward in 2024.

Osama Rizvi, energy and economics analyst at Primary Vision Network, said there was little chance of another spike in natural gas prices because of ample global gas supplies and a still slowing global economy. However, if the situation in the Middle East or elsewhere escalates further, then we may see a temporary increase in natural gas prices.

In its 2024 gas price forecast, ANZ Research expects Japanese LNG prices to fall to $11.4 per MMBtu from $29.1 per MMBtu in 2023.

ING expects Dutch TTF prices to fall nearly 32% to $28 /MMBtu in 2024 from $41 /MMBtu in 2023.

In its latest forecast published on February 27, ABN AMRO noted that gas prices in Europe will reach $35 /MMBtu in 2024, a slight change from $35.2 in 2023.

Fitch Ratings, meanwhile, was less optimistic, forecasting an average TTF price of $12 /Mcf in the Netherlands in 2024, down 7.7% from $13 /Mcf in 2023.

Data provider Trading Economics expects U.S. natural gas to trade at $1.90 per MMBtu by the end of the first quarter of 2024.

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How to Trade Natural Gas?

Natural gas investments can be made through the purchase of ETFs or shares of companies in the natural gas industry or through other financial instruments. The major investment methods set forth as below:

Natural gas stocks: one way to invest in natural gas is to buy shares in large European and American companies that operate in the natural gas market. Over the long term, natural gas inventories are generally less volatile than natural gas spot prices. Of course, smaller natural gas stocks are more volatile and riskier, but have greater potential for gains due to their relatively small market capitalization.

Natural gas ETFs: buying ETFs to invest in natural gas is a more diversified option than investing a single natural gas stock company. Investing in natural gas ETFs enables investors broader exposure to the natural gas market.

Natural gas CFDs: another way to trade natural gas is via CFDs. A contract for difference (CFD) allows traders to speculate on the price movements of an asset. However, traders don't have to purchase the underlying asset. This means traders can go long or short. By trading natural gas CFDs, traders can take advantage of market instability and open positions during periods of rapid natural gas price volatility. Margin financial leverage is risky and can lead to large losses, but it can multiply the profits of day traders.

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Conclusion

Like oil and other commodity assets, natural gas can be volatile. However, it may provide an opportunity for investors to diversify their portfolios. If you are considering adding natural gas to your portfolio, you should consider your risk appetite.

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