

Wednesday 14 August 2024

## Divergence in impact geopolitics on oil and gas market

The TTF gas price reached its highest level in eight months. Increased demand for gas - from Asia as well as Europe - combined with geopolitical tensions in the Middle East and Russia-Ukraine have pushed the gas price to the upper end of the range. While geopolitics appears to be a key driver for global gas markets, it is different for oil prices.

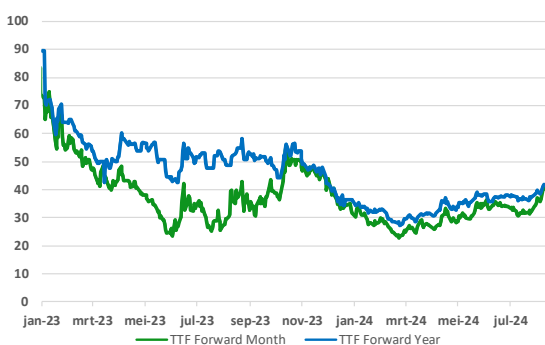
Although oil prices are also always sensitive to geopolitical tensions, this time seems different. With oil, the market's focus is mainly on the demand side. Following disappointing Chinese and US economic data, market expectations regarding oil demand growth are declining ever so slightly. As a result, oil prices are showing lower tops, something that reflects neutral to even negative sentiment.

## Gas price reaches highest level in eight months

The price of the active monthly contract on the TTF market is currently around EUR 40/MWh. With this, the price is up over 23% compared to a month ago, when the contract was quoted around EUR 31/MWh. Indeed, this has pushed the price to its highest point since December 2023. Thus, the price of the active monthly contract is currently quoting higher than for much of the winter of 2023/24.

### Gas contracts from January 2023

EUR/MWh



Source: LSEG Eikon

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EUR/MWh



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Initially, the heat wave in the last week of July in Europe was the reason for the price increase. That heatwave caused demand for electricity to grow due to increased use of air conditioning. At the same time, Asian demand for natural gas was also relatively high, partly because large parts of that continent also experienced a heat wave.

As temperatures somewhat normalised, the very situation in the Middle East became increasingly heated. As a result of the deaths of Hamas leader Ismail Haniyeh and Hezbollah commander Fuad Shukr in late July and early August, gas prices soared. Iran announced shortly afterwards that it would come up with a retaliation. Although this retaliation has so far failed to materialise, this threat still grips the market. The impact of any escalation of the situation on energy markets could be very significant. For instance, Iran is threatening to close the Strait of Hormuz, through which much of the Middle East's LNG is shipped.

In addition, news from the Ukrainian-Russian front reached the market on Wednesday 7 August that heavy fighting was taking place near Sudzha in the Kursk region. At this border spot between the two countries, the Russian gas pipeline system is connected to the Ukrainian system. The market reacted

**If you like the full version of this Market Updates, or more information on PZ Energy Research & Strategy's other services, please contact:**

**Hans van Cleef** - [hans.vandcleef@publiekezaken.eu](mailto:hans.vandcleef@publiekezaken.eu) / 0031- 6 30 90 33 76

**Bart van der Pas** - [bart.vanderpas@publiekezaken.eu](mailto:bart.vanderpas@publiekezaken.eu) / 0031 - 6 36 52 95 51

**Fabian Steenbergen** - [fabian.steenbergen@publiekezaken.eu](mailto:fabian.steenbergen@publiekezaken.eu) / 0031 - 6 18 55 34 46

**Guusje Schreurs** - [guusje.schreurs@publiekezaken.eu](mailto:guusje.schreurs@publiekezaken.eu)

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