

# Energy Monitor

Group Economics

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## Record LNG inflows - Downside risk oil

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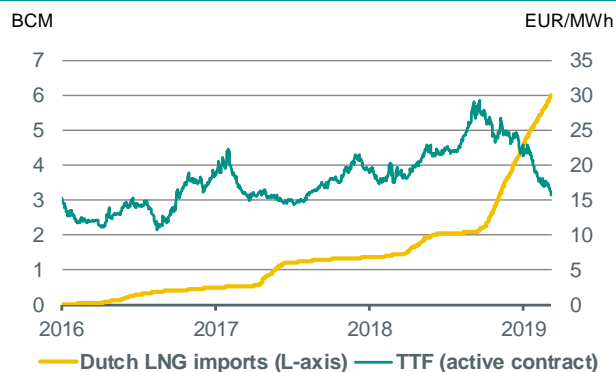
- **Record LNG inflows keep prices low and prevent further drop in storage**
- **TTF gas price forecast revised lower**
- **Oil prices: upside potential despite increased downside risks**

### TTF gas prices continues to slide as LNG imports outweigh weak demand

The Title Transfer Facility (TTF) natural gas price continues to slide further. It has dropped below EUR 16/MWh this month (active contract). This is the lowest level since September 2017. The drop in prices is remarkable as a) we are still in the winter season, which traditionally coincides with strong heating demand for gas for houses and buildings. On top of that, b) the phasing out of coal fired power plants, also from a fundamental perspective, will continue to result in higher gas demand. Although the Dutch government recently announced an even faster drop in gas production from the Groningen field, this was not reflected in the TTF prices. The main reason for this is that there are more than enough alternatives available, especially in the near term.

With the phasing out of the Groningen gas field production, the Netherlands is increasingly dependent on pipeline gas imports (mainly from Norway, UK, and Russia) as well as LNG. The biggest increase in European LNG imports were seen at the Dutch Gate terminal. The Gate terminal is the only terminal in the Netherlands where LNG can be imported, stored, re-gasified and supplied to the gas transport network for distribution to households and industry. The sufficient inventories did not make investors worry about possible lower future gas supply. Therefore prices dropped further (see graph below).

### LNG imports Gate Rotterdam (cumulative) and TTF



Source: Bloomberg

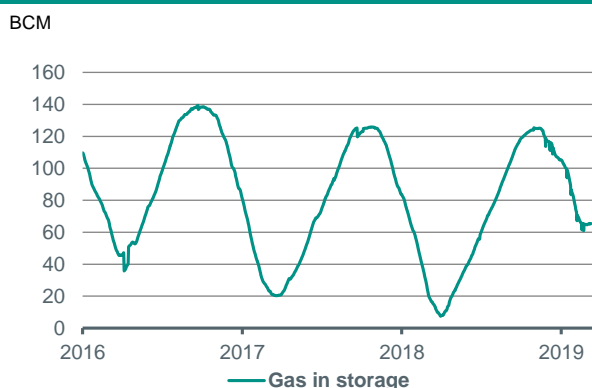
### Important data:

14 Mar	OPEC Monthly Oil Market Report
15 Mar	IEA Oil Market Report
26 Mar	EIA Monthly Energy Review
17-18 April	OPEC/non-OPEC meeting
End of April	Evaluation Iran sanction waivers by US Administration

### Gas storage shows different pattern

If we look at gas storage in the Netherlands, there seems to be a rare break in the seasonal trend. Instead of a continuous decline of gas inventories due to 'normal' heating demand, gas inventories started to increase since mid-February. It may be too early to call this an actual trend break, however, it is something to closely monitor during the coming weeks.

#### Netherlands: Gas in storage



Source: GSE

### TTF gas price: near term downside risks and upside potential afterwards

From a price perspective, some more downside pressure is possible (towards EUR 15/MWh) during the coming weeks. This is because seasonal demand shifts towards the summer season, there is abundant incoming supply is expected to remain abundant and inventories remain above average for the time of the year. It is hard to see what would push prices significantly higher in the near term, unless there will be a period of harsh winter weather.

In the longer term, we do still see some upside potential. Gas demand for power generation will continue to increase in Europe as the rise of renewable energy sources does not emerge as fast as the phasing out of nuclear and coal. On top of that there is still a link with oil prices. And although this linkage is diminishing due to new types of long term contracts, the upside potential in oil prices may also provide support to TTF gas prices. Coal prices have declined in recent months. A possible recovery may push electricity prices higher, which in its turn is positive for gas fired power plants.

The gas production from the Groningen field is announced to be reduced to zero before 2030, with a steep decline after 2022. Although this might be priced in somewhat, an even faster reduction of production should be supportive for prices. Especially since new gas production in the Netherlands seems to struggle to find either the social support or the licenses to operate from the government. This is contrary to other – especially offshore – gas production in surrounding countries at the North Sea (UK, Norway) which is being ramped up. However, these effects have less impact on the TTF gas price and is more reflected in for instance the National Balancing Point (NBP) natural gas benchmark.

The last supportive argument is the rising EU ETS price. Due to policy measures, ETS prices are expected to continue to rise. This would be supportive for electricity prices and thus indirectly for gas demand.

### Some risks to upside potential and adjustment to our TTF price forecast

The biggest risk for the upside potential comes from disappointing demand, although we weigh this risk as limited due to the mentioned phasing out of coal and nuclear. Another factor could be an abundance of supply. Especially now the US is debating with Germany about the building of the Nord Stream 2 pipeline from Russia to Germany. President Trump is arguing that Germany/Europe becomes too dependent on Russian gas, and therefore should buy more LNG (from the US). The result may be that Russian gas will become cheaper also due to increased competition. As Europe may benefit from a higher diversified energy (gas) mix, it may keep prices lower for longer.

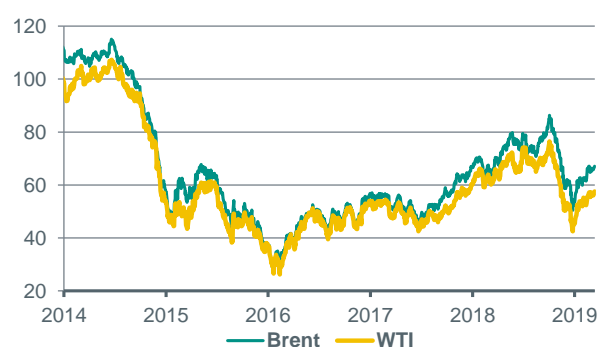
We revised our TTF gas price to better reflect the above-mentioned factors and the current situation of lower prices. We still expect prices to increase in the coming years, however at a slower pace and with less upside than earlier anticipated. Please see the table below for our new forecasts.

### Oil: some uncertainty ahead

With Brent being more exposed to supply/demand risks in Europe and the Middle East than WTI, the decision of US President Trump regarding the extension of the Iran waivers will be an important driver for Brent oil in the next quarters. Trump is expected to announce his policy regarding the Iran sanctions in April. Another important driver for the second half of the year is the OPEC and its partners' (OPEC+) production cut agreement. Initially it was announced that a revision will be done in April as the agreement expires in June. Last week, the decision was already postponed to June to be able to better assess the production expectations of the sanctioned OPEC members: Venezuela and Iran. OPEC+ are expected to continue to focus on stabilizing global supply and demand.

#### Brent and WTI

USD/bbl



Source: Bloomberg

For the moment, due to an expected continuous rise in global oil demand, we see some room for a smaller production cut in June. Global demand is expected to rise by 1.4 mb/d in 2019 (IEA). With US production growth expected to be 1.8 mb/d, the OPEC production

cut can be lowered to only 0.4 mb/d (plus perhaps somewhat more to add pressure to existing inventories). However, financial markets may see a smaller production cut as a negative event (perception of risk of prolonged oversupply). This may cap further upside in oil prices during the coming months. Therefore, OPEC could decide to keep the current production cut in place to keep oil prices within the current range. Such a decision does coincide with the risk of creating a shortage in oil – and thus higher prices – in the medium or longer term.

A complicating factor may be the discussion in Washington to pass legislation that would allow the US government to sue the OPEC in a so called “No Oil Producing and Exporting Cartels Act” or NOPEC. Signals from OPEC are clear. If such a bill is passed, US shale oil will be the biggest loser. Their explanation is simple. If OPEC is not allowed to balance the market any longer, all oil producers will start producing at maximum economic viable capacity. The price pressure which will be seen as a result of increased global production will hurt US shale producers more than oil producers in the Middle East due to higher production costs. The American Petroleum Institute have stated its opposition to the legislation.

#### Quality differences may start to bite

Another thing to watch is crude quality. We see a strong rise in US (shale) crude production. This is a light sweet crude. At the same time, heavy sour crude production is under pressure due to sanctions and production disruptions. Since many refineries cannot switch to another type of crude overnight as it takes a lot of time and is very costly, this may trigger a wider spread differential between Brent and WTI in the short term. In the longer term however, we do see a possibility for a smaller Brent/WTI spread. Nevertheless, we don't expect this to happen before the US crude exports are ramped up significantly as that will give some relief on US inventories and may push WTI prices closer towards global market prices.

#### Brent/WTI spread

USD/bbl



Source: Bloomberg

#### OPEC: balancing supply and demand? Or focus on market share?

A possible elephant in the room could be OPEC's market share. This seems to drop below 40% again. The last time when this happened (2014), OPEC – especially Saudi Arabia – decided to fight the rise of US shale oil by opening the taps and flush the market with oil.

Although this action backfired a few years later with higher efficiency and lower production costs in the US, Saudi Arabia may still be very strict in dividing the market between OPEC and non-OPEC.

The International Energy Agency (IEA) indicated in its Oil Report (outlook for oil markets towards 2024) that US crude production could continue to grow significantly during the coming five years. According to the IEA, the US exports will even surpass Russian and Saudi exports by 2024. Although OPEC is still pointing at maintaining its role as swing producer by balancing supply and demand, we can see an increased risk of OPEC defending its market share as it may seem to slide even further.

### Oil price forecast unchanged, but downside risks increased

We are still comfortable with our current oil price forecasts. For Brent, we expect a trading range of USD 60-80/bbl (average of USD 70/bbl in 2019) and for WTI a range of USD 50-70/bbl (average USD 60/bbl in 2019). We mentioned the uncertainty of the OPEC+ production cut agreement which will expire in June. Also we see risks regarding the decline in OPEC market share. On top of that, the market has become optimistic about a US/China trade deal. This means that a large share of the possible positive outcome has been priced in by now. This leaves some room for disappointment – and thus downside price risk - if such a deal is less positive than expected. Therefore, we believe that a new test of the lower band of the trading range seems to be more likely than a test of the upper band at this moment. Nevertheless, despite the increased downside risks it is too early to lower our forecast at this moment in time.

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

End of period		14-mrt	jun-19	sep-19	dec-19	mrt-20	jun-20	sep-20	dec-20	mrt-21	jun-21	sep-21	dec-21
Brent	USD/bbl	67,73	70	70	70	75	75	75	80	80	80	85	85
WTI	USD/bbl	58,27	60	60	60	65	65	65	65	70	70	70	75
Natural Gas (HH)	USD/mmBtu	2,85	3,25	3,00	4,00	3,25	3,00	3,25	3,75	3,25	3,00	3,00	3,50
TTF	EUR/MWh	15,70	18	20	24	26	21	23	26	28	23	24	26

Average		Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	2021
Brent	USD/bbl	70	70	70	70	73	75	75	78	76	80	80	83
WTI	USD/bbl	60	60	60	60	63	65	65	65	65	68	70	71
Natural Gas (HH)	USD/mmBtu	3,75	3,25	3,50	3,50	3,75	3,25	3,25	3,50	3,25	3,50	3,25	3,25
TTF	EUR/MWh	18	19	22	20	25	24	22	25	24	27	26	25

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