Olie & Gas

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Hoping for the best

- **Tight gas market:** More than six months of disruption to Qatari LNG production has resulted in a sharp drop in LNG supply. Even if the Strait of Hormuz reopens, the outlook for the winter remains tight.
- **Price risk outweighs security-of-supply risk:** Europe can probably avert a physical gas shortage, but only by competing in a tight global LNG market. The greatest risk therefore lies in prices.
- **Weather will drive winter prices:** Low storage levels increase vulnerability to cold spells, disappointing wind generation and unexpected disruptions to gas supply.
- **Demand reduction offers only limited relief:** Greater use of coal-fired power plants and potential demand destruction could curb gas demand, but will not change the fundamentally tight market outlook.
- **OPEC is losing its grip on supply:** Higher production outside OPEC could put downward pressure on oil prices over time, but also increases the risk of underinvestment and sharper price swings.

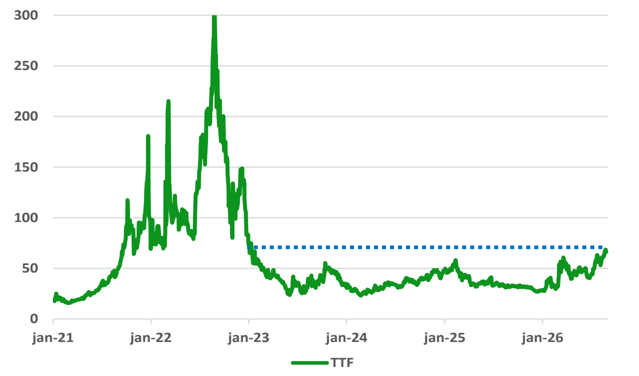
Gas market enters winter from an unfavourable position

The front-month contract for TTF, Europe's leading natural gas benchmark, is trading above EUR 70/MWh. With Qatar's LNG production having been virtually at a standstill for more than six months because the Strait of Hormuz is effectively unnavigable, the global market has already lost around 60 bcm of natural gas supply.

The current high gas price is therefore more fundamentally driven than the first price spike immediately after the closure of the Strait of Hormuz, which reached a similar level. At that time, uncertainty about the duration of the closure and the associated market sentiment weighed heavily on prices. The uncertainty surrounding tightness at the time has now given way to the certainty of a tight winter ahead, as well as a tight market in 2027.

Current price recalls the energy crisis

EUR/MWh



Source: LSEG Eikon

Before this year, the last time prices reached the current level of around EUR 70/MWh was in January 2023, during the first winter following Russia's invasion of Ukraine. The invasion and the turmoil surrounding it had caused extreme prices in 2022, with levels exceeding EUR 300/MWh.

One major reason was the sharp decline in Russian pipeline gas supplies. As a result, the European Commission and national governments moved into crisis mode. Gas storage facilities had to be filled to at least 90% at almost any cost. The resulting buying pressure, and the sentiment surrounding it, drove prices to extreme levels. The fact that prices fell below EUR 70/MWh during the first winter…

This was a preview. To receive the full market update, including all excusive insights, please email one of the addresses below.

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