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Asia's early heatwave signals potential summer squeeze for coal and gas

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INCREASED AIR-CONDITIONER USE

Asia's early heatwave signals potential summer squeeze for coal and gas

GAVIN MAGUIRE

MANY of Asia's largest cities are already gripped by above-normal temperatures that are prompting widespread use of power-hungry air conditioners weeks ahead of the usual peak in summer thermometer readings across the region.

Temperatures in many parts of China, Japan, India, South Korea and Southeast Asia have climbed to well above their long-term averages recently, and look set to remain elevated for the next several weeks, data compiled by LSEG shows.

Such a sustained stretch of hot weather will likely spur a collective climb in air conditioner use, which in turn will place extra strain on power generators that are on the hook to keep electricity supplies flowing.

To ensure round-the-clock power output, utilities across Asia will likely need to step up use of coal and gas-fired power plants.

Stepped-up competition for power-generating fuels by Asian utilities could ignite fresh strength in global coal and gas markets, which have already been roiled by the United States-Israeli war with Iran.

Millions of households across Asia are already dealing with sharply above-normal temperatures, even though the official meteorological summer only gets underway on June 1 in the northern hemisphere.

Since the middle of this month, average temperature readings in Seoul have held around 13 per cent above the long-term average, LSEG data shows, sparking "extreme heat warnings" from the Korea Meteorological Administration.

Such warnings are triggered when either the daily maximum perceived temperature reaches 38° Celsius or the daily high exceeds 39° Celsius.

In Shanghai, temperatures have held around 12 per cent above normal, while in Tokyo readings have averaged around 10 per cent above normal.

Extreme heat readings have also been registered across India, with several towns recording readings above 40° Celsius, which drove people to seek shelter in air-conditioned homes and buildings.

With well over a billion people impacted by the recent heatwaves, power firms are already under strain as they try to lift generation to keep up with the elevated power demand.

Air-conditioning systems have become increasingly popular across South and Southeast Asia as rising temperatures and high humidity levels force households to prioritise comfort over electricity conservation.

Indeed, due to the rapid build-out of living space across the hottest parts of Asia, Africa and the Middle East, the share of global dwellings with air-conditioning systems is expected to jump from around 36 per cent in 2022 to 60 per cent by 2050, according to the International Energy Agency.

That surge in demand for space cooling is arguably placing an even larger strain on global power networks than the data centre boom, which is concentrated mainly in regions with more developed power networks that can more easily accommodate increased demand loads.

Across Asia, power firms are already struggling to meet the demand from homes and businesses during the current heatwave, with authorities in Vietnam, the Philippines and India all recently issuing power output warnings.

Despite steep growth in generation from solar and wind farms in recent years, over half of Asia's electricity supplies continue to come from fossil fuel power plants.

Coal-fired plants generated around 52 per cent of Asia's utility-supplied electricity last year, and will remain the backbone of the region's power system for the foreseeable future.

Natural gas plants account for around 10 per cent of Asia's electricity supplies, and had been expected to take up a growing generation share going forward, especially in wealthier economies where outdated coal plants are due to be closed down.

However, volatility in natural gas and liquefied natural gas (LNG) prices and supplies in recent years has sparked a sharp slowdown in the pace of gas power capacity development, and means that coal-fired plants will likely continue to bear the brunt of Asia's power needs for the near term at least.

Additional demand for natural gas and LNG can also be expected across Asia, especially in power systems with limited alternatives and where power consumption looks set to remain elevated due to above-average temperatures.

Overall, this means that the current and expected hot spells across Asia have the potential to further tighten global coal and gas markets this summer, and exacerbate the energy shocks already stemming from the US and Israeli war against Iran.

The writer is from Reuters