Group Economics | 21 July 2021

Energy Monitor

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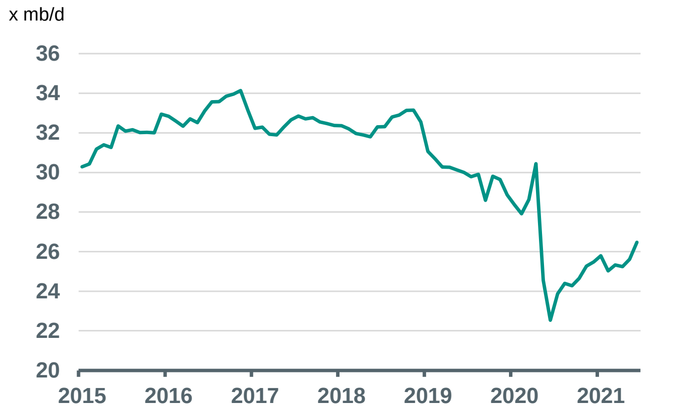
Higher oil production, gas inventories remain low

- **OPEC+ agreement will lead to a step up in oil production**
- **Oil prices drop due to expectations of more supply, uncertainty with regards to demand, and profit taking on speculative positioning**
- **Gas shortages in focus; natural gas prices remain elevated**

OPEC+ increases production

After the OPEC+ talks broke down earlier this month, an agreement on production levels has now been reached after all. OPEC+ is a combination of OPEC countries and ten non-OPEC members led by Russia. This coalition has reduced their oil production in the past year and a half to avoid a huge oversupply. OPEC+ has been steadily increasing production for some time now as a result of the recovery in oil demand. The provision of more clarity to the market on how the remaining production cuts will be returned to the market in the coming months was long overdue. The earlier talks failed because the United Arab Emirates (UAE) wanted to agree on a new baseline from which to calculate production levels. This is because the current agreement is based on the production levels of 2018, while the UAE now has a much higher production capacity.

OPEC oil production

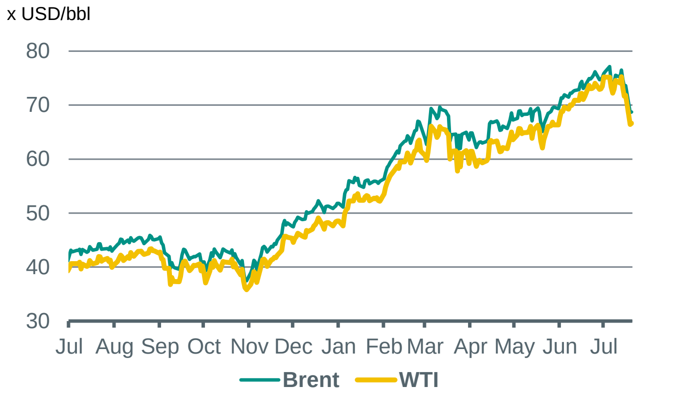


Source: Bloomberg

The new production agreement means that OPEC+ oil production will be increased by 400,000 barrels per day (kb/d) monthly from August through April 2022. In addition, the alliance has been extended until the end of 2022. The new production capacity levels will apply from May. UAE production capacity has increased from nearly 3.2 million barrels per day (mb/d) to 3.8 mb/d. So that is the maximum amount of oil barrels which the UAE can produce on a daily basis. As a compromise, the UAE accepted the compromise of 3.5 mb/d, which will be counted from 2022 onwards. Russia and Saudi Arabia also saw their base production levels increased (both from 11 mb/d to 11.5 mb/d). As a result, OPEC+ total production will be increased by 432 kb/d every month from May 2022 onwards. At this moment, OPEC+ still produces 5.8 mb/d less than before the pandemic started. These production increases will continue until the remaining 5.8 million barrels per day (mb/d) of production is fully restored. This is expected to be the case by the end of 2022. Given that the IEA and OPEC in their monthly reports forecast oil demand in mid-2022 to be at pre-pandemic levels, this production increase is much needed. However, OPEC+ will continue their monthly consultations to monitor the market and, if necessary, intervene to ensure a supply-demand balance. The next OPEC+ meeting will be held on 1 September.

With rising oil production, OPEC+ is responding to requests from the International Energy Agency (IEA) and major importers such as China, India and the US. Shortages in the market and falling inventories caused the oil price to rise sharply, causing rising costs for companies and households. But after a test of the technical resistance level at USD 78/barrel for Brent, we subsequently saw mainly profit taking and downward pressure. This price correction of more than 10% was also the result of the aforementioned increasing outlook for supply and the uncertainty regarding the recovery of oil demand. The negative sentiment in the financial markets also put additional pressure on the oil prices. With the extension of the Corona Delta variant leading to ongoing restraints in travel, we expect that the demand for oil may not recover as fast as market participants anticipated. Therefore, we stick to our current oil price estimates (Brent USD 65/barrel end 2021).

Brent and WTI oil prices



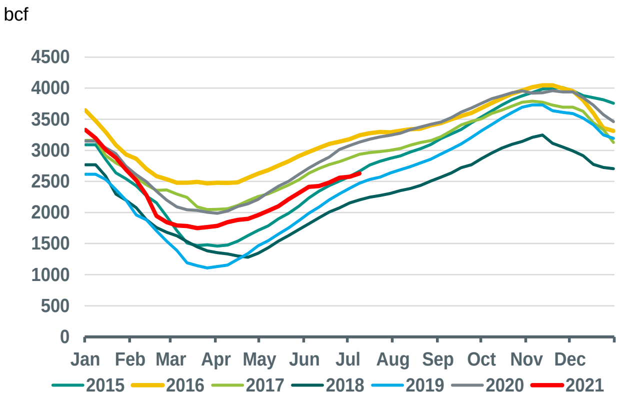
Source: Bloomberg

Gas prices remain high

Natural gas prices have been at very high levels for months. In the US, the Henry Hub gas benchmark has reached its highest point in 2.5 years (active month contract). Warm weather creates extra demand for electricity, which supports gas prices in the US. Also in the US, natural gas inventories are significantly lower than last year. Currently, there is about 2,629 trillion cubic feet (tcf) in stock, some 543 billion cubic feet (bcf) less than last year and 189 bcf lower than the five-year average. Usually the gas price peaks somewhere at the beginning of winter. However, in the US this year we are seeing a strong rebound in the Henry Hub gas price already in the middle of the summer season. Currently, the active contract is quoting at around USD 3.75/mmBtu. By comparison, at the same time last year it was still at USD 1.79/mmBtu. And despite this doubling of the Henry Hub price, it is limited compared to the increases in European gas prices such as Transfer Title Facitlity (TTF) and National Balancing Point (NBP).

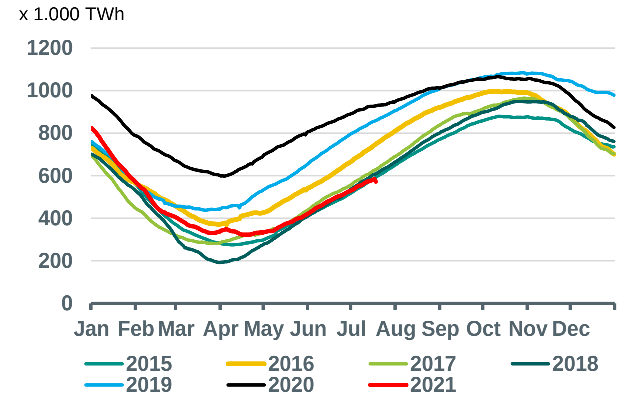
After all, low inventories still play a crucial role in Europe. Not only are inventories here at their lowest point in years, but the build-up of new reserves is also slower than usual. Nevertheless, prices have eased somewhat in Europe as a result of various factors. Uncertainty regarding economic growth now due to the Delta variant and signs that the pace of economic growth has peaked in the US and China are important factors. Another driver is speculation that the US and Germany have come to an agreement regarding the Nord Stream 2 pipeline. This gas connection between Germany and Russia has been bothering the Americans for some time, allegedly because of Europe's increasing dependence on Russian gas. With this agreement, further sanctions from the US could be avoided and the construction of the pipeline could be completed in September. This may prevent possible gas shortages during the upcoming winter season. Nevertheless, the price drop remained limited as the warm summer weather means relatively little supply of wind energy and increased demand for cooling.

Gas inventories US



Source: Bloomberg

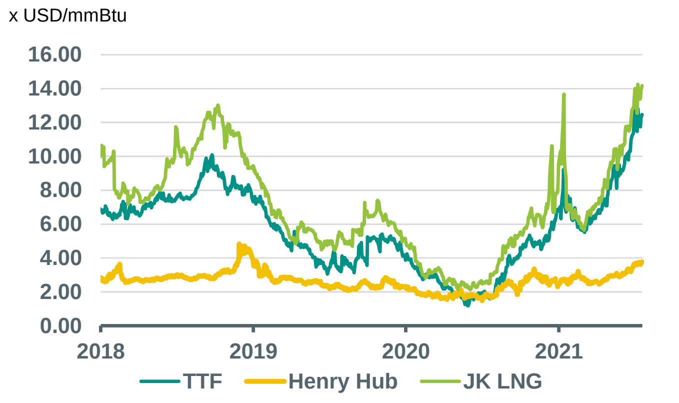
Gas inventories Europe



Source: Bloomberg

The active TTF monthly contract is now quoted at EUR 34.75/MWh. A year ago this was still traded at EUR 4.75/MWh. So despite the slight recent price decline, European gas prices are still very high. In the short term, there does not seem to be much downward pressure to be expected on prices either. The demand for gas remains strong and the inventory build-up is slow. Despite the relatively high price for the EU ETS CO2 emission rights, the demand for gas for electricity generation also remains high, there is little opportunity to accelerate the build-up of gas reserves. The TTF CAL22 (next calendar year) contract is still trading around EUR 25/MWh. That is also higher than a few weeks ago, but it has not experienced such a steep rally as the monthly contracts have. It suggests that markets do not expect the supply constraints to last until into the next year.

Natural gas prices remain elevated



Source: Bloomberg

Oil and gas price estimates

End of period		20-Jul	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	
Brent *	USD/bbl	*68.70*	65	65	65	60	62	65	64	65	63	62	
WTI *	USD/bbl	*66.61*	63	62	62	57	59	62	60	61	59	58	
Natural Gas (HH) *	USD/mmBtu	*3.78*	2.80	2.75	2.60	2.50	2.60	2.80	2.60	2.50	2.60	2.90	
TTF *	EUR/MWh	*24.60*	19	21	19	17	19	20	19	18	20	22	
Average		**2020**	**Q3 21**	**Q4 21**	**2021**	**Q1 22**	**Q2 22**	**Q3 22**	**Q4 22**	**2022**	**Q1 23**	**Q2 23**	**2023**
Brent	USD/bbl	43.21	70	65	66	65	63	61	64	63	65	65	64
WTI	USD/bbl	39.34	68	63	63	62	60	58	61	60	61	61	60
Natural Gas (HH)	USD/mmBtu	2.13	3.00	2.80	2.90	2.70	2.60	2.60	2.70	2.70	2.70	2.60	2.70
TTF	EUR/MWh	13.48	21	20	19	20	18	18	20	19	19	19	20

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