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Fossil Fuel Market Trends and Outlook
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Key Points of the Report

1. While oil market demand will recover to 100 million barrels per day (mb/d) in the fourth quarter of 2022, supply will exceed demand due to the release of oil stockpiling and production growth mainly in the United States and Saudi Arabia in the second half of 2022. We forecast the average Brent price in the second half of 2022 at $105 per barrel. Crude oil prices will remain unstable due to concern about recession, the potential tightening of Western sanctions on Russia and supply disruption risks. In particular, Russia's potential retaliatory embargoes may represent a great risk of upward pressure on oil prices.
2. As LNG from the United States shift towards Europe with the European Union's efforts to phase out dependence on Russian gas supply, the difficult time for Japan's electric power and gas companies continues for their procurement of LNG. Under the great shift the global LNG market is expected to expand by 5% in 2022. The imminent challenge is securing mid- and long-term LNG supply, as well as underpinning investment.
3. While coal market demand surpassed supply from the second half of 2021, coal prices spiked twice due to Russia's invasion of Ukraine and a Russian coal embargo by the European Union and Japan. After turning down in June, steam coal prices have risen beyond $400 per ton again. Coking coal prices have fallen to around $250/t. In the second half of 2022, we forecast steam coal prices to decline on coal-producing countries' recovery of supply before leveling off on a winter demand rise. Coking coal prices are predicted to level off. The average price in the second half of 2022 is projected at around $360/t for steam coal and around $250/t for coking coal.

[1] This summary is based on the information available as of July 2022.

Oil market

4. Oil market will remain oversupplied demand due to production growth in Saudi Arabia and the United States in the second half of 2022, despite a demand recovery and a production decrease in Russia. We forecast the average Brent price in the period at $105/bbl.
5. The OPEC-plus is expected to increase production in the second half of 2022 by 2 mb/d year on year, while many member countries of the group remain unable to reach their respective production target. Saudi Arabia and the United Arab Emirates will account for most of the production increase. The OPEC-plus's production surplus is very low, indicating their vulnerability to respond to supply disruptions.
6. In the second half of 2022, oil market will focus on risks of a recession amid interest increase in the U.S. and tighter sanctions on Russia. Depending on these risks, oil prices could fluctuate wildly. Particularly, Russia could resort to oil export embargos in retaliation for the Western sanctions, leading to a great upside risk for oil prices.

LNG market

7. Japan's average LNG import price in 2022 is expected to rise to USD 16.5 per million Btu, from USD 10.13 in 2021. The assessed spot LNG prices in Northeast Asia are expected to stay at a high level of around USD 35 on average in 2022. The term contract prices are expected to average around USD 12.4, driven up by the high levels of crude oil prices.
8. Global LNG trade is expected to increase by 5% to 390 million tonnes in 2022 from 372 million tonnes in 2021. Although global natural gas consumption rebounded by 4.5% in 2021 from a 2% decrease in 2020, the global gas demand in 2022 is expected to stay at almost the same level as in 2021, or even slightly decline. The future growth potential of global gas demand entails uncertainty due to the war in Ukraine, the pandemic, and expensive gas prices, with forecast numbers for 2023 and thereafter are smaller than the previous forecast.
9. Gas prices in Europe and Asia have been in the highest levels in history and more expensive than crude oil since July 2021. In 2022, the gas and LNG markets embrace more uncertain factors due to developments in the global arena.
10. The global LNG market has observed increasing sale and purchase deals to procure mid- to long-term LNG supply. Expectations are high that more investment in new LNG production and more supporting policy measures should be realized.

Coal market

11. Among the four biggest coal importers, China reduced coal imports in the January-

May period year on year due to domestic production expansion and a consumption fall amid the COVID-19 spread. India cut steam coal imports in January and February before increasing them on a rise in coal demand for power generation from March, posting a year-on-year steam coal import increase for the five months. Its coking coal imports in the period remained almost unchanged from a year earlier. Japan expanded steam coal imports in the January-May period by 2.75 million tons year on year. South Korea’s steam coal imports in the first half of this year grew by 5 million tons. Coking coal imports decreased by 0.8 million tons in Japan and by 0.95 million tons in South Korea.

12. Coal supply plunged due to a ban on coal exports in Indonesia in the first half of January and bad weather (torrential rainfall) in Australia in 2022.
13. Under such a situation, spot prices spiked (to $400/t for steam coal and more than $600/t for coking coal) in the wake of Russia’s invasion of Ukraine. They spiked again due to a Russian coal embargo by the European Union and Japan, surpassing $400/ton for steam coal and $500/t for coking coal. Both steam and coking coal prices turned down in June. In July, however, steam coal prices rose again on torrential rainfall in New South Wales, Australia. In contrast, coking coal prices rapidly fell to around $250/t on a supply increase in July.
14. As steam coal supply is expected to increase on the strength of price hikes, steam coal prices are projected to weaken in the third quarter of 2022 before leveling off on procurement for the winter demand season in the fourth quarter. Coking coal prices will level off from the third quarter on stable supply and demand.

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