European spot gas market trends and outlook

Ben Samuel
Editor, European Spot Gas Markets
01 The evolution of Europe’s supply mix

02 Europe as a sink for LNG oversupply

03 Winter outlook, key price drivers to watch
The globalisation of gas

CONVERGENCE OF GLOBAL PRICING

$/MMbtu

EAX Month +1
SAX Month +1
TTF Month +1
Nymex HH

Jan 2014
Feb 2015
Jan 2016
Feb 2017
Jan 2018
Jan 2019

SOURCE: ICIS, NYMEX
Europe’s changing gas supply

➢ In recent years LNG has provided about 10% of European supply
➢ This year the share is up to 20%
➢ During several months LNG supply has exceeded Norwegian volumes
➢ Glut expected to continue into 2020
Europe as a sink for LNG oversupply
Qatar and the US pivot to northwest Europe
LNG sendout ramps up

➢ Gate sendout accounts for 20% of Dutch demand in the year to date, up from 6.5% in 2018
➢ LNG accounts for 23% of British demand this year, just under 9% the year before
➢ With little demand little changed compared with 2018, the market has been very bearish
The impact on European wholesale markets

- TTF front month down by 29% in year to date
- Prices touched single figures during the summer
- In June many markets hit record lows
- Although there has been the usual winter upside, prices are still far below 2018
Winter outlook, key price drivers to watch
Short term – storage, LNG and the weather

- European storage sites around 95% full, about 80% year before
- LNG influx expected to continue into early 2020
- Weather indications – too early to tell
Short term - Ukrainian transit

- Major transit contract due to expire end of 2019
- Gazprom predicates new deal on out of court settlements to ongoing litigation
- Naftogaz signals willingness
- US raises prospect of sanctions for Nord Stream 2 – vote in December
Short term - Ukrainian transit

- Uncertainty on where Russian supply will come from has injected risk into Q1 ‘20
- Spreads to Q4 ‘19 much wider than in normal years
- This limits the incentive to withdraw, meaning storage should remain relatively full until the end of the year
- Q1 ‘20 prices in delivery likely to be much lower than values on the outright contract suggest
Short term - Ukrainian transit

- Monthly spreads also impacted with much higher February premium
- This may limit storage withdrawals in January – particularly if LNG imports remain high, as expected
- February delivery prices likely to fall relative to outright contract values
Medium-term Nord Stream 2

- Commissioning now expected in mid-2020
- Adds 55bcm/year capacity into Germany
- Full EUGAL capacity only expected by 2020-end
- Gas directive rulings complicate future arrangements
Nord Stream 2 is not priced into forward curves

- In the long term Germany likely to be the price-setter for northwest Europe
- Forward spreads do not currently reflect this – in fact the opposite
- This indicates Nord Stream 2 volumes are not priced into the curve
Medium to long term - Groningen

- Europe’s largest field will shut in mid-2022
- This is seven years earlier than originally expected
- Output may average 1 bcm/month, although only around half that in October
- TTF premiums to German markets more likely
Will Germany become Europe’s most liquid market?

**OTC VOLUMES TRADED JUNE 2012-SEPTEMBER 2019**

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<th>Belgium</th>
<th>NBP</th>
<th>GASPOOL</th>
<th>PEG</th>
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**SOURCE: ICIS**

*This is the volume traded during a given month for delivery at any point in the future. It is distinct from the volume used in the churn ratio which is volume delivered during the month and traded at any point in the past.*
Longer term - Trans Adriatic Pipeline

- New supply route into southern Europe from October 2020
- Initial capacity of 10bcm/year, potentially rising to 20bcm/year
- Helps to diversify supply in southeast Europe
- Italy – new volumes, but North African supply also set to fall
Thank you