

# Energy Monitor

Group Economics

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## Gas abundancy, lower prices

Hans van Cleef

Sr. Energy Economist

Tel: +31 20 343 4679

[hans.van.cleef@nl.abnamro.com](mailto:hans.van.cleef@nl.abnamro.com)



- **Henry Hub natgas prices at lowest level in three years**
- **Downside risks seem limited from current levels**
- **Also TTF gas prices failed to recover**
- **Downward revision of natgas price forecasts (both HH and TTF)**

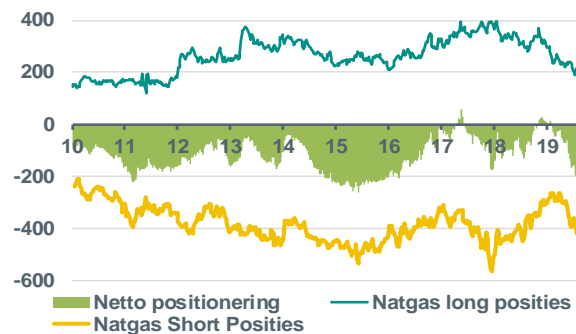
### Henry Hub Natgas prices under pressure based on high supply

US Henry Hub Natgas prices have been under pressure since 2005. One reason is that in recent years US gas production has been on the rise. Not only the traditional 'direct' gas production, but also in the form of associated gas. This is gas which is produced as a by-product together with shale oil production. As a result, natural gas prices have been under pressure. The rise in local gas demand, due to the coal-to-gas-switch for power generation, and higher exports for Liquefied Natural Gas (LNG), could not reverse the downtrend.

In fact, during the past two months, the pressure on Henry Hub gas prices has even increased. Higher than expected inventories were the most important reason. Indeed, US natural gas inventories are higher than last year around this time of the year. However, compared to the inventory levels in 2015, 2016 and 2017, inventories are a bit lower. The price pressure is therefore mainly the result of market positioning, rather than fundamental drivers.

### Market positioning gas contracts

x number of outstanding contracts (x 1.000)



Source: Bloomberg

#### Important data:

16 Aug	OPEC Monthly Oil Market Report
27 Aug	EIA Montly Energy Review
10 Sept	EIA Short-term energy outlook
12 Sept	IEA Oil Market Report
13 Nov	IEA World Energy Outlook
5-6 Dec	OPEC/non-OPEC meeting

### Market speculations indicate further price declines

Many investors entered short positions (speculating on price declines), anticipating higher future US gas production. In the graph above we can see the current market positioning. The total number of outstanding long contracts (speculating on price gains) dropped significantly over the past six months. The number of outstanding short contracts increased significantly this year. As a result, the net market positioning is suggesting further expected price pressure although the positioning is near extreme levels.

The price pressure as a result of the market positioning has kept Henry Hub prices subdued below USD 2.50/mmBtu, a level not seen since the first half of 2016. In 2016, prices trading structurally below USD 2/mmBtu proved to be not sustainable as production costs are not covered by the expected returns. In 2012, the first time Henry Hub dropped below USD 2/mmBtu, we experienced that a minor drop of the inventories (-0.6%) was seen as a trigger for a significant price jump and therewith signaling the end of the downtrend.

We do see that the production costs of associated gas is much lower than with normal gas production, and volumes are still rising. However, associated gas is not always captured and transported due to a lack of proper infrastructure. A cheaper, but environment unfriendly, alternative is flaring. Market expectations suggest that more infrastructure will become available to get this associated natural gas ready for commercial uses rather than being seen as a production cost.

### Downward revision Henry Hub natgas price forecast

We think that US inventories will remain high. This is based on the persistent high gas production, both direct and indirect in the form of associated gas with oil production. A rise in seasonal demand during the last quarter of the year will continue to provide extra support. In times of extreme (mainly cold) weather circumstances prices could even peak. However, we don't take this into account since this is impossible to predict on forehand, based on the temporary nature of such cold or heat waves, and it has a limited impact on average prices.

#### Henry Hub Natgas prices

x USD/mmBtu



Source: Bloomberg

Despite the fact that Henry Hub gas prices are in a downtrend, we think that further downside risks are limited from current levels (+/- USD 2.15/mmBtu). In case of a further

price decline, investors will start to focus again at production costs and this will likely put a floor under production, and thus on prices. Besides that, we expect market speculators to start to take profit on their short positions based on their recent gains due to the ongoing price pressure. The market will wait for a signal which could suggest the end of the downtrend and the start of a neutral or sideways trading range. A rise in seasonal demand could be a good trigger for a price correction higher. But even an unexpected drop (either large or small) of the gas inventories could already be such a trigger.

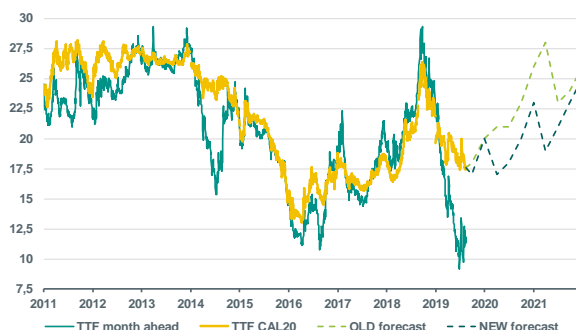
The average Henry Hub natgas prices is revised to USD 2.50/mmBtu from 3.25/mmBtu for 2019, 2020 and 2021. Please see the table below for all oil and gas price forecasts until the end of 2021.

### TTF natural gas prices under pressure as well

A similar picture as with Henry Hub can be seen for Transfer Title Facility (TTF) gas: high supply has led to lower prices. It remains remarkable that the TTF Cal20 contract (year-ahead price for 2020) is trading significantly higher than the month-ahead contract. We think that the TTF-price for the month-ahead contract is too low and will recover in the coming months. Such a recovery will be based on higher gas demand for heating (seasonal) and electricity generation as well as a lower supply of LNG due to a rise in Asian LNG demand. See also our [earlier analysis](#).

#### TTF Natgas prices

x EUR/MWh



Source: Bloomberg

In June, we have lowered our projections for Q4 2019 and Q1 2020. Now we also revise our longer term price forecasts. Although we still expect seasonal patterns to remain, with higher prices in winter due to increased heating demand, we think that the rise of TTF gas prices may be less strong than anticipated earlier.

If we assume that import capacity remains available to prevent supply shortages, we think that TTF gas prices will not rise as fast as seen in previous years during the coming winter season of 2019/2020 and 2020/2021. Obviously, short periods of extreme cold weather could trigger a price spike, but this will hardly affect the annual prices and are therefore not taken into account. We still see higher prices in 2020 and 2021 compared to 2019. A rise in demand of LNG to other regions, especially Asia, will lead to less availability of LNG in Europe/the Netherlands. Besides that, a rise in gas demand as a replacement for coal in power generation due to the high carbon emission prices (EU ETS), will also be

supportive for TTF gas prices. Nevertheless, the LNG imports will not be halted completely and more pipeline capacity between Russia and West-Europe is expected to come online in 2020. All in all, we have lowered the TTF projections for the average prices for 2020 to EUR 20/MWh from EUR 23/MWh and for 2021 to EUR 22/MWh from EUR 25/MWh.

### Risks for gas price scenario

For gas prices, besides short term extreme weather conditions or long mild winters, there are also other risks which could lead to significant price movements. We mention two of those risks:

We assume that the negotiations between Russia and Ukraine regarding the gas transit pipeline towards West-Europe will be successful and transport capacity will remain available in 2020 and 2021. However, expectations are that these negotiations will be tough. Russia seems to aim for a short term agreement with a relatively low volume of gas, while Ukraine is aiming for a long term contract with a high volume of gas transport. If not agreement is reached, which leads to (the perception of) an escalation which affects gas deliveries towards West-Europe, TTF gas prices could jump higher.

Another risk is a serious drop of the (EU ETS) CO<sub>2</sub>-emission prices. If ETS prices drop unexpectedly, coal becomes more attractive again for the usage in power generation compared to gas. Although we think that European gas demand will increase due to the phase out of coal fired power plants, these power plants have not been dismantled yet. In fact, most are still in operation. As soon as it becomes economic viable to switch back from the usage of gas towards the usage of coal for power generation, these economics become a more important driver than the political ambitions.

**Table 1: Oil and gas price forecasts ABN AMRO**

End of period		19-aug	sep-19	dec-19	mrt-20	jun-20	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21
Brent	USD/bbl	59,18	55	60	60	65	65	70	70	70	75	75
WTI	USD/bbl	55,50	50	55	55	60	60	65	65	65	70	70
Natural Gas (HH)	USD/mmBtu	2,18	2,50	3,00	2,50	2,25	2,25	2,75	2,50	2,50	2,50	2,75
TTF	EUR/MWh	10,80	17	20	17	18	20	23	19	21	23	25

Average		Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	2021
Brent	USD/bbl	60	58	62	60	63	65	68	65	70	70	73	73
WTI	USD/bbl	55	53	56	55	58	60	63	60	65	65	68	68
Natural Gas (HH)	USD/mmBtu	2,50	2,75	2,50	2,75	2,50	2,25	2,50	2,50	2,75	2,50	2,50	2,50
TTF	EUR/MWh	17	19	17	19	18	19	22	20	21	20	22	22

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