

Energy monitor

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Possible Iran deal adds pressure to oil prices

- ▶ **The positive momentum of oil prices is testing technical resistance levels**
- ▶ **The threat of higher oil supply from OPEC+ and Iran limits the upside price potential**
- ▶ **Differences between forward curves of China and western benchmarks**
- ▶ **Gas prices still find support by low inventories, but investors already position themselves for a price correction lower**

Oil rally came to a halt

Last week, the Brent oil price rose to the resistance level of around USD 70/barrel. The unwinding of the lockdowns in Europe and the covid-19 peak of contamination in India created positive expectations for oil demand. Nevertheless, the price rally did not continue as it reached technical resistance levels. In particular, news that Iran might be close to an agreement on reviving the 2015 nuclear deal led to profit-taking instead. On the Iranian state television, President Rouhani is reported to have said that the main points of contention, including the lifting of US sanctions against Iran, had been resolved. The main thing now would be to work out and resolve differences on a few remaining issues. Expectations were tempered, though, by US Secretary of State Blinken, when he said that there is no indication that Iran will abide by the agreements made regarding their nuclear programme. Although investors sold off some of their long positions (speculation on price increases), the price drop was also limited. All in all, the Brent oil price therefore continued to fluctuate between USD 65-70/barrel.

Oil price rally came to a halt

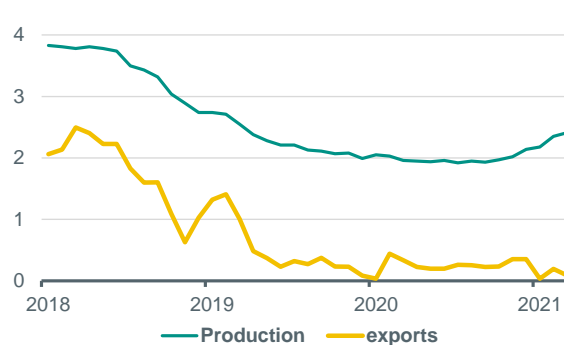
x USD/bbl



Source: Bloomberg

Iran oil production and export

x million barrels a day



Source: Bloomberg

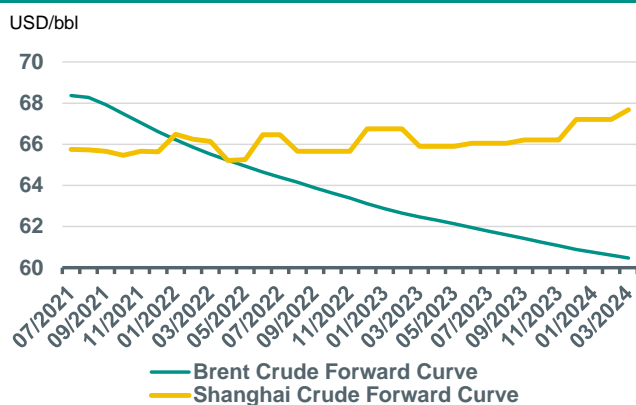
Nevertheless, the possible additional oil production is something that is viewed with suspicion by the rest of OPEC's oil producers and their partners (collectively OPEC+). OPEC+ has succeeded in reducing oil production in the past year to such an extent that supply and demand have become balanced. In fact, by allowing supply to increase at a slightly slower pace than demand, global oil stocks normalised. Special attention was paid to the oil stocks in the US. This balancing act was already made more difficult by the fact that not everyone was keeping to the agreements.

Furthermore, Libya - like Iran, also an OPEC member, but not part of the OPEC+ agreements - surprised with a large increase in its oil production and oil exports. If Iran also claims space on the market again by resuming oil exports, it will be at the expense of OPEC+ members' previously won market share. Unless absorbed, or balanced, again by OPEC+, this could lead to extra supply of oil on the market. This would put new pressure on oil prices. Nevertheless, this is a scenario that fits within our current oil price estimates.

Differences in the forward curves

A notable development is found in the forward curves (series of prices for delivery of oil at a later date). Both the Brent and the WTI forward curves are in backwardation. This means that short-term delivery prices are higher than longer-term delivery prices. The main reason for this is that the price is currently being kept artificially high by OPEC+ production cuts and market speculation on a further pick-up in oil demand. Earlier, we indicated that there is no fundamental reason for a backwardation, given the ample stocks and spare production capacity in the market. The striking thing is that the forward curve of the Chinese oil benchmark - the Shanghai crude oil future - shows a flat to slightly upward trend (contango).

Shanghai forward curve shows a different pattern



Source: Bloomberg

In our view, the most logical explanation for the deviation between the Brent/WTI forward curves and the Shanghai Crude benchmarks is the possible availability of oil from Iran. Currently, all Iran's oil exports go to China. As soon as the market for Iran opens again, and other buyers can be found, the purchase price of Iranian oil for China will rise.

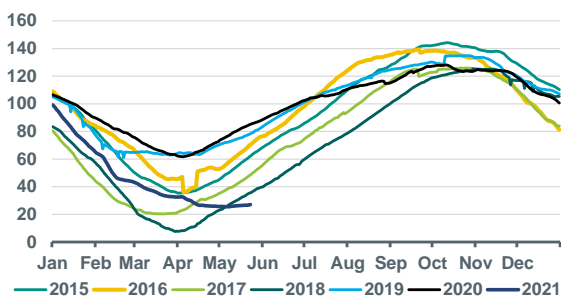
Low gas stocks keep gas prices high

Gas prices are still relatively high. This applies not only to gas prices in Europe (TTF and NBP), but also in the US (Henry Hub) and in Asia (in the form of Japan-Korea LNG). We have already referred to the harsh winter, which increased the demand for gas to heat our homes. In addition, the price of gas rose due to more demand for gas as gas squeezed coal out of the electricity mix due to a rapidly rising CO2 price. The price of LNG also remained high because the demand for liquefied gas was not only high in Europe, but also in Asia. The typical feature of LNG is that it usually goes to the part of the world that pays the highest price. This distinguishes it from pipeline gas, where the customer is fixed.

In the graphs below, we can see that Dutch gas stocks stabilised in May, but have not yet started to recover. On a European level, such a recovery has started, but we are still at the lowest level in years. Now that the weather will improve in the coming weeks, it is expected that stocks will continue to recover and that there will slowly be more opportunities for price reductions.

Dutch gas inventories at lowest level in years

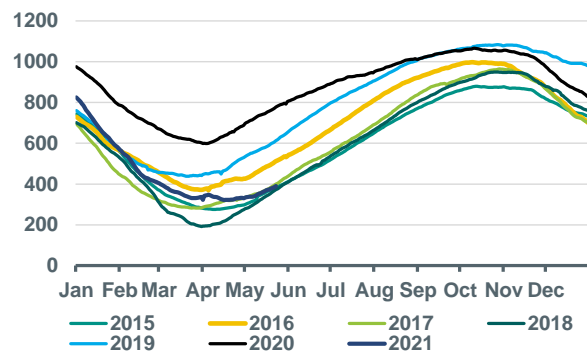
x 1.000 TWh



Source: Gas Infrastructure Europe

Also European inventories are relatively low

x 1.000 TWh



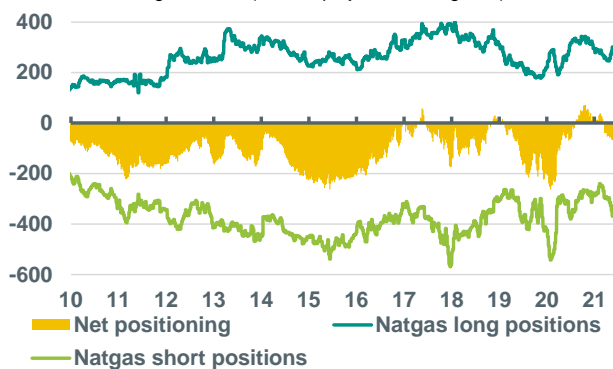
Source: Gas Infrastructure Europe

This fundamental analysis has also translated into the market positioning of hedge funds. Where the net position was positive between November and March (more speculation on price increases than on price decreases), the net position has now clearly turned back to the 'normal' ratio, anticipating price decreases. The expected build-up of stocks and the forecasted milder spring/summer weather are the main reasons for this.

However, we should remain alert to weather patterns that may influence this price correction. In recent years, the consumption of electricity increases at times when the temperature is above average. This is the result of air conditioning. As a result, the 'normal' summer/winter seasonal pattern may be disrupted and demand for gas may again be above average. Especially at a time when stocks have not yet filled up completely, the upward price effect can be strong.

Market speculators position for price declines

X 1.000 outstanding contracts (short is projected as negative)



Source: Bloomberg

In addition, the development of the CO2 price is now well on the radar of investors and other market participants after recent strong price gains. A further rise in the CO2 price could further increase demand for gas and reduce the number of short positions.

Oil and gas price estimates

End of period		26-May	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Brent *	USD/bbl	68.79	64	62	60	58	60	62	65	64	63	62	65
WTI *	USD/bbl	66.05	61	58	57	55	56	59	61	60	58	57	60
Natural Gas (HH) *	USD/mmBtu	2.95	2.50	2.50	2.75	2.50	2.30	2.40	2.60	2.50	2.40	2.60	2.70
TTF *	EUR/MWh	21.50	17	16	17	19	17	19	20	19	18	20	22
Average		2020	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22	Q4 22	2022	Q1 23	2023
Brent	USD/bbl	43.21	64	63	61	62	59	59	61	64	61	65	64
WTI	USD/bbl	39.34	60	60	58	59	56	56	58	60	58	61	59
Natural Gas (HH)	USD/mmBtu	2.13	2.60	2.50	2.60	2.60	2.60	2.40	2.40	2.50	2.50	2.60	2.60
TTF	EUR/MWh	13.48	18	17	17	17	18	18	18	20	19	20	20

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

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