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Gas market update

Markets are relieved, but volatility is here to stay

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- **European gas markets have been witnessing an increase in market confidence on the ability of Europe to bypass this winter without any supply disruptions**
- **Mild weather, ample storage levels, and lower industrial demand have been the main drivers of the relief in the market…**
- **…But LNG markets are still tight and volatility is here to stay**

In November, European gas market have witnessed lower volatility compared to last year. The European month ahead TTF price averaged 45,48 EUR/MWh, with the lowest level reaching 40,36 EUR/MWh. Weather forecasts were the main driver for price fluctuations, but the soft entrance of winter boosted the market confidence on the ability of Europe to bypass this winter without any supply disruptions.

Furthermore. the mild weather in November helped maintaining high storage levels, which, starting December, were still around 94.4% full, well above seasonal averages. Noting that a full storage is enough to cover around two and half months of European winter needs.

Fears of the impact of the conflict in the Middle-East have also faded away as Egyptian imports from Israel are back to pre-war level, while LNG exports from Egypt to Europe are set to resume.

From the demand side, demand for gas from the industrial sector has been low, driven by a grim macroeconomic outlook on one hand, and demand destruction on the other hand, which seems to be more persistent than previously anticipated. Moreover, an increase in industrial demand seems unlikely in the upcoming months, which provides further assurance to the market that Europe will be able to bypass this winter without too many disruptions.

The increase in market confidence is further reflected by the decrease in the spread between the month and year ahead contracts, where these indices have been very close to each other since the start of November, as seen in the right hand chart of the figure on the next page.

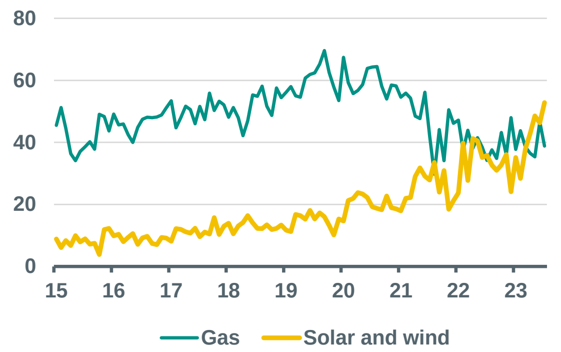
Finally, investments in renewable energy sources have helped Europe reducing its dependence on Russian gas and is further helping in providing certainty to the European gas markets. However, higher share of renewables in the electricity mix across Europe is associated with insufficient storage capacity for power - that is, the additional renewable electricity that is produced cannot be stored, which means that any fluctuations in renewable power needs to be smoothed using gas, as seen in the left hand chart of the figure in the next page. This increases the sensitivity of European gas markets to the intermittency nature of renewables, which also means that, until we build sufficient power storage capacity, European gas markets will remain sensitive to weather conditions not only during the heating season, but along the entire year.

Outlook

In the remaining winter months, European weather forecasts are expected to be “normal to warmer-than-average”, according to the German Weather Service, while an increase in industrial demand seems unlikely in the foreseen future. However, LNG markets are still tight, and thus sensitive to any disruptions in supplies. That is, volatility is still here to stay. Accordingly, our outlook for the TTF month ahead is to average around 42 EUR/MWh in the first quarter of 2024, while we expect an end of year price around 50 EUR/MWh, driven mainly by a recovery in industrial demand as inflation softens and interest rates go down.

Dutch power generation: Solar and Wind vs. Gas

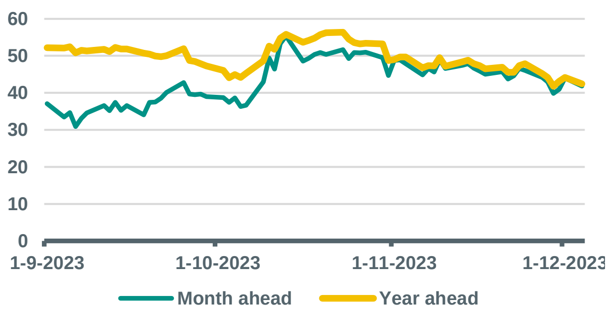
Percentage share in power generation



Source: Ember, ABN AMRO Group Economics

European TTF price developments

EUR/MWh



Source: Bloomberg, ABN AMRO Group Economics