Oil & Gas

Energy Research Strategy

Thursday 9 February 2023

Oil and gas markets run smoothly…until now

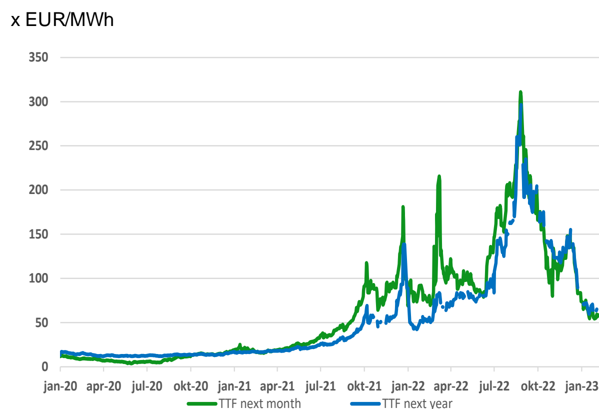
As a result of high gas stocks and mild weather, gas prices have fallen sharply since last summer. Nonetheless, gas prices are still three times higher than before 2021. The starting point for next winter is relatively favorable, but there are also quite a few risks lurking. It is not only the physical availability of LNG that is a concern - for instance US LNG exports - but the possible boost of competition from Asia also makes it uncertain whether European supplies can be brought up to par in time. Chinese economic growth plays a crucial role here. Oil prices have also fallen sharply in recent months. Here too, uncertainties play a role, mainly due to the ban of exports of Russian oil and oil products. We do not expect physical shortages in Northwest Europe, but price increases cannot be ruled out.

Gas prices lower due to high inventories and favorable weather

The market has calmed down after the sharp decrease in gas prices in December. in gas prices in December, the market has calmed down somewhat. Currently, the Title Transfer Facility (TTF) monthly contract is trading around EUR 55/MWh. The mild winter so far - and thus windfall demand for natural gas - combined with ample stocks offer peace of mind and currently ensure lower volatility (movement) in the market.

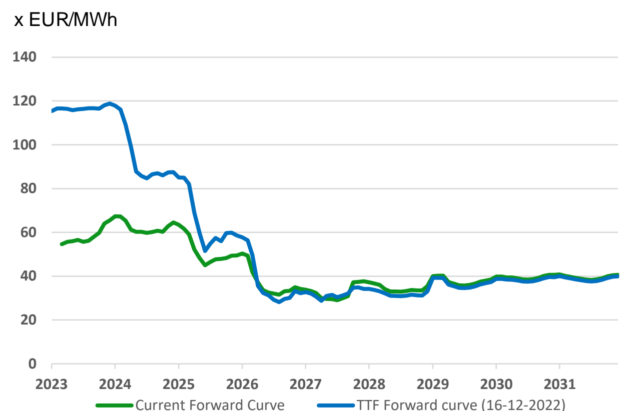
The annual contract (calendar year 2024) shows a similar pattern, returning to the February 2022 level at EUR 63/MWh. Despite the sharp drop in recent months, the current gas price is still high compared to the period before the summer of 2021, as shown in the figure below.

TTF gas prices trading sideways…for now



Source: Refinitiv Eikon

Forward curve: calmness has returned



Source: Refinitiv Eikon

At around 69%, European gas stocks are well filled. Here in the Netherlands too, stocks are in good shape with a fill rate of about 66%. In Germany - where about twice as much gas is still stored as in the Netherlands - they are doing even slightly better with 76% filling degree. The lowest fill rates are found in eastern Europe. The high fill rate also creates calm in the market for gas supply in the slightly longer term. It remains important to realize that even with fully filled supplies, almost all countries also remain dependent on gas imports during winter.

The Forward Curve above (series of contracts with the current price for gas with delivery in the future), indicates that not only has the price dropped for this winter, but also for next winter. This is explained by the fact that, in order to be prepared for next winter, high stocks at this moment means less gas needing to be sourced during the coming summer.

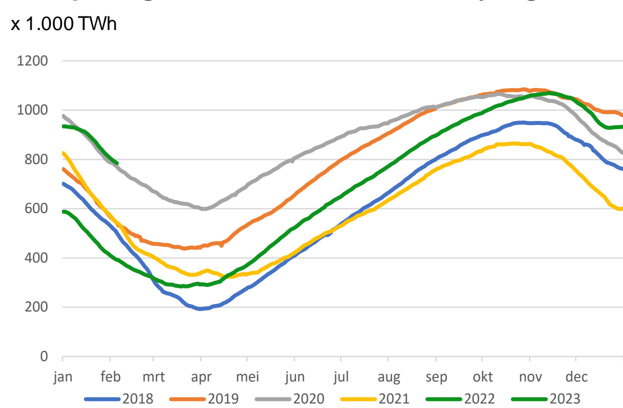
LNG import capacity is not the same as LNG imports

The speed at which European Liquified Natural Gas (LNG) import capacity has increased over the past year is noteworthy. Not only in the Netherlands (Rotterdam Gate terminal and Eemshaven) has the capacity with floating LNG import terminals expanded incredibly fast, but also in Germany, for instance, capacity has increased rapidly. This has allowed a significant proportion of Russian gas imports to be replaced by liquefied natural gas.

Hence, the main reason for the current high stocks is the continued strong imports of LNG in Europe. Imports reached the second highest level of 16.5 billion cubic metres (bcm) in January. This followed the record month of December, when 18 bcm of LNG was imported. The main exporters of LNG to Europe were the US, Qatar and...Russia. Of these, the US accounted for the vast majority with over 40%, and Russia accounted for around 13% of the total.

However, the increase in import capacity does not mean that LNG will always be available to Europe. The two main reasons for the LNG imports are the lower demand of LNG in Asia and the pricing. Nearly half of the LNG shipped to Europe in the past year was actually destined for China. But due to lockdowns, economic cooling and switching to other energy sources, the LNG is rather sold to parties in Europe. About half of the LNG imported by Europe was originally supposed to go to China.

In addition, much of the LNG that was not yet contracted, and therefore traded on the market, was bought up by European parties. Signs that supplies were going to be replenished 'at any cost', as expressed by European leaders, had a strong price driving effect. This not only made the price unnecessarily high, but other LNG-importing countries - especially in Asia - could no longer pay the price and were left with physical shortages.



Source: GIE

Past results are no guarantee for the future

Now that the gas market has calmed down somewhat, and prices have fallen to *merely* three times pre-2021 levels, attention shifts towards the risks for the year ahead.

It is worth bearing in mind that the overall global LNG supply will not increase much, if at all, in the coming years. This indicates a long-term relationship with the LNG supplier is needed to ensure that the LNG is actually delivered. That, or market players must be willing to pay more than their competition for the as-yet to be uncontracted portion of LNG on the market. With about six weeks to go until the end of the winter heating season, the situation regarding gas stocks seems relatively good

Would you like to read the full version? Or would you like more information regarding this update or regarding the other services of Publieke Zaken (PZ), Energy Research & Strategy, please contact:

Hans van Cleef – hans.vancleef@publiekezaken.eu / 0031- 6 30 90 33 76
Bart van der Pas – bart.vanderpas@publiekezaken.eu / 0031 – 6 36 52 95 51

DISCLAIMER

This document was compiled by Publieke Zaken Energy Research & Strategy (ERS). Its sole purpose is to provide financial and general information on the energy and financial markets. Publieke Zaken ERS reserves all rights regarding the information in the document and the document is provided to you for your information only. It is not permitted to copy, distribute or pass this document (in whole or in part) to a third party or use it for any other purpose than that stated above. This document is for information purposes only and does not constitute an offer of securities to the public, nor an advice regarding your investments, cost management or business activities, nor an invitation to these mentioned actions. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. Any opinions, forecasts or estimates herein constitute a judgement of Publieke Zaken ERS as at the date of this document, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. You should not rely for any reason on the information, opinions, estimates and assumptions in this document or on its completeness, accuracy or correctness. No warranty, express or implied, is given by or on behalf of Publieke Zaken ERS, its directors or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from the use of this information. The views and opinions expressed herein may be subject to change at any given time and Publieke Zaken ERS is under no obligation to update the information contained in this document after the date thereof. Further, internal and external publications may have been issued prior to this publication where strategies may conflict according to market conditions at the time of each publication. Publieke Zaken ERS reserves the right to make changes to this material. The distribution of this document in other jurisdictions may be restricted by law and recipients of this document should inform themselves about, and observe any such restrictions. All rights reserved.

© Copyright 2023 Publieke Zaken ERS and affiliated companies ("Publieke Zaken").