Oil & Gas

Energy Research Strategy

Wednesday 15 March 2023

The pressure is off

The winter initially started with unsettled sentiment in the gas market. It now appears that gas stocks have a very favorable starting point after a relatively mild winter. Still, when filling the gas storages for next winter, we can basically no longer use Russian pipeline gas and it is also less likely that we can easily buy LNG contracts from China. With all these uncertainties, volatile price movements continue to lurk. Furthermore, the collapse of the US Silicon Valley Bank has caused oil prices to fall, but price risks look set to be mostly bullish in the medium term. Factors such as an expected growth in Chinese demand and a lack of exploration investment in the medium term contribute to this. Finally, we briefly mention the EU's joint gas tender, the monitoring of the low-calorific gas market conversion and President Biden's approval regarding oil drilling in Alaska.

Weathered winter well; economic impact significant though

Aided by a mild winter, Europe unexpectedly weathered the first serious test of the resilience of our energy markets. More than a year after the Russian invasion of Ukraine, Europe has proved to have weathered the shock of receiving fewer to virtually no Russian gas imports relatively well. Physical shortages were avoided, but this result was accompanied by high costs; directly, through high gas and electricity prices, and indirectly through higher prices for fuels, groceries and other goods.

As a result, the increased inflation leads to interest rate hikes, which in turn spills over into the economy. This week there are many publications on inflation figures in both the US and Europe. If inflation is again higher than expected, the likelihood of further interest rate hikes increases. With that, the likelihood of a recession also increases. Less economic growth is accompanied by lower energy demand. Central banks mainly look at core inflation (excluding energy and food prices). These indirect high costs feed through into higher wage demands, and hence core inflation. This week, the ECB will therefore raise interest rates further from 3% to 3.5%. Next week (21/22 March) it is the US Federal Reserve's turn again.

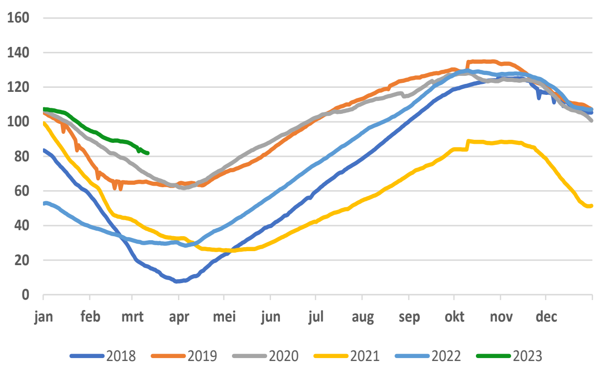
TTF gas prices continued to decline

x EUR/MWh

Source: Refinitiv Eikon

Dutch gas inventories at favorable levels

x TWh



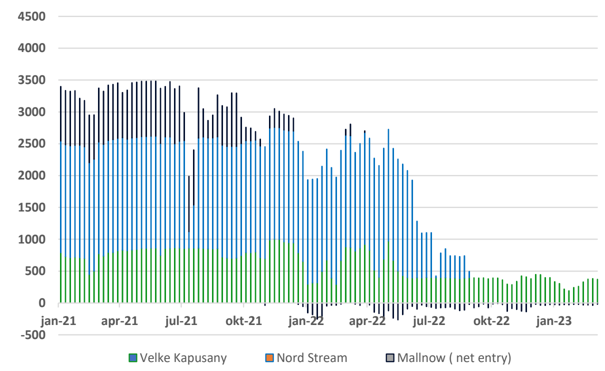
Source: GIE

Relatively favorable starting point gas inventories

The starting point at the start of the new 'gas-filling season' is relatively favorable. Stocks are historically high for this time of year (see right-hand chart above) which is partly leading to some calm in gas markets (left-hand chart above). This means that less gas needs to be procured during the coming summer months to replenish gas storage facilities for next winter. Liquefied natural gas (LNG) import capacity in Europe has also increased sharply. Still, there are some challenges ahead. Namely, it is not yet said that we will be able to buy LNG in Europe as easily as we did last year. In particular, the resale of LNG contracts by China is less likely now that the Chinese economy is slowly but surely picking up steam.

European gas imports from Russia (pipeline)

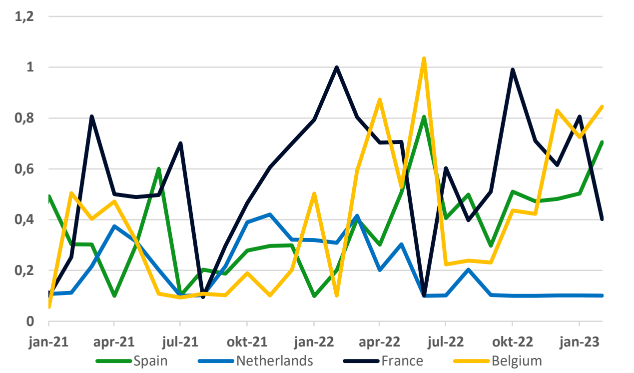
x GWh/d



Source: Refinitiv Eikon

European gas imports from Russia (LNG)

x bcm



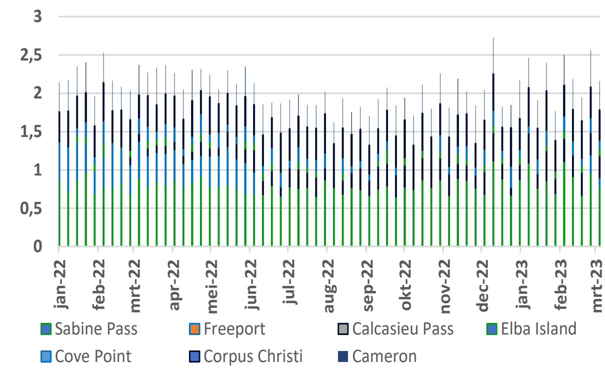
Source: GIE

Needless to say, there will also be much less pipeline gas from Russia available this year. Something that was still the case for much of 2022. If current imports of Russian gas via pipelines remain unchanged, this could add up to some 20 billion cubic metres (bcm), or over 500 GWh per day (left graph above). By comparison, before the invasion of Ukraine, Europe imported over 150 bcm of gas from Russia. As sanctions have not yet been imposed on Russian LNG, Europe did import more of this LNG than in previous years (main importers of LNG are shown in the right-hand chart above). Russian LNG imports increased from 15 bcm in 2021 to 22 bcm in 2022.

The aim is to be completely independent of Russian energy sources by 2027. Yet EU Energy Commissioner Kadri Simson already last week called for an accelerated reduction of Russian LNG imports. Simson is encouraging countries to stop buying Russian LNG and not sign new contracts once existing ones expire.

LNG exports from the US

x bcm



Source: Refinitiv Eikon

The vast majority of European LNG imports come from the US. This week, Freeport LNG received permission from the Federal Energy Regulatory Commission to fully resume operations (liquefying and exporting natural gas). As of June 2022, the second-largest LNG export terminal was lying idle after

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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