

# Energy Monitor

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## Gas prices under pressure

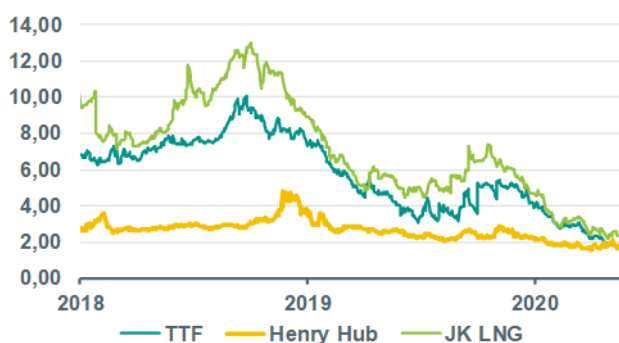
- ▶ **Gas prices under pressure due to lower demand and high inventories**
- ▶ **TTF prices dropped below Henry Hub and LNG**
- ▶ **Gas price estimates unchanged; a different base contract for TTF**

### TTF cheaper than Henry Hub and LNG

Gas prices have fallen sharply in recent weeks. In particular, the price of Title Transfer Facility (TTF) - the Dutch gas benchmark - has dropped significantly. The reasons are known and have been seen before in the oil markets. As a result of measures to contain the coronavirus, the global demand for gas has fallen. In addition, gas supply remained solid and inventories are at an unprecedented high for this time of the year. Last week, as a result of this situation, TTF was trading below Henry Hub converted to mmBtu<sup>1</sup>, which is the same unit of account as Henry Hub - the US gas benchmark. Dutch gas production is increasingly being reduced. Shale gas in the US has always been labelled as very cheap, especially after gas as a by-product of oil started being traded. The current low price of the TTF compared to Henry Hub thus reflects the gas market's oversupply in Europe currently.

### Gas prices have fallen under pressure globally

USD/mmBtu



Source: Bloomberg

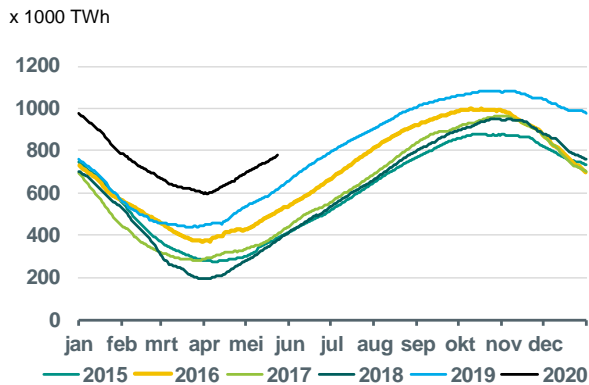
### Inventories well stocked already...

For the second year in a row, European gas inventories are higher than normal for the time of year. The main reason for this is the recent mild winter weather and thus low gas demand, meaning the starting point is higher. It is remarkable that

<sup>1</sup> mmBtu = million British Thermal Unit

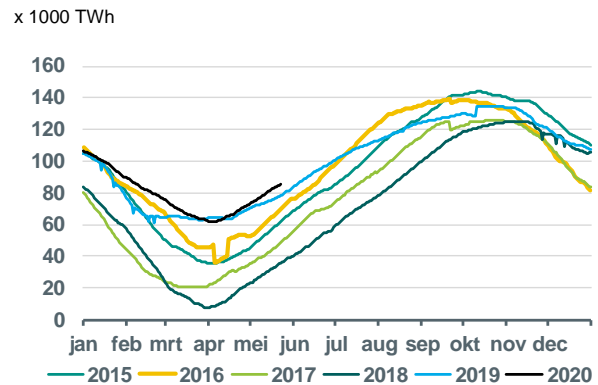
at a European level the gas inventories were tapped less in winter than, for example, here in the Netherlands. In addition, the mild winter coincided with low demand for LNG from Asia. The low Asian demand for gas, in combination with the relatively high gas price in Europe made Europe an attractive market for global LNG flows. As a result, a significant part of the LNG was shipped to Europe and the TTF gas price came under further pressure.

### Gas inventories in Europa



Source: Gas Infrastructure Europe

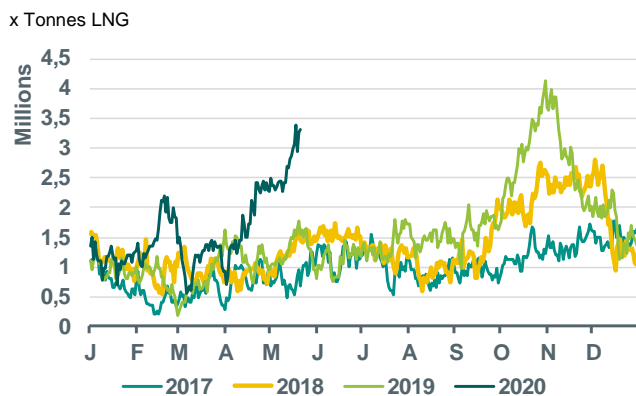
### Gas inventories in the Netherlands



Source: Gas Infrastructure Europe

Stocks have meanwhile increased to such an extent that there are even signs that LNG is being stored in tankers. According to Bloomberg, the >20-day supply of LNG in tankers at sea has never been higher for the time of year.

### LNG supply (minimum 20 days) in tankers at sea



Source: Bloomberg

### ... and presses the forward curve

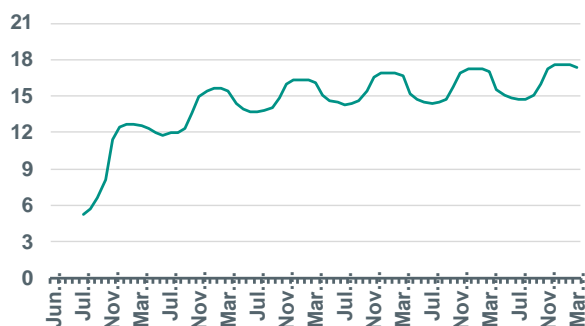
As a result of the high stocks and the relatively low global demand for gas, a steep contango has occurred in the forward curve. The forward curve is a series of monthly contracts for future (physical) gas delivery. Contango means that the price for a contract with short-term delivery is cheaper than that with a long-term delivery. It reflects the current large stocks compared to an expected better balance between supply and demand in the further future.

As a result of the steep contango, there is again a large price difference between the (active) monthly contract and the contract for the supply of gas in 2021. In the past, there was seldom such a large difference between the contracts. As can be seen in the right graph below, in 2018 the price of the coming month was about EUR 1-2 / MWh higher than the contract for delivery the following year. However, after the mild winter of 2018-2019, inventories remained high and the

price for monthly contracts came under pressure in the summer. This year, after yet another mild winter, we see a similar pattern. The question now is whether the pressure on the price will also ease from mid-June this year. Lower demand as a result of the COVID-19 measures, in combination with large stocks, could keep the price for monthly contracts low for longer than the forward curve now suggests.

### Forward Curve TTF

x EUR/MWh



Source: Gas Infrastructure Europe

### TTF – active month contract versus CAL21

x EUR/MWh



Source: Bloomberg

### Have gas prices fallen too far?

If the economy recovers somewhat, demand for gas will also increase again. The question is whether that will be enough to restore gas prices for both the TTF and Henry Hub. Stocks are higher than normal at this time of the year. But that does not mean that there is currently no storage capacity available, as was the case with the WTI oil contract last month that led to negative oil prices. This means that stocks could theoretically continue to increase at the current rate; if that happens, enough gas will be stored in September to already cover winter demand instead of November.

We are already seeing the first signs that LNG exports from the US are starting to decrease. Whether that is sufficient to balance the market in the summer is still uncertain, and downward price pressure cannot therefore be ruled out in the short term. At the same time, we are seeing a knock-on effect of low prices for Henry Hub. The number of active gas drilling rigs has been on a downward trend since early 2019. Now that the production of gas as a by-product of oil extraction has also come under pressure due to low oil prices, we expect the market in the US to rebalance quickly. That should ease some of the downward price pressure.

As the low gas price puts pressure on production, the first concerns have already start to emerge for the security of gas supply in the course of 2021 and beyond. A low gas price now can lead to a higher gas price in the long term due to the possible consequences for the exploration of new gas fields. This is now happening in the US, but can also spread to fields in other regions such as Europe. In fact, gas production in the Netherlands has been under pressure for some time. Less and less is produced from the Groningen field as a result of government policy due to the earthquakes. But gas production in the North Sea - as part of the Dutch 'small fields policy' - is also showing a consistent decline with little prospect for new output sources.

### The two faces of TTF

With the large price difference between the monthly contract and the annual contract, we are faced with a dilemma with regards to our price estimates. In the past, the prices were roughly the same, and we could suffice with one price estimate for the monthly contract that also indicated the direction for the annual contracts. But with price differences now so large, we almost tempted to issue two price forecasts: one for the monthly contract and one for the annual contract.

Given the volatility in the monthly contract, we have chosen to focus on the annual contract for the time being. After all, this price is leading for investment and financing decisions. In the table below we have therefore adjusted the current price from the active monthly contract to the contract for the next calendar year (now CAL21).

### Forecasts oil and gas prices

End of period		26-mei	jun-20	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21	mrt-22	jun-22	sep-22	dec-22
Brent *	USD/bbl	35,33	25	35	45	50	45	45	50	55	55	55	55
WTI *	USD/bbl	33,60	25	32	40	45	42	41	45	50	50	50	50
Natural Gas (HH) *	USD/mmBtu	1,71	2,00	2,00	2,25	2,25	2,25	2,50	2,75	2,50	2,50	2,50	2,50
TTF *	EUR/MWh	12,30	13	14	15	15	14	15	17	18	17	18	18

Average		2019	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	2022
Brent	USD/bbl	64,17	28	30	40	36	48	48	45	48	48	55
WTI	USD/bbl	57,00	26	29	36	34	43	44	42	43	43	50
Natural Gas (HH)	USD/mmBtu	2,53	1,80	2,00	2,10	2,00	2,30	2,30	2,40	2,60	2,40	2,50
TTF	EUR/MWh	14,55	13	14	15	14	15	15	15	16	15	18

\* Brent, WTI and Henry Hub: active month contract; TTF: next calendar year

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