EUROPEAN NATURAL GAS OUTLOOK 2019

The ICIS Outlook

- LNG and pipeline imports will battle for access to the British NBP
- Falling Groningen production will continue to shakeup the Dutch TTF market
- Germany’s GASPOOL is expected to increase its role as a price-setter for the rest of Europe
- The ability of the newly-created French market to meet demand will come under scrutiny
- High imports of Russian gas into Europe are likely
- Global price spreads will determine whether Europe continues to receive record LNG arrivals
EUROPEAN NATURAL GAS OUTLOOK 2019

It looks set to be an interesting year for European gas markets, with a number of infrastructure developments and natural gas projects set to shake up the trading landscape.

The first string of the EUGAL pipeline will come on line at the end of 2019, significantly raising Russian gas throughput to the CEE grid via the Nord Stream 2. The Nord Stream 2 and the Turk Stream 1 pipelines are both due to be completed in 2019, with the Turk Stream 2 expected to follow in 2020.

In northwest Europe, the continued decline in production at the Dutch Groningen field, as well as the introduction of bi-direction flows on the BBL pipe will have consequences for trading at Europe’s most liquid markets.

For the rest of the winter traders will remain wary of potential cold weather, following the dramatic price spikes seen across the markets during a frosty spell in March 2018.

Finally, global price spreads will determine whether Europe will continue to prove a favourable destination for LNG imports, following record numbers of arrivals over the winter so far.

BRITAIN

LNG and natural gas pipeline importers will battle for access to the British NBP in 2019, although an impending deadline for new tariffs and Brexit both risk disrupting Europe’s oldest traded market.

The industry has an extremely tight timeframe in which to produce an EU compliant overhaul of the transmission tariff regime. Regulator Ofgem rejected a host of proposals in late December, leaving stakeholders with less than half a year to formulate, consult, vote on, and rubberstamp a new regime. Non-compliance would result in fines for Ofgem and the government, though neither has signalled an intention to step in to lead the process. However, should the UK exit the EU as planned in March, the industry will have no obligation to implement a regime that is compliant with the bloc.

The deal, or lack thereof, that the UK has if and when it leaves the EU could have significant ramifications for cross-border trade. A no-deal scenario would require shippers to register with a national regulator at an EU member state in order to access other hubs.

It is impossible to predict whether the market will be tested as it was in March 2018 – such is the nature of rare weather events. But prevailing LNG pricing and planned production start-ups should ensure a much greater availability of the liquid fuel for the British market. Britain established itself as the prime destination for US LNG in the last quarter of 2018, with its three terminals taking almost half of all cargoes shipped from the US Gulf to Europe. It is the cheapest destination to deliver to, from a shipping perspective, and after the South Hook terminal opened its doors to non-Qatari vessels in October also offers a wide range of shippers access to the LNG market.

Interconnection competition will ramp up again in the summer when the BBL becomes a bi-directional pipeline. The Dutch pipeline, previously only offering British import capacity, has broadly outcompeted Belgium’s Interconnector for both capacity booked and commodity flowed since 1 October 2018, when the Interconnector liberalised its capacity after 20 years of operations. The Interconnector has been unfortunate in that a tight Belgium power market has ramped up their commodity levy. The asset should be more competitive when power fundamentals relax, but will no longer offer Britain’s sole export route to the continent.
IRELAND
More forward contracts are going to be offered on the Republic of Ireland’s natural gas market, the IBP, in 2019, which could lead to an increase in traded volume.

Following its takeover by Marex Spectron, Energy Broking Ireland (EBI) will want to push forward with the development of new products at the IBP and encourage more trade at the hub. Martin Regan, director of EBI, told ICIS before the acquisition took place that the main focus for the year would be around offering more forward gas products, power contracts for difference and electricity financial transmission rights and given the takeover this will remain the target for the year. Given that Marex Spectron is one of the largest energy brokers in Europe there is a greater chance of these targets being met.

The Corrib and Kinsale gas fields produce over 50% of Ireland’s gas, but with falling reserves the Irish network relies on its key link to Britain through the Moffat interconnector. At additional 50km strip of pipeline between Cluden and Brighouse Bay in Scotland, which was completed on 18 December, removed a bottleneck between the UK-Ireland double pipeline system and the Moffat entry point into the British grid. This may allow for higher flow rates, with total capacity to Ireland remaining 31mcm/day. With the heightened chance of more gas entering the Irish grid there could be an increase in liquidity at the IBP as shippers are able to move more volumes between markets.

As production from the country’s Corrib and Kinsale fields is expected to fall in the 2020s, the Republic of Ireland is keen to build infrastructure to diversify supply. The Shannon LNG project, which ran aground three years ago, received renewed interest after US-based New Fortress Energy purchased the project. If completed, it will be capable of taking delivery of Q-max LNG carriers, which are the largest current LNG delivery vessels. Commissioning is expected in 2020.

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THE NETHERLANDS
Falling production at the Groningen gas field and infrastructure developments to reduce reliance on L-gas will continue to drive the Dutch gas market in 2019.

L-gas production from the giant field is set to halt completely by 2030 at the latest. This will also be one of the main price drivers for TTF futures, as it will increase the importance of storage as a source of flexibility and stress seasonal spreads. Later on in the year, the BBL pipeline linking the Netherlands to Britain is due to become bidirectional, allowing also for Dutch imports. This is likely to further strengthen the interconnection between the two most liquid European hubs. This and the LNG Gate terminal’s proximity to the TTF hub, which makes it a reference point for indexing spot LNG supply, is likely to consolidate the market’s position as Europe’s most liquid gas market despite Groningen’s progressive shut down.

In November 2018 Dutch economy minister Eric Wiebes confirmed the final production target for Groningen for gas year 2019, which was set at 19.4 billion cubic metres (bcm), more than 2bcm lower compared with the previous gas year, assuming average temperatures. A detailed timeline for the years ahead is yet to be published. A new forecast according to which production from the field could drop below 5bcm/year in 2023 was also published in December. This suggests that the phase-out of Groningen could take place much earlier than in 2030, the deadline set by the ministry in March 2018.

The new forecast is based on ahead-of-schedule implementation measures to reduce production from the field, such as the construction of a new nitrogen plant. Any update about the timeline of Groningen’s closure is likely to have an impact on prices and liquidity at the TTF, as shippers will have to adapt their positions to the new targets. Groningen’s output has been limited in recent years due to concerns over earth tremors associated with the extraction process. The field produces low-calorific gas (L-gas), which is used in domestic applications across northwest Europe.

Reverse flows on the BBL pipeline connecting the Dutch and British gas markets are expected to kick off in July 2019. The pipeline can currently only flow gas from the Netherlands to the UK and has a technical capacity of 46 million cubic metres (mcm)/day. The reverse flows’ development would step up BBL’s competition with the Belgium-to-Britain Interconnector UK (IUK), which is currently the only bi-directional pipeline connecting the UK to mainland Europe. This, particularly in summer months, could divert some of the activity to the BBL from the Interconnector. Bi-directional flows on BBL could ease Dutch supply margins during the storage injection season, as Groningen is progressively shut down.

This could open new trade opportunities particularly in the short-term during summer, if Dutch demand pushes TTF prices above their NBP equivalents. It could also bring changes in locational spreads between the two hubs for contracts with delivery in the third quarter of 2019, once information about tariffs is finalised. The BBL Company told ICIS they will auction 16.8 mcm of capacity towards Britain from July 2019.

The Dutch Gate LNG terminal registered record high activity in the first half of winter 2018. Global price spreads indicate that the wave of LNG directed towards Europe could continue for the first months of 2019. After that, Gate is likely to remain one of the most attractive terminals in Europe for LNG deliveries, due to its proximity to Europe’s most liquid hub.

The improving outlook for LNG deliveries to Europe and record LNG sendout to the grid at the end of 2018 prompted Gate to test the market interest to increase the existing 12bcm/year sendout capacity by up to 2bcm/year. The terminal said a final investment decision for the project could be made in the first part of 2019.
**GERMANY**

Liquidity on the German gas markets is set to rise in 2019, between the NCG’s market makers and GASPOOL’s imminent increase in import capacity.

With the construction of Nord Stream 2 and the first half of EUGAL scheduled for the end of the year, GASPOOL is expected to become more of a price setter for gas across Europe. The new transit routes will allow the market area to receive up to 27.5 billion cubic metres (bcm)/year more Russian gas between 2019 and 2020, and then up to 55bcm once both strings of EUGAL are completed. ICIS-collated flow data over 2018 showed around 87bcm of Russian gas flowing into GASPOOL from Poland and Nord Stream.

In spite of this, the hub operator does not concern itself with increasing OTC trade or hedging in its platform. Most long-term trading occurs on the neighbouring Dutch TTF hub and this is unlikely to change while Germany is separated into two markets. The NCG launched a market making initiative at the end of 2018. It contracted five liquidity providers to carry out an undisclosed number of curve deals, with a minimum clip volume of 10MWh/h each, throughout 2019.

European gas prices ended 2018 with a dive, leaving space for further downside in the New Year. Although storage concerns dominated throughout the summer of 2018, on 31 December German gas tanks were nine percentage points more full than a year prior. This allowed for significant correction on a previously high-risk Q1 ’19 product. Energy regulator Bundesnetzagentur (BNetzA) will make a decision in March on the INKA package regarding the implementation of European network code on tariffs (NC TAR). Changes will come into effect as of January 2020. Virtual interconnection points (VIPs) on Germany’s borders with France and the Czech Republic will come into effect in March, while those on the Swiss, Belgian and Luxembourg borders should be established by July. All these measures towards harmonising and simplifying the German gas trading landscape should encourage more traders to participate.

The new electronic sales platform (ESP) launched by Gazprom Export in the fourth quarter of 2018 looks set to continue its short-term sales activity in 2019, which should also increase flows and boost trading activity. For the first time on 18 December, the company successfully marketed 7.7GWh of gas for delivery to the GASPOOL market area on a Day-ahead basis.

**BELGIUM**

The Belgian gas market will face challenges in 2019 on its way to expanding its position as Europe’s main transit hub.

The key developments to keep an eye on include the ability of the operators of the Interconnector UK (IUK) to market capacity effectively as it comes up against competition from the Dutch BBL pipeline that is due to become bi-directional in the summer. Other developments that are set to influence the Belgian market involve the launch of the virtual interconnection point (VIP) on the Dutch border, the potential re-introduction of market makers on the ZTP curve to boost liquidity and Belgium’s gas balancing project.

IUK expanded their offering on the Interconnector pipeline in April 2018 by launching the Implicit Allocation Mechanism (IAM) enabling shippers to purchase capacity outside the usual PRISMA schedule. The decision to introduce this new mechanism was to offer shippers more flexibility when purchasing volumes during periods when price spreads between the British NBP and Zeebrugge markets were more favourable. Ultimately, with long-term contracts ceasing and competition looming from the Dutch BBL pipeline, IAM was seen as an opportunity to market IUK’s capacity effectively throughout the year.

Belgium’s gas balancing project Balansys has been hit by setbacks in recent years with the project missing its last launch deadline at the end of the third quarter of 2018. Balansys was originally scheduled for completion by the end of 2016 but numerous compliance-related postponements have pushed this back further. Transmission operator Fluxys told ICIS that they are awaiting approval from the Commission for Electricity and Gas Regulation (CREG) on changes to the standard transmission agreement (STA) that will remove the TSO’s responsibility for balancing. Despite strength in traded volume holding up on the ZTP hub without market makers, Fluxys indicated to ICIS that talks were developing with the Commission for Electricity and Gas Regulation (CREG) to re-introduce market makers on the curve in the near future, but has not commented on when this will occur. Talks between Fluxys and Gasuine Transport Services (GTS) - Dutch owner and operator of the national transmission network stalled during the first half 2018 in regards to a virtual interconnection point (VIP) between Belgium and the Netherlands. Discussions between the two operators regathered some momentum towards the back-end of the year and Fluxys told ICIS at the time that the project should near completion in the coming year.

The VIP would follow the Virtualys model – the VIP that connects France and Belgium, which has been operational since December 2017. Looking further ahead, L-gas
usage is set to drop in the coming years, due to declining production from Europe’s largest L-gas production site, the Dutch Groningen gas field.

FRANCE
In 2019, the ability of the newly created Trading Region France (TRF) to meet domestic natural gas demand during the winter period will be one of the aspects under scrutiny. The strength of the new spot price on the PEG Day-ahead contract, relative to the TTF, will be another.

In the event of an extreme and prolonged cold snap in the first quarter of 2019, France could become reliant on LNG and even natural gas pipeline imports from Spain, which would mark a reversal of typical flow patterns between the two countries. According to GRTgaz and Terega in their 2018–2019 winter outlook, French gas demand through a particularly cold winter could total 36 billion cubic metres (bcm). Domestic consumption would account for around 30bcm with the remaining 6bcm needed for exports via pipeline to Spain and Switzerland.

The new TRF hub, through its import capacity to northwest Europe and storage stocks, would be able to meet 34bcm of total demand. This would mean that LNG and Spanish imports would have to account for the remaining 2bcm, the grid operators said. Europe’s surplus of LNG as 2019 begins makes it less likely that pipeline imports from Spain would be called upon in the event of a cold snap.

It is more likely that flexibility on LNG send-out rates and Europe’s overhang of gas will be used to meet a rise in demand and dampen any price spikes on the PEG Day-ahead product, relative to the TTF. In the final quarter of 2018, LNG terminal operators significantly raised send out. ICIS data show that send out in the fourth quarter of 2018 more than doubled to 41TWh compared with send out during the third quarter of 2018. Send out during the fourth quarter was also up by 86% on the prior-year period.

Based on January’s predicted send out rate, LNG send out for the first quarter of 2019 would more than double on year were it to continue at its current pace. Even before the jump in send out, some industry sources have argued the newly merged French market, with its reinforced pipeline network, should be able to cope with any surge in demand.

In terms of liquidity, the merger of PEG Nord and TRS led to a surge in traded volumes in the fourth quarter of 2018. Liquidity at the PEG could continue to rise in 2019, particularly if more participants are attracted to the market.

Sources have said European investment banks, including Societe Generale, have increased their positions in France’s natural gas market last year, taking advantage of speculative plays opened up by carbon-related volatility. Spanish shippers, eager to increase their presence in France could also add to liquidity with more spread deals on PEG and PVB Day-ahead contracts.

France’s recently overhauled storage auctions could provide another opportunity for liquidity to increase. The country’s first ever storage auctions took place in March 2018 and French energy regulator CRE later decided to spread the auctions out over a longer time period.

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rather than concentrating them over three weeks. Greater flexibility on the auctions could lead to traders entering the market on an opportunistic basis to take profit.

**SPAIN**

Iberia went into the winter of 2018-19 looking well supplied with LNG – which usually makes up around half of all Iberian imports – at a time when long-range forecasts of mild weather were already tempering demand for additional cargoes. Low demand for natural gas from the power sector, thanks to more robust hydro stocks, also trimmed the outlook for consumption. At a time when pipeline flows from Algeria and France have also yet to run up against peak capacity, demand from Portugal has also been very low. Imports from Spain have lately often been almost at zero, as Portugal has met its own requirements through LNG. This weak pipeline and LNG outlook put a bearish spin on pricing expectations for 2019 at the end of last year, and that has continued in the first weeks on January.

In previous years, insufficient LNG in stocks have caught shippers out in Iberia, with low storages rapidly leading to soaring prices at the start of the first quarter. This time round though, the opposite is shaping up, with shippers grappling with a potential oversupply. For Iberian shippers ensuring that enough LNG arrives – but not too much – can provide particular logistical concerns not always seen at more pipeline-heavy markets. In 2018, a brief rally was followed by a drop in prices at the end of February that hit some shippers hard.

Faced with a potential oversupply as the first quarter unfolds, Spanish shippers would usually expect to be able to shed length by selling on the global market. However, waning prices on the global LNG market throughout much of the last half of 2018 also made this option less practical. Much more LNG than is usual this winter has been heading to the Atlantic basin, with some European markets seeing record levels of LNG flow into their terminals. In Spain, there has been evidence of vessels initially expected into the country being removed from schedules in December and January.

With demand limited elsewhere however, January in Spain still gets under way with stock levels at historically very high levels, grid operator data shows. Some sources have said this may indicate that cargo diversions have been hard to execute.

There has been evidence of this lower demand in forward prices since the middle of the last quarter, with gas for January and February ‘19 delivery trading not much over a euro above those at the benchmark TTF. Typically, the premium in winter would usually be three or four times this level.

Further out, summer gas has been trading at less than one euro above the TTF, which again is below where the spread would usually be. The calendar years have also been under pressure, which may allude to concerns about the effect of the start-up of new long-term volumes, much of which has been contracted to Iberian buyers.

**CARBON**

With the beginning of January, the market stability reserve (MSR) has started to operate by reducing auction volumes in Europe’s Emission Trading System (EU ETS). According to our ICIS EU carbon model, the supply via auctions will be curtailed by 395 million allowances.

As a result, for 2019, the ICIS EU carbon analytics team expects a bullish undertone for EUA prices, caused by a short market balance of around 250 Mt. This accounts for market participant strategies such as power forward hedging. The gap needs to be filled by compliance selling or short-term abatement options, such as switching from coal to gas generation.

The effect of the MSR already materialised during 2018 with EUA prices rising by more than 200 percent during that year. Quite a number of new market participants from the financial sector got active last year, buying allowances in anticipation of a future shortage, caused by the MSR operation. The ICIS analytics team expects the bullish price development to continue over the course of this year, but the upside being more limited as the front-running will likely taper off.

That said, during the first and potentially second quarter of 2019 we expect the market to be utterly nervous with high volatility amid new developments from the Brexit process. Obviously this highly depends on the scenario unfolding and whether or not the Brexit uncertainty drags on in form of an extension of the Article 50 deadline. The availability of fuel switch potential to balance the market will remain a key price driver during 2019. For the end of the first quarter, we expect the EUA price to turn out at € 23.2/t, increasing to €26.7/t at the end of the year.

However, since the end of 2018, bearish sentiment is spreading across commodity and financial markets, as well as on a macroeconomic level amid international trade tensions and declining global growth. With Germany facing the risk of recession, and slower growth in the Eurozone overall, some bearish clouds are hanging over the fundamentally bullish EU ETS and provide some downside risk.
ITALY
LNG supply and revisions in weather forecasts are likely to be two major drivers for Italian gas prices for delivery in the first quarter of 2019.

Weather-related demand will also determine the speed at which stock levels decrease, which will in turn drive injection-related buying pressure on summer contracts. Further out on the curve, infrastructure updates and news surrounding the renewal of long-term supply deals with Algerian producer Sonatrach will be the factors to watch for PSV traders.

Low Asian prices indicate that the wealth of LNG cargoes directed towards Europe is likely to continue until at least the end of January. This could boost the number of spot cargoes arriving at Italian LNG terminals in the first quarter of 2019, which would in turn bring a continuation of the decoupling from the first half of the winter.

Italy has three LNG terminals with a total regasification capacity of 16 billion cubic metres (bcm)/year. LNG send-out is one of the country’s main sources of flexibility along with short-term imports from Austria and Switzerland and stored gas. Italy has a total storage capacity of 17bcm, the largest in Europe after Germany.

Seasonal storage auctions starting in March traditionally move the spread between the two front seasons due to hedging activity related to capacity purchases. Injection-related buying pressure is also likely to support PSV summer contracts.

In summer, hydroelectric reserves will also be a major driver for contracts, as gas demand from power producers for air conditioning is a big factor determining demand in the second and third quarters. Italy relies on gas-fired power plants, which make up for around 40% of yearly power production and are the country’s marginal source of supply.

The ongoing outage cutting all capacity on the TENP I pipeline is expected to reduce flexibility on the route delivering gas from northern Europe to Italy through Germany and Switzerland. This is traditionally the country’s marginal source of supply and the most flexible in the short term. The outage could add pressure to Italian supply margins at times of peak demand. The pipeline is not expected to come back online until October 2020.

Any update about works on the TAP pipeline, which is expected to deliver the first gas from Azerbaijan to Italy in the first quarter of 2020, could also bring movements on the far curve. The pipe will have a capacity of 10bcm/year, most of which has been sold under 25-year long-term capacity contracts.

The renegotiation of Algerian contracts will also determine how much the TAP import agreement influences Italian supply margins. Announcements around the renewal of expiring long-term supply deals between Algerian producer Sonatrach and Italian companies are also expected to impact locational spreads on the curve between the PSV and TTF. The supply contracts will all expire by the end of 2019. Algeria is currently Italy’s second-largest source of piped gas after Russia.

The PSV’s significant existing premium to northern hubs suggests that no long term opportunities will open for Italy to turn into a net exporter to northern Europe through Switzerland in the coming year. However, occasional short-term windows might open for exports if supply margins are more comfortable in southern Europe than the colder northwest hubs.

AUSTRIA
The Austrian VTP will remain the reference market for central Europe in 2019 on the back of increasing liquidity, large buying demand from Italy and a seemingly successful market joining project with the Czech Republic.

Total traded volume in Austria, including OTC and exchange trades, was 635TWh in 2018, up 26% compared to 2017, with the majority of the increase coming from a jump in forward-curve liquidity. On the PEGAS CEGH exchange, traded volume jumped by 47% year on year during the same period as the gas bourse remained the second most liquid venue after Poland’s TGE. Since, its migration to the PEGAS platform in December 2017, the CEGH exchange has seen liquidity increase.

This may continue in 2019 with the possible inclusion of new markets on the PEGAS platform which could interest Austrian companies via different spread products. Austria’s southern neighbour will continue to drive the VTP in 2019 as Russian flows transiting the county are the main supply source for the Italian PSV.
Historically, large gas-fired power generation and storage injections in Italy tend to support Austrian prices in the summer, while Russian transit flows remain a key supply source for the PSV in the peak demand period in the winter. But Austria’s role may slightly decrease by the end of the year when flows via the proposed TAP will become available.

The pilot phase of the Trade Region Upgrade (TRU) between Austria and the Czech Republic is scheduled to run until 1 October 2019. The project aims to link the VTP and the Czech market via existing Slovak infrastructure ahead of the planned completion of the Bidirectional Austrian-Czech interconnector (BACI) in 2020. The development will enable volume swaps between the two markets. The offered test capacity registered high interest from market participants. Shippers booked around 80% of the capacity via yearly products, while the rest was snapped up for quarterly products covering the second and third quarters.

A successful test period should encourage Austrian regulator E-Control and Czech counterpart ERU to go live with the project in 2019. This would likely increase spread trading between Austria and the Czech Republic ahead of the proposed finish of the Nord Stream 2 pipe by the end of 2019.

HUNGARY

The Hungarian MGP natural gas market will continue to develop into a key transit country as part of shifting supply routes through 2019. Shippers in the region will need to prepare for the possible termination of Ukrainian imports as the transit contract with Russia is due to expire by the end of the year.

Meanwhile, liquidity on both the Hungarian OTC market and CEEGEX gas exchange may continue as potential stakeholders will enter the MGP. Increasing liquidity and converging prices to western markets could slowly turn the MGP into a reference market for developing markets in the wider Balkans region.

Traded volume in the OTC market and the CEEGEX spot and HUDEX futures platforms should continue to increase as momentum from high trading activity will continue for the remainder of the current winter and into the coming storage injection period. By the end of 2018, a total of 8.41TWh of gas changed hands on the CEEGEX, which was fourfold increase compared to 2017, with a total of 32 registered members. The venue will continue to consolidate its position as the cornerstone of the Hungarian trading landscape.

Large buying interest from Ukraine all year round will continue to support trader volume on both the spot and futures markets. Hungarian transport tariffs at the Beregdaroc border point will remain more competitive compared to Slovakia and Poland through 2019, which will press independent shippers and industrial consumers in Ukraine to source large volumes in Hungary. An ongoing arbitrage window between the cheaper Hungarian and Romanian markets should also support liquidity at CEEGEX, at least in the first half of 2019, due to a nine-month lag for the oil-index price formula for Russian volumes to Romania. Some ongoing infrastructure development projects are expected to come online, which may enable new supply to enter the MGP. This should support the convergence of the MGP to the more liquid Austrian VTP hub.

The construction of compressors on both the Hungarian and the Romanian side of the border, as part of the flagship Romania-Hungary project, will annually enable up to 1.75bcm
of Romanian gas to Hungary. The upgrade is the first part of a two-phase project aiming to connect the MGP with Romanian onshore and offshore Black Sea production and is expected to be completed in the fourth quarter of 2019.

Hungarian grid operator FGSZ and Romanian counterpart Transgaz will hold another round of the binging open season for capacity at the Csanadpalota border point as one of the capacity holders pulled out from their initial capacity booking. This means the system operators may conclude the process in the first half of 2019. Croatian grid operator Plinacro will upgrade the country’s grid by building a new compressor, which will allow around 0.5bcm/year to reach the MGP by the third quarter of 2019.

Uncertainty around the proposed 2.6bcm/year capacity Croatian LNG terminal may remain in the first half of 2019. Shippers booked insufficient capacity in the first two rounds of the binding open season for regasification capacity in 2018. It is yet unclear whether the terminal will be built based on market demand or if the Croatian government will push for the realisation of the project. Regardless, Hungary will be a main target market for volumes from the terminal.

### THE CZECH REPUBLIC & SLOVAKIA

Natural gas market developments could help increase liquidity on the Czech and Slovak hubs in 2019, after traded volumes decreased in both countries last year.

OTC trade at the Czech market fell by around 28TWh year on year, to 69TWh during 2018, while volumes dealt in Slovakia were less than half the 2017 total at 3.9TWh.

But there are two key developments, the Trade Region Upgrade (TRU) and Gazprom Export’s auction platform, which could spur more activity in 2019.

Regional shippers registered high interest during the pilot phase of the TRU, which is a project to link the Czech and Austrian markets via Slovakia. Around 80% of offered annual capacity was booked, while products for use in the second and third quarters sold out due to profitable spreads between the markets.

Russia’s Gazprom Export is set to continue selling month-ahead and day-ahead volumes through its own auction platform this year. The company sold 574 million cubic metres (mcm) and 420mcm of gas for delivery in November and December 2018 respectively, with Slovakia one of the most popular title transfer points. Volumes sold through the auction platform helped to increase liquidity in Slovakia by providing smaller shippers with market access.

Slovak grid operator Eustream will likely continue using the Hungarian CEEXGEX exchange for balancing actions in 2019.

Eustream used CEEXGEX on 26 October 2018 for the first time to carry out a balancing test. Previously, Eustream used the Austrian CEGH exchange for balancing actions, as Slovakia does not have its own gas bourse. The Slovak grid operator also owns a 15% stake in the CEGH. As Eustream is member of both the CEEXGEX and CEGH the company can choose between the two exchanges depending on which of the two markets is cheaper for balancing.

### POLAND

In 2019, the highly-criticised natural gas storage and import legislation in Poland is set to continue to limit market activity of private shippers on the country’s OTC market.

As Warsaw is seemingly unwilling to alter the controversial storage and import legislation introduced in 2017, despite strong criticism from the European Commission, OTC market activity is set remain limited in the country. However, trading activity on the Polish TGE exchange could continue to grow mainly due to the introduction of a stricter imbalance tolerance by grid operator GAZ-SYSTEM. The TSO reduced its imbalance tolerance from 5% to 2.5% in April 2018 and announced that from this April a further tightening will set the imbalance tolerance at 0%.

Fully removing imbalance tolerances on markets within the EU has been a key objective of the bloc’s balancing network code. In general, the less tolerance shippers have to balance their positions, the more likely they will trade short-term contracts to stabilise their portfolios which, in turn, increases market liquidity.

As Poland is looking to ease its dependence on Russian gas, the country signed various LNG supply agreements with US exporters in the fourth quarter of 2018. The first phase of incumbent PGNiG’s supply and purchase agreement with US developer Cheniere Energy will kick off at some point in 2019 and will run until 2022. During this period, around 0.5 million tonnes per annum (mtpa) will be delivered to the Swinoujscie import terminal. At the same time, Qatargas will continue to deliver LNG to Poland in 2019 as part of their long-term supply deal for 2mtpa which runs until 2034. Some spot purchases of LNG by PGNiG are also likely.

Following the decision of the Agency for the Cooperation of Energy Regulators to select the GSA platform for bundled capacity auctions at both sides of the German-Polish border, gas flows could increase between the two countries in 2019. The Mallnow physical border point and the virtual GCP interconnection were the only mandated points in the EU without a single capacity platform. The EU capacity allocation network code requires grid operators to have a designated booking platform for bundled capacity auctions.
ROMANIA
At the start of 2019 the Romanian government announced plans to cap the natural gas production and supply price at New Lei 68.00/MWh (€14.55/MWh), starting on 1 April and lasting three years.

Under the proposals companies would also have to import gas and establish a basket of locally produced and imported volumes, as well as prioritise households when selling. Furthermore, energy companies would have to pay a 2% fee on annual turnover, up from 0.1% currently. The ordinance triggered a wave of criticism from local and European business associations warning the rules would have “devastating effects” on the energy sector and would almost certainly cut liquidity.

There were reports at the beginning of January that some suppliers were looking to declare force majeure on contracts for delivery beyond April 2019 and suspend supplies after that date. Many were also concerned over the 2% tax, noting that profit was already thin and that an additional tax would push some into bankruptcy.

Others were more cautious, pointing out that energy regulator RAE would find it difficult to draft the secondary legislation necessary to implement the ordinance. They noted that ANRE struggled to produce the necessary rules for the implementation of the trading obligation last year, which was a comparatively easier task. As a result, they said the regulator may push the government to scrap the price cap proposals altogether. They suggested the obligation to import may remain, as a means to improve competition in a market dominated by two producers and suppliers.

Under the terms of the recently amended network code, transmission system operator Transgaz was obliged to launch a balancing market by 1 January 2019. As 2018 drew to a close the grid operator published a tender announcement on its website requiring interested parties to place binding offers and guarantee the security of data operated on the balancing platform.

BULGARIA
During 2019 major work will take place in developing natural gas infrastructure in Greece and Bulgaria, with the long term view of encouraging supply diversification and competition.

Financial support has been approved for an interconnector linking the countries and new import options are being developed both through new pipelines and expanded LNG capacity. In terms of liquidity and market access the countries are far behind most of western Europe, although there are changes on the horizon that may lead to closer alignment with EU norms. That said, a lack of political will to implement some reforms may stifle market development even with new supplies coming online.

Towards the end of 2018, the European Commission fined state-owned gas companies in Bulgaria for alleged
anti-competitive practices. The case went back to 2010 and in the days following the announcement it became clear the EU was pushing for privatisation of subsidiaries of Bulgarian Energy Holdings (BEH), which controls both the supply of gas and grid operations. Despite the fine, Bulgaria’s prime minister Tomislav Donchev ruled out selling stakes in BEH and said that a parliamentary vote in 2017 had explicitly ended this possibility.

Unbundling supplier and grid operator is a third energy package commitment and the EU is expected to pursue this matter further. Until reforms are made that will at least guarantee third party access to Bulgarian gas infrastructure, trade is unlikely to pick up in any form.

**THE BALTIC STATES**

The most pressing topic for Baltic natural gas markets in 2019 is the forthcoming merger of the three Baltic hubs and Finland. Although doubt was cast over Lithuania’s involvement in late 2018, a Latvia-Estonia merger at least is set to proceed in 2020 and updates on the merger are expected during the coming year. All eyes will also be on the Incukalns storage facility, after transmission system operator (TSO) Conexus Baltic Grid made a number of changes in 2018 to encourage use of the site.

In the opening years of the next decade the construction of a pipe connecting Estonia and Finland should be followed by a merger of the three Baltic hubs and Finland. This merger received a minor setback in October 2018 when Lithuanian TSO Amber Grid did not participate in a memorandum of understanding regarding the matters which need to be discussed before the Baltic and Finnish markets can be integrated. The development of the regional Baltic-Finnish hub is now likely to take place in a few stages, with the first stage being a Latvia-Estonia market merger in 2020.

As this is now fast approaching, there are likely to be further updates throughout 2019. As negotiations are still ongoing between Lithuanian TSO Amber Grid and the other countries’ TSOs, there may also be more clarity on Lithuania’s position in the merger in the coming months. Preparations for installing the proposed Balticconnector pipeline between Estonia and Finland continue to advance. The 2.6bcm/year pipe is expected to be operational by 2020, and this physical link is necessary in order for Finland to integrate its gas market with its Baltic counterparts.

Latvian TSO Conexus Baltic Grid has made a number of changes at Incukalns, the only storage site in the Baltic region, in the last year in order to encourage use of the facility. In June, the operator announced that it would remove entry and exit tariffs at the facility, a popular strategy for storage operators in Europe. As it decided on its capacity tariffs for 2019, it also developed a new two-year bundled capacity product and moved the date on which shippers can begin booking capacity forward to January from May. Incukalns is often used to store gas imported into the Baltic region via the Klaipeda LNG terminal, and it will be interesting to see whether these changes increase use of both the site and the terminal in 2019.
DENMARK

The upcoming shutdown of Denmark’s largest natural gas field will be a key development for the country in 2019, as the market learns whether preparations have been sufficient to avoid shortages and price spikes. Tyra, Denmark’s largest gas field which accounts for more than 90% of domestic production, will be fully offline from 1 November 2019 until 1 July 2022 for redevelopment work. Production from the field will ramp down gradually from 1 March.

Transmission system operator Energinet is still finalising its planned measures to ensure security of supply in Denmark during the redevelopment period, but the country will be primarily reliant on imports from Germany and storage reserves during this time. There is also the potential for some supply from Norway from early 2022, when a planned tie-in to Europipe II is expected to be completed. The operator plans to replace the current differentiated tariff scheme with uniform tariffs from 1 October.

Under the differentiated capacity tariff scheme, shippers bear the costs of new natural gas infrastructure. In the past, shippers transporting gas from Germany to Denmark via the Ellund entry point paid slightly more than shippers importing gas from the North Sea fields via the Nybro entry point. Uniform capacity tariffs will erase these differences, which should help to encourage the use of Ellund during maintenance at the Tyra field.

Energinet has also proposed to remove balancing price caps during the period in order to incentivise shippers to balance their positions, as well as providing more detailed data on storage and offering more flexible cross-border capacity products.

Within-day trade is likely to become more common during the field closure, with shippers using intra-day products to remain in balance. While an early warning state was in place from for around three weeks in February-March 2018, some 169GWh was dealt within-day on the exchange, compared with just 29GWh over the same period in 2017. This was because Energinet removed the balancing price cap due to the warning state, which incentivised traders to avoid paying the high balancing charges. If Energinet removes the balancing price cap for the duration of the Tyra shutdown, this should again encourage shippers to use within-day contracts to balance more.

Denmark and Sweden will become a unified joint balancing zone from 1 April. As Sweden’s current market structure does not comply with the EU network code on balancing, the new balancing zone will effectively adopt the Danish model. For Danish counterparties, the merger itself will have relatively limited impact. There will be some small changes to the country’s entry-exit capacity model, but overall the main impact will be to simplify the balancing

COAL

Whether European cold snaps can support coal prices until China relaxes restrictions on imports is the key question facing the coal market over the remainder of the winter. Prices then have a seasonal tendency to rise over the summer, something that could repeat this year if the global economy remains on a solid footing.

Combined Chinese imports of lignite, thermal and metallurgical coal fell to a multi-year low in December, as the government attempted to support domestic mines and switch to cleaner-burning natural gas heating. Chinese imports are likely to remain low across January, with unseasonably mild temperatures constraining demand and providing no reason for the government to change tack.

Meanwhile, Europe is facing its first real cold spell of the winter. Meteorologist WSI on Monday forecast temperatures 1-3°C below the seasonal norm widely across Europe in Week 4. Mid-range forecasts have long indicated a deeper cold snap in late January and early February after a sudden stratospheric warming weather event occurred at the end of 2018.

Asia Pacific accounts for around three quarters of seaborne coal demand and so is the bigger determinant of prices. But European cold weather could support coal prices in the interim and buy some time for the picture to change in China. A major accident at a Chinese coal mine over the weekend could lead to renewed safety crackdowns, a policy that is partly responsible for imports rising across each of the past three years.

Benchmark front-year coal prices have also risen over this period. Prices gained in particular during the summer months, which is the peak air-conditioning season. The nature of commodity markets means that trends tend to repeat unless traders have good reason to change the pattern. This year, a slowing global economy could weigh on oil prices, which affect coal transportation costs. The main factor supporting coal so far in 2019 has been bullish moves in Brent crude, due to signs of strength in equity markets, easing US-China tensions and the potential for additional output cuts by the OPEC cartel.

Chinese power demand growth looks set to exceed 7% year on year in 2018, a multi-year high. An economic slowdown could hamper growth in 2019, although Beijing has put together several economic stimulus packages in order to avoid this outcome. Major infrastructure investments announced early this year are certain to drive Chinese power and coal demand. Coal also faces structural impediments to supply growth. Environmental activism makes it difficult for the government to support domestic mines and metallurgical coal fell to a multi-year low in December, as the global economy remains on a solid footing.

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17 January, the Croatian government made a political decision and said it will go ahead with the project despite the low interest from the market. This may mean that intergovernmental talks between Croatia and Hungary are likely continue over the ownership as Hungary will remain the main destination for send-outs.

The final investment decision on the terminal have been scheduled to 2019 and it is expected to become operational by 2021. Croatia is expected to finish the construction of a compressor station that will enable up to 0.5bcm/year export capacity to Hungary from the third quarter of 2019 as the country has been only able to import via the Dravaszerdahely border point.

The new export capability may support liquidity on the Croatian market but lack of counterparties may see the traded volume stagnate in 2019. The Croatian market is expected to remain a balancing market in its current stage as trading activity is mainly driven to keep the system in balance.

Only grid operator Plinacro and balancing group managers are allowed to trade on the HROTE trading platform, which limits liquidity. It is unlikely that the regulation would change and balancing group members, such as suppliers and traders, will be allowed to trade directly on the platform, according to shippers active on the market.

**SLOVENIA**

Slovene grid operator Plinovodi and Hungarian counterpart FGSZ will continue to develop the proposed Slovenian-Hungarian interconnector, which will become a part of the Hungary-Slovenia-Italy (HUSIIT) supply corridor. The new pipe will connect the Hungarian MGP market to the Italian PSV hub and link the Slovenian infrastructure to Hungarian storage facilities. Plinovodi, FGSZ and the Italian system operator Snam Rete Gas held a non-binding open season for capacity on the relevant border points in 2018. The bidding registered high interest as shippers overbooked the capacity on both the Slovene-Italian and Slovene-Hungarian borders.

This should provide further momentum to the project and press the system operators to further increase the offered capacity. Since 1 January, import capacity from Croatia along the Rogatec border point became available. This means a new supply source for Slovenia but shippers will likely refrain from importing due to high transit fees. Liquidity on the Slovenian trading platform, operated by Plinovodi, may stagnate in 2019 as the Slovene market will likely remain unattractive to potential stakeholders.

But traded volume may increase if arbitrage opportunity between the Slovenian and the PSV open up, depending on the shifting supply situation.
TURKEY

As the new year started, an immediate concern for Turkish gas and electricity operators BOTAS and TEIAS was to end the winter season without any supply glitches. Historically winter months have been a problem for Turkey as demand surged to unmanageable levels, prompting grid operators to issue load shedding instructions. This meant requesting power plants, as well as industrial and commercial users, to reduce consumption and save gas for households.

This year the situation may be more relaxed as Turkey has expanded its storage and LNG import capacity. It has also created more flexibility by signing at least one mid-term contract with Qatargas and purchasing spot LNG. At least seven spot LNG cargoes were due to deliver in Turkey in the first three weeks of January, compared to five over the same period in 2018. Although spot deliveries are likely to decrease when demand weakens in the spring, LNG imports are expected to rise compared with 2018.

LNG imports rose by 12% year-on-year in the first 10 months of 2018, the latest period data is available for. Turkish pipeline imports fell by 14% over the same period, with Russian off-take falling by 18%, according to data by the regulator EPDK. That trend could continue in 2019 as global LNG prices may decrease as more production comes online.

Although Russian pipeline prices could fall in line with the lagged effect of oil moves, companies will be looking to minimise imports. This is because they are liable to make retroactive payments to Gazprom Export, following an unsuccessful arbitration over a 10.25% discount on imported gas prices. Gazprom Export had granted the discount in 2017, as stipulated by contractual addenda, but then sought to remove it, leading to the arbitration proceedings.

The arbitration involved Gazprom Export and independent importers, although the retroactive payments covering January 2017–September 2018 would be passed onto wholesalers with long-term import contracts. The award has triggered discontent among wholesalers now facing high costs in 2019. Already one wholesale company sued an importer and legal proceedings are due to continue this year.

As Turkey approaches local elections in March 2019 the government is unlikely to take any significant decisions regarding the gas or electricity markets. Russian import prices were expected to increase to $303/thousand cubic metres in the first quarter of the year, reflecting the lagged effect of an increase in oil prices. Even so, the government may not raise regulated end-user tariffs to avoid alienating voters ahead of elections.

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