Oil & Gas

Energy Research Strategy

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Market panic despite well filled gas reserves

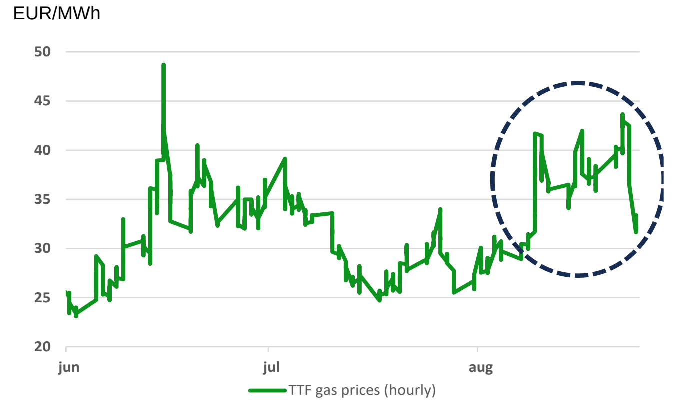
It has been a year since the TTF gas price reached a record level of over EUR 300/MWh. Although prices have fallen by more than 85%, the energy crisis is still not behind us. Indeed, markets remain very sensitive to news reports indicating increasing tightness in the market. This could be due to supply disruptions, such as the strikes at LNG terminals in Australia, or additional demand for gas. Despite the fact that prices should actually fall due to well-stocked gas supplies, energy news - and hence gas prices - will continue to dominate in the coming months. Oil prices, on the other hand, are very stable and still trading sideways. Possible tightness could push prices higher in the fourth quarter, but economic headwinds are preventing this price rise for now.

Volatile gas prices based on remarkable arguments

This week one year ago, the TTF gas price (monthly contract) reached its highest point ever: EUR 319/MWh. Meanwhile, the price of the first monthly contract stands at EUR 35/MWh. As a result of this huge price drop, one might think that the energy crisis is behind us. Yet the price is still more than twice as high as before the crisis and the market is very sensitive to reports indicating tightness. This indicates that the crisis is really not over yet.

A good example is the fact that in recent weeks the news was full of reports of rapidly rising gas prices due to possible strikes at Australian LNG exporters Chevron and Woodside. The price movements (see chart below) were remarkable to say the least for several reasons.

TTF gas price (monthly contract) has an erratic trend



Source: Refinitiv Eikon

First and foremost, the price of the TTF monthly contract with delivery of gas rose especially in the month of September. This is partly understandable as that is where most of the trading takes place. But at the moment, gas supplies in the Netherlands and Europe are above average. There is no chance of physical gas shortages in September. So if there should be a market reaction at all, it should be seen earlier in the contracts with winter delivery. After all, fewer LNG exports to Asia would shift demand from Asian players to markets in which European players are also entering. Additional tightness in the winter months would then justify a price hike. This was precisely not the case.

Furthermore, it involved strikes at Chevron and Woodside's Australian LNG operations. The 'fear' of tighter markets propelled the TTF gas price sharply higher, and after the news that there is an agreement between the unions and employers at Woodside, the TTF gas price fell back to the level of 9 August, just before the announcements of the strikes. However, uncertainty regarding a possible strike at Chevron is still in place.

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