

ceegex

CENTRAL EASTERN EUROPEAN
GAS EXCHANGE



Global & Regional Market Analysis

NATURAL GAS, August 2023

20/09/2023

STORIES OF THE MONTH

AUGUST 2023



- » Gas prices jumped 40% on 9 Aug then further 10% on 22 Aug due to **concerns about possible strike action at 3 Australian LNG terminals.**
- » Unions reached an agreement with Woodside in case of two terminals, but not with Chevron.



- » **EU storages reached 90% on 16 Aug.** 100% full inventories would cover the average winter demand for Europe for around 90 days.



- » On 16 Aug **Ukraine announced that it will not negotiate with Russia on the extension of the current transit agreement** running until the end of 2024.



- » **Hungary will receive LNG from Qatar from 2027** in an agreement between the two countries.
- » Hungary will also be able to buy natural gas from the **Polish planned floating LNG terminal** in Gdansk and volumes would be delivered via the Slovakian-Hungarian interconnector.



- » On 20 August **Hungary agreed to buy 275 mcm gas from Turkey**, the parties will work out the details of the natural gas trade contract by the end of this year.
- » **Serbia stored 320 mcm of gas in Hungary** this year.
- » The construction of the 440 mcm/year **Hungarian-Slovenian natural gas interconnector was given the green light** on 30 Aug, the agreement will be signed in Oct.

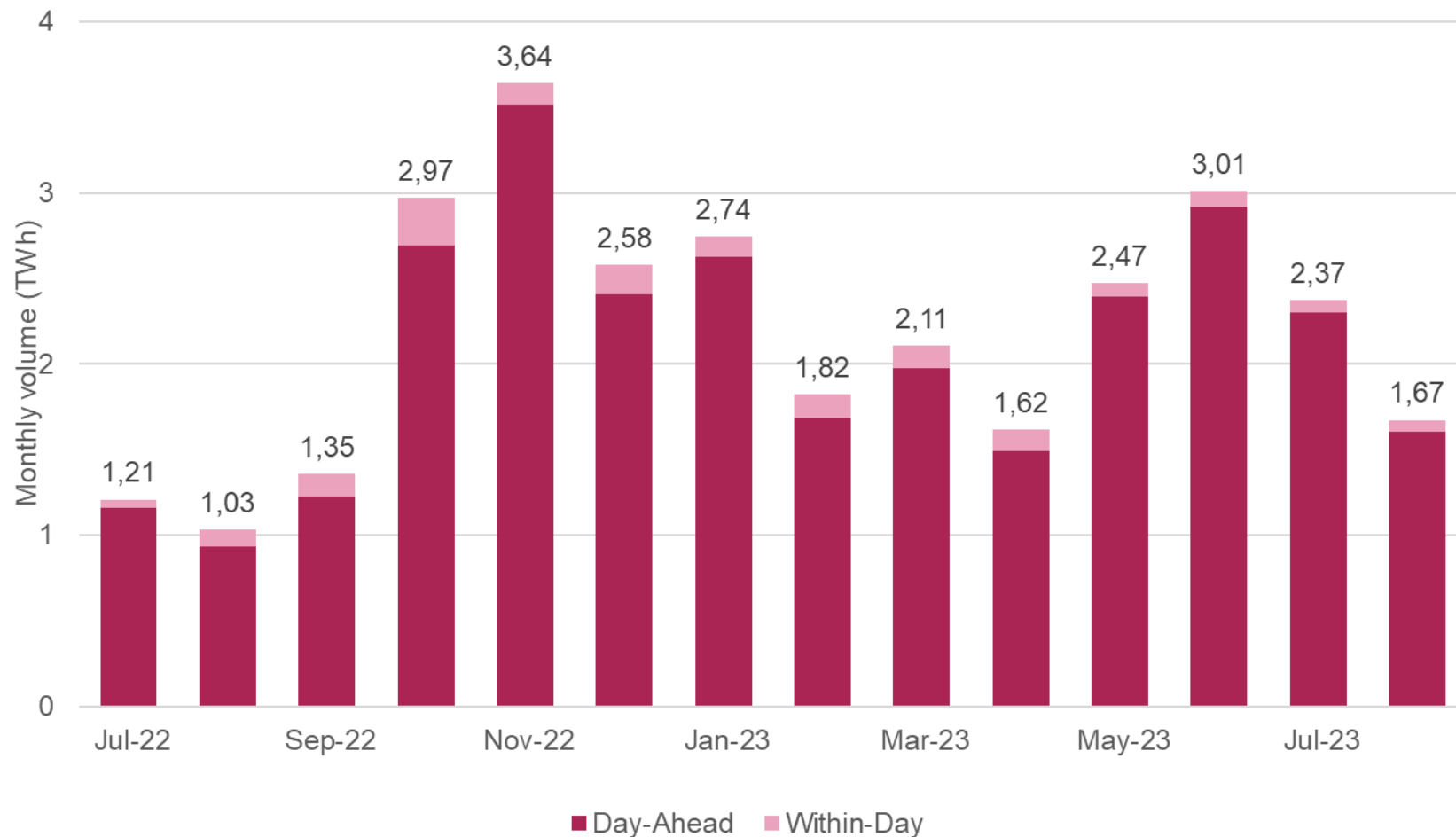


- » The Hungarian government extended **regulated prices for residential consumers** from 1 Aug for one year.
- » At the same time **MVM offered 12-month instalment payments** to those for whom the payment of regular invoices of higher amounts for their consumption above average.
- » MEKH published **23/24 gas distribution tariffs**, the change does not affect natural gas users at a regulated price.
- » On 21 Aug the government amended **regulations related to energy efficiency** and on 24 Aug updated the **natural gas supply safety rules.**

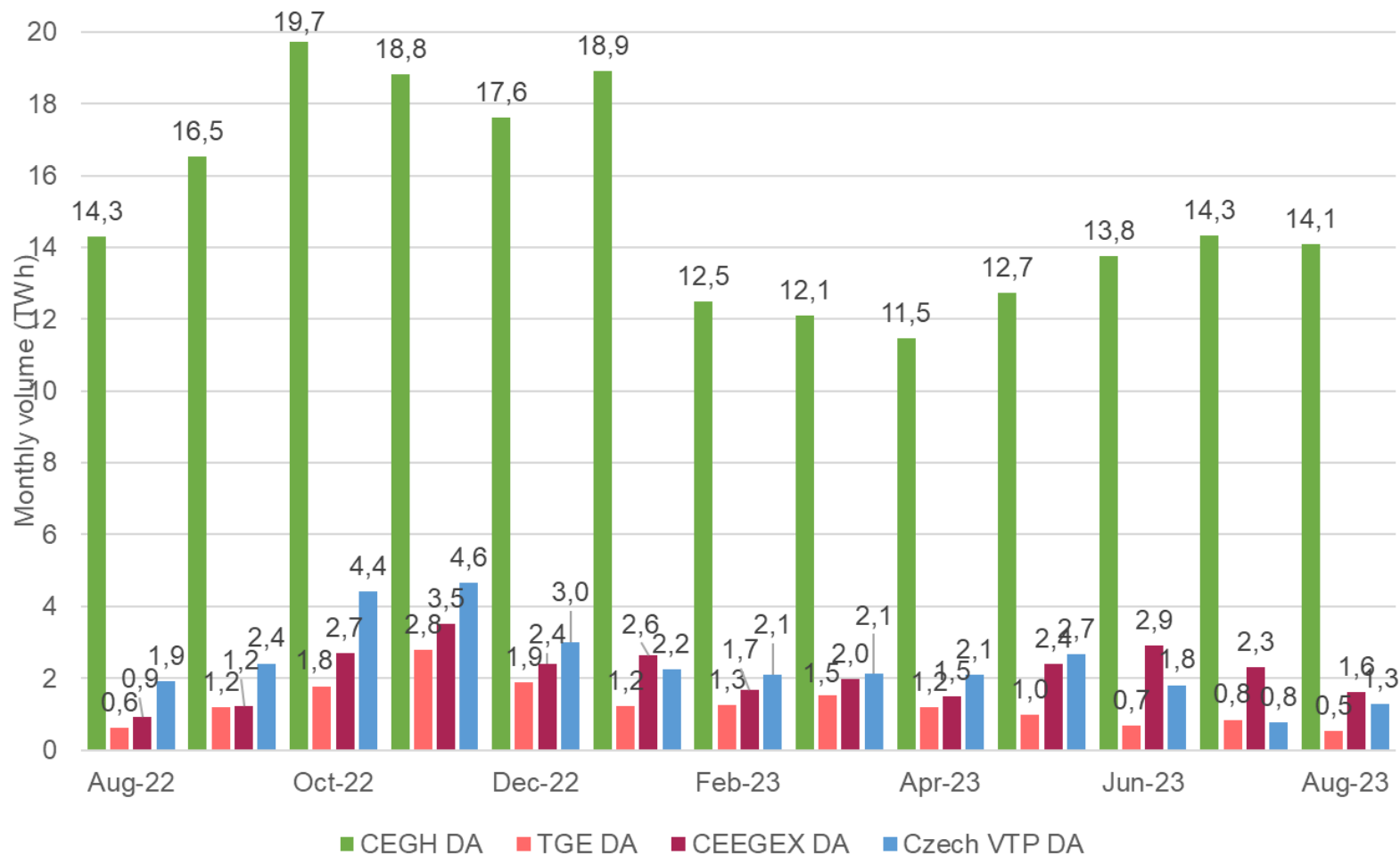
TRADED VOLUMES

EXPERT OPINION:

- » CEEGEX DA traded volumes decreased in August but were significantly higher than in 2022.
- » The TTF FM-spot spread remained around 0, so there was no real incentive to use the volumes of the long-term contracts instead of buying on spot markets.
- » Imports to Hungary reached this year's highest levels, while domestic consumption further weakened, the rate of injections and exports to UA ramped up. **This suggests that volumes were rather stored in HU or UA storages than sold on the spot market.**



REGIONAL SCOPE DA MARKETS



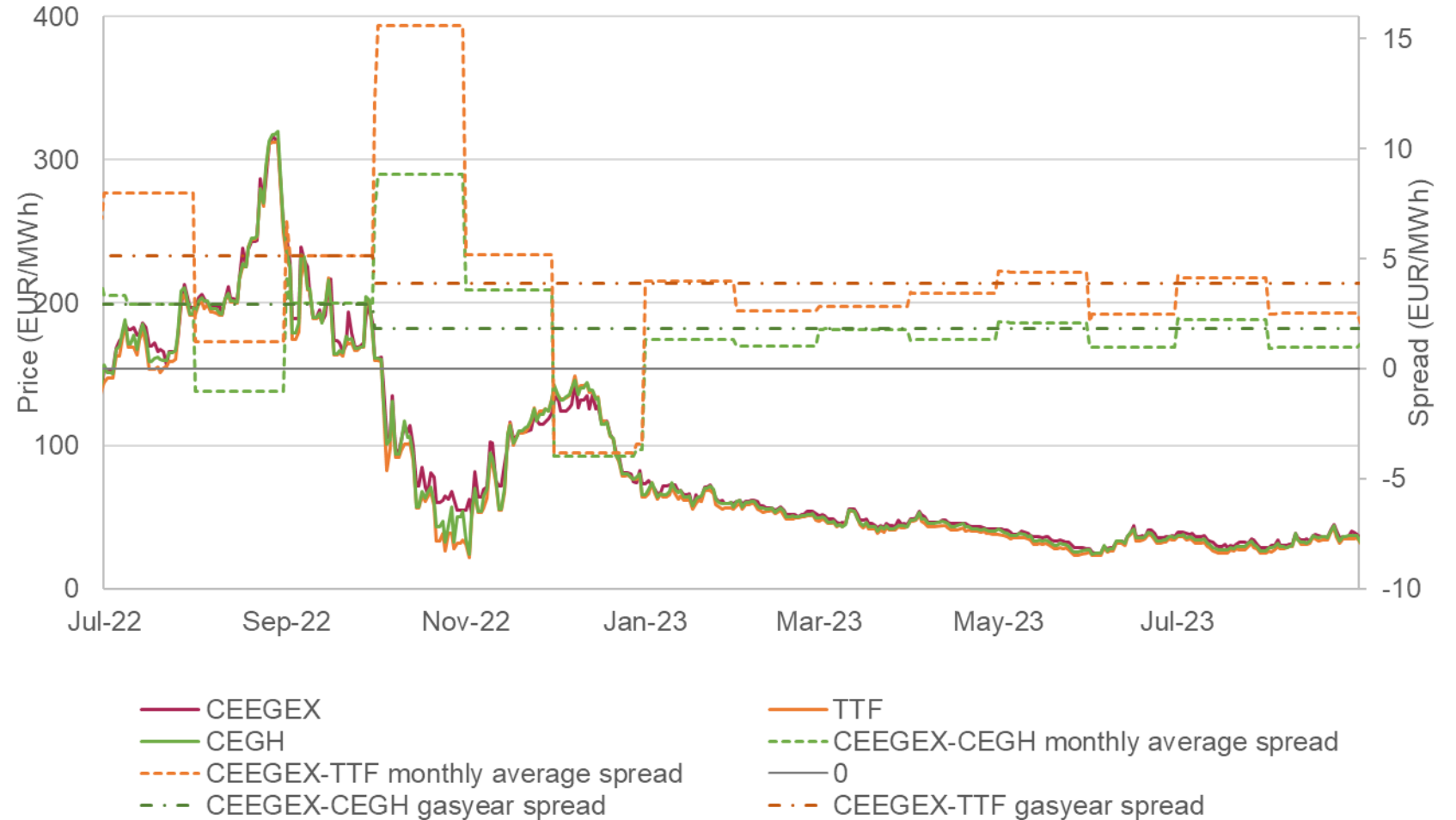
EXPERT OPINION:

- » Similarly, traded volumes on other regional benchmarks decreased in August.
- » LNG imports to Europe lowered in July, while most EU countries had reached their storage target levels earlier and injections to Ukrainian storages have also ramped up this summer.
- » **The TTF Winter-Summer spread had significantly widened since April 2023 incentivizing storage injections and discourage spot trading** (see separate story).

REGIONAL PRICES AND SPREADS

EXPERT OPINION:

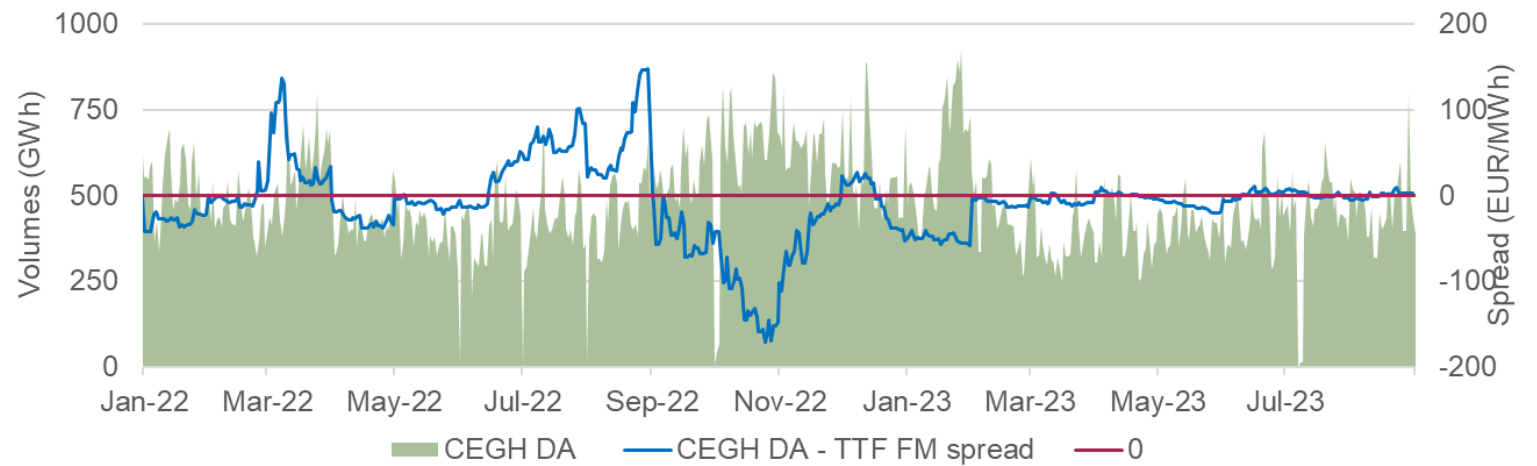
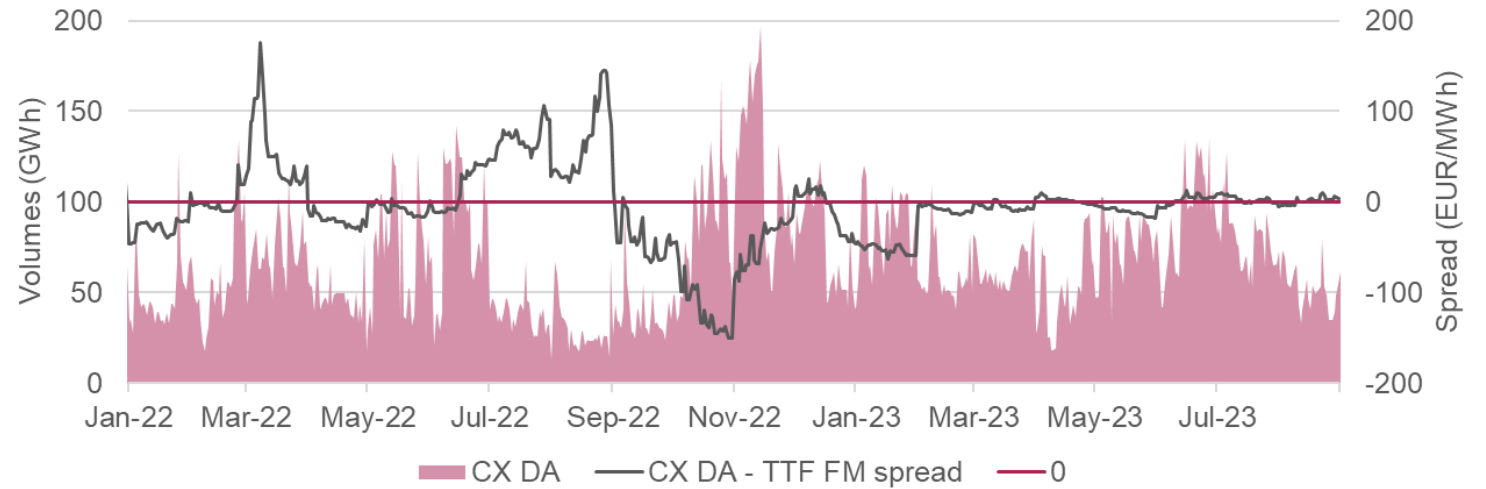
- » The **CX-CEGH** and **CX-TTF** spreads widened in July, then narrowed in August, but it **remained in the same range since January**.
- » The correlation with CEGH and TTF continued to be strong.
- » The CX-CEGH spread has remained in the positive territory since January, resulting in the profitability of gas imports from AT to HU.
- » Hungary's high dependence on Russian pipeline deliveries is associated with higher risk premium in comparison to NW Europe. Therefore CX's premium is expected to remain in 2023.



TTF FM-SPOT SPREADS

EXPERT OPINION:

» Since February the spreads have remained around 0, which meant there was no real incentive to trade spot volumes.



JAPANESE CANDLES LAST 3 MONTHS



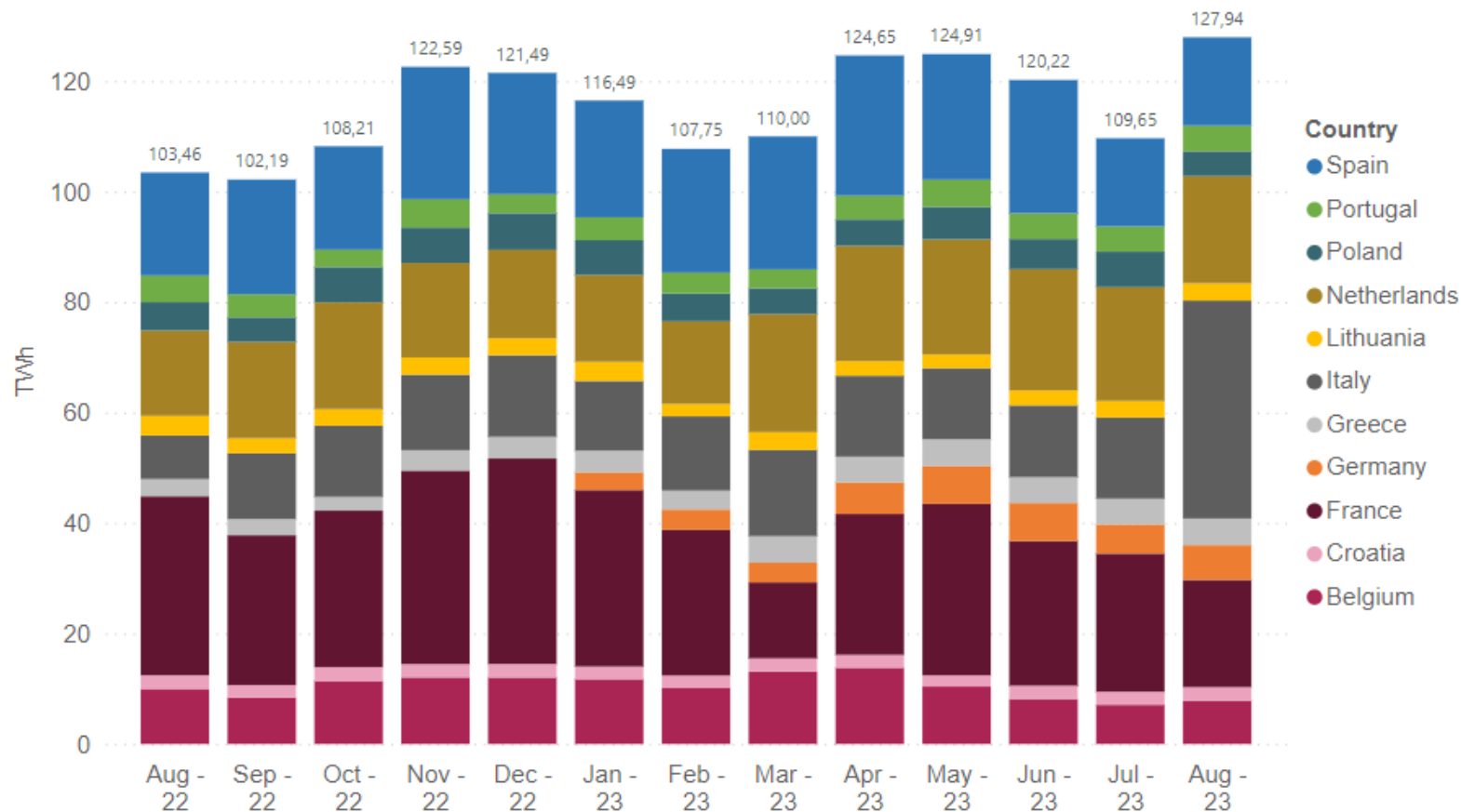
EXPERT OPINION:

- » In August Australian LNG strikes added bullishness to prices (see separate story).
- » In 2022 the main reasons of rapidly increasing volatility and extremely high prices were the supply shortages, low storage levels and constant uncertainty.
- » In 2023 most of these issues have been resolved. **There is a possibility of suddenly increasing volatility** due to maintenances, strikes or other unexpected events, **but it is expected to be short-lived.**
- » Current price swings are moderate in comparison to 2022 (see next slide).

JAPANESE CANDLES LAST 12 MONTHS



RECORD LNG SEND-OUTS BY EUROPEAN COUNTRIES*



EXPERT OPINION:

- » France and Spain have seen a significant drop in demand, while **Italy's LNG deliveries have totaled around 3 months in August alone.**
- » An ongoing heatwave in Italy was amid strong air-conditioning demand, especially in the southern regions.
- » Data for the Inkoo FSRU and Hamina terminal in Finland are not available on ALSI's website, but daily physical flows are available on the ENTSO-g website, so the combined July and August LNG flows at the two terminals are 2.8 TWh.

• Excluding UK, Finland (data not available)

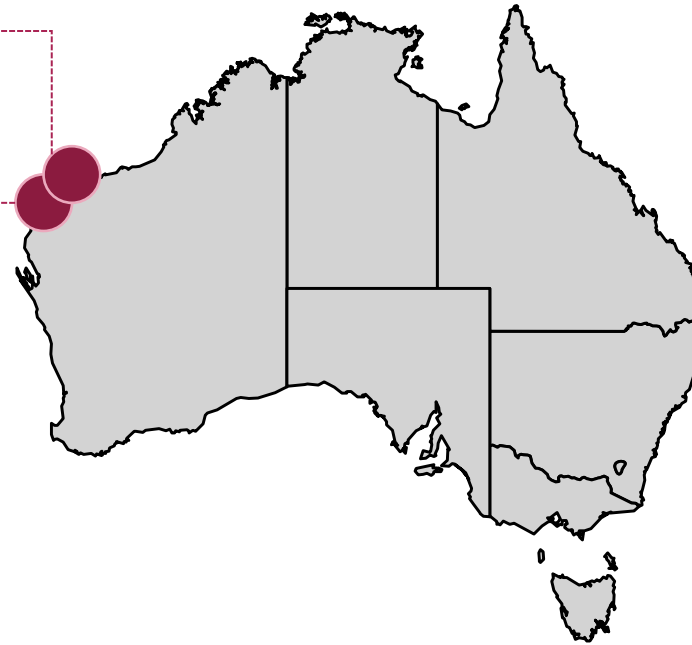
AUSTRALIAN LNG STRIKES

Gorgon plant

- » 3 LNG train
- » 180 TWh/y LNG facility
- » capacity to supply 80 GWh/d gas to Western Australia

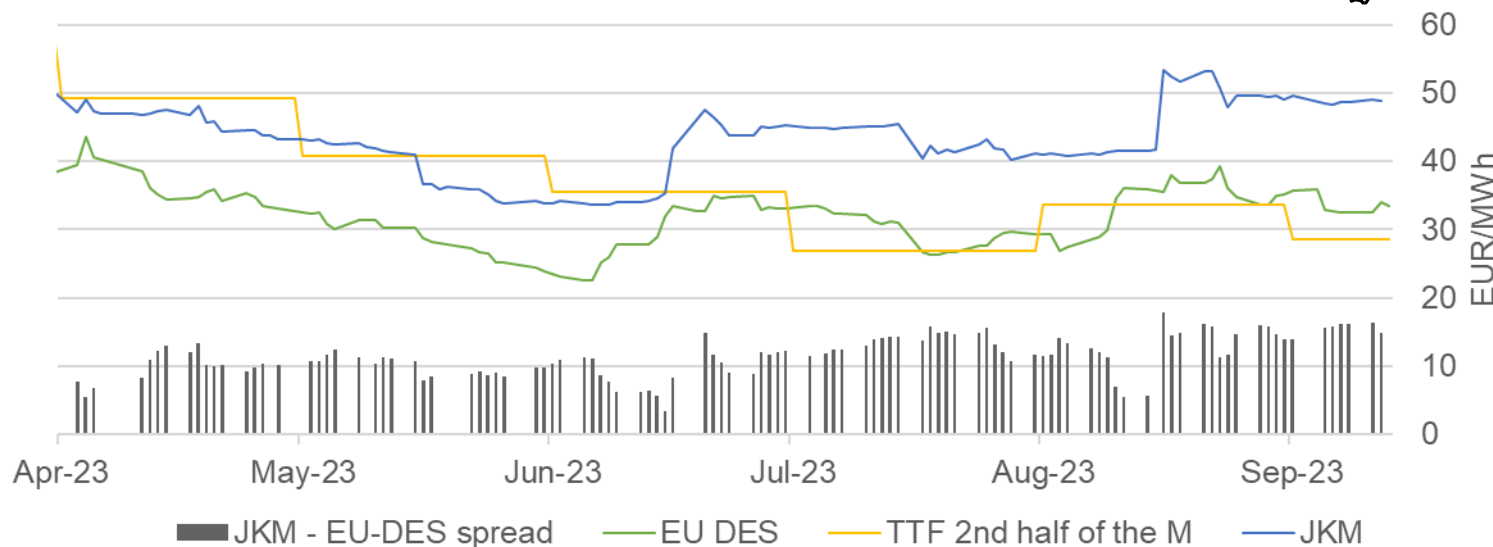
Wheatstone facility

- » 2 LNG train
- » 100 TWh/y LNG facility



EXPERT OPINION:

- » **The strikes**, which began on 8 September at Wheatstone and Chevron's other Australian LNG facility in Gorgon, after negotiations between the company and the unions **over wages and working conditions broke down**.
- » Combined with the Gorgon plant, Chevron's Australian **LNG facilities account for over 5% of global supply**, and sell predominantly to Asian markets.
- » **Dutch TTF gas prices were lower** on 14 September after a slight rise the previous day before the strike escalated. **By the end of July, the Asian premium over European gas prices started to widen**.
- » However, **if supply from Australia is reduced, Asian buyers could turn to other LNG suppliers**, competing with Europe, for the duration of strikes. This is spurring temporary spot price volatility in the European gas market.



GAS STORAGE LEVEL IN EU AND HU

EXPERT OPINION:

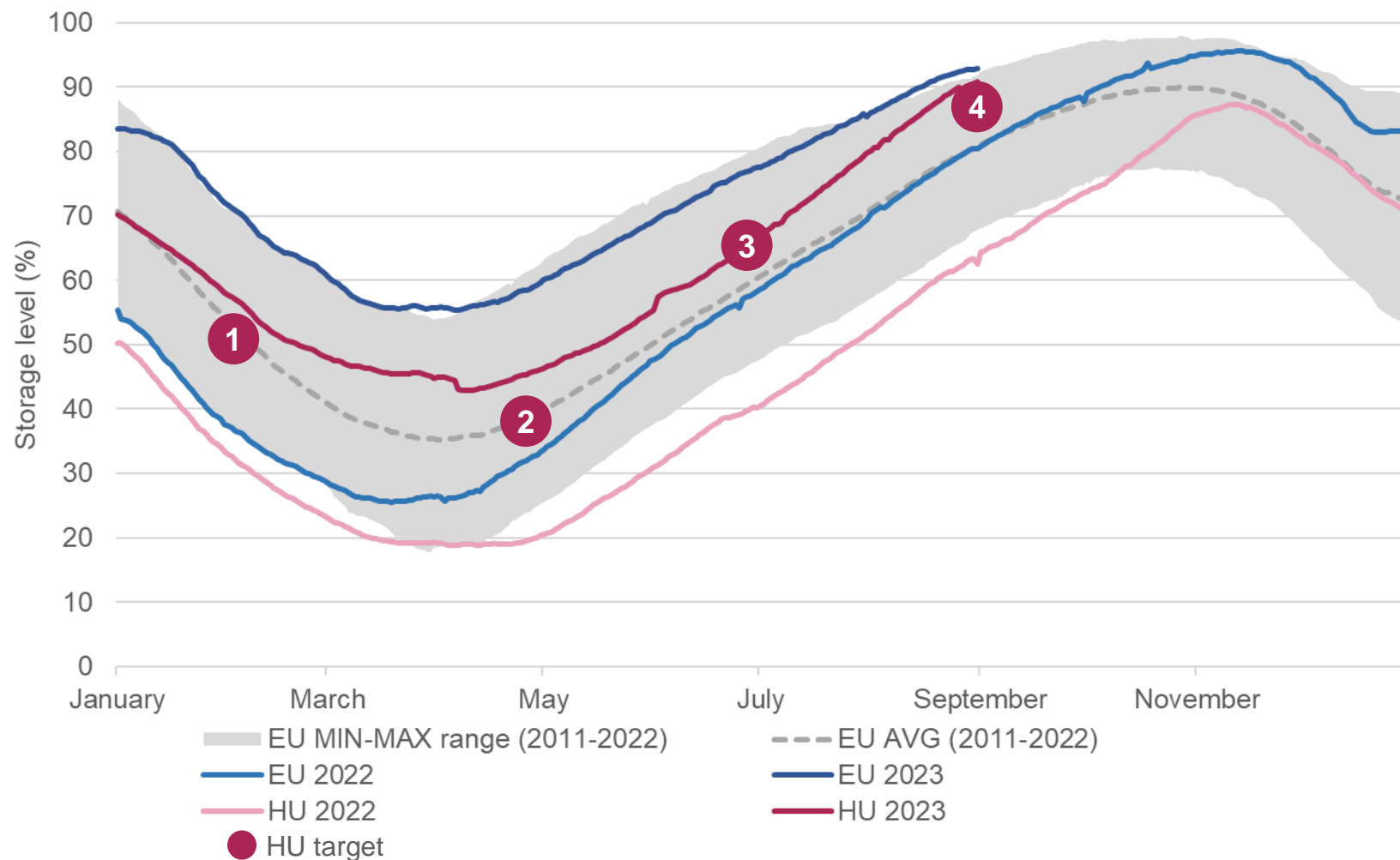
» Aggregated EU storages were at **93% on 31 August**.

» Hungary **surpassed the 90% target** already on 25 Aug.

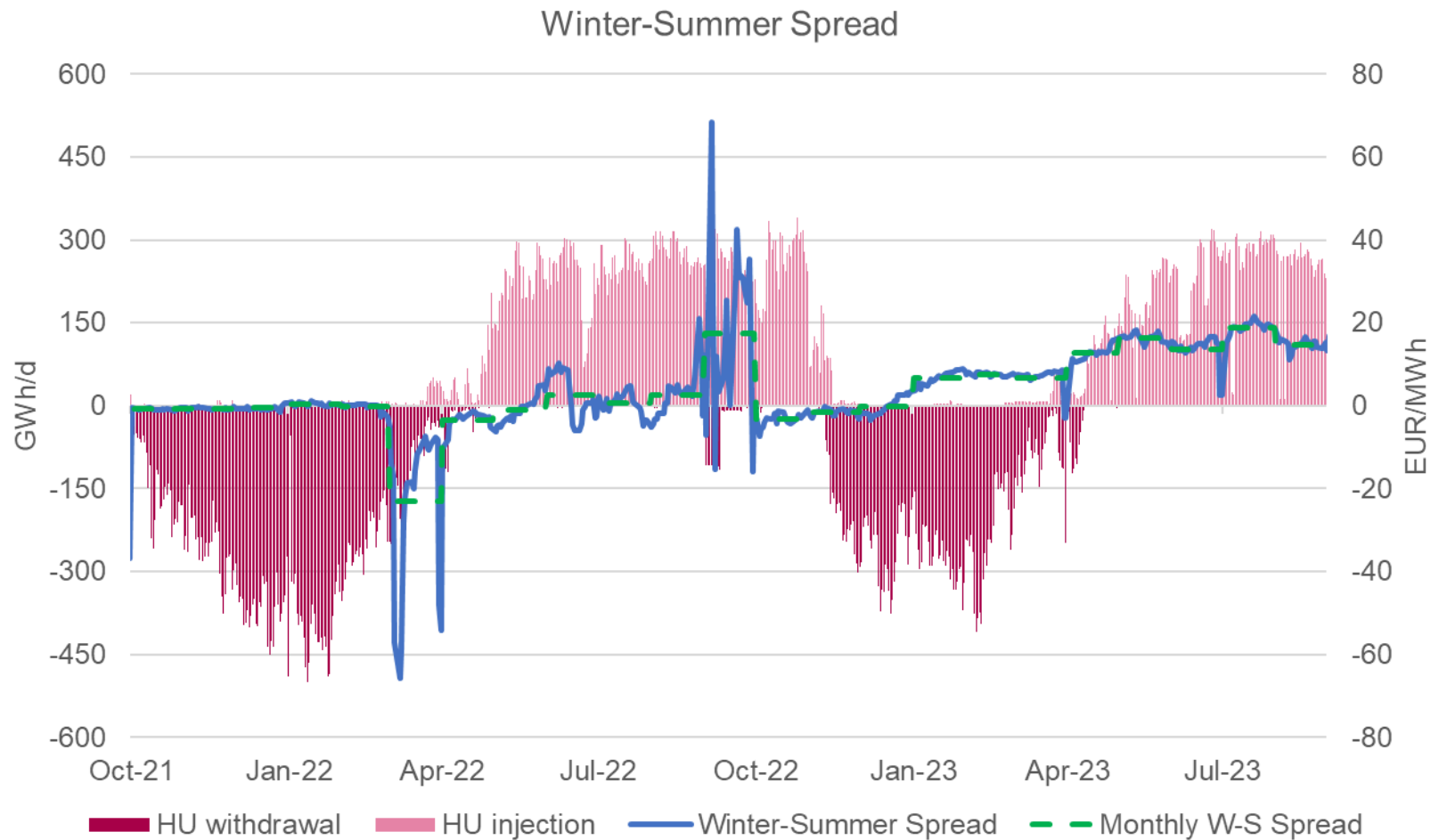
» **HU intermediate targets:**

1. Feb 1: 51%
2. May 1: 37%
3. Jul 1: 65%
4. Sept 1: 86%

» **EU final target by Nov: 90%**



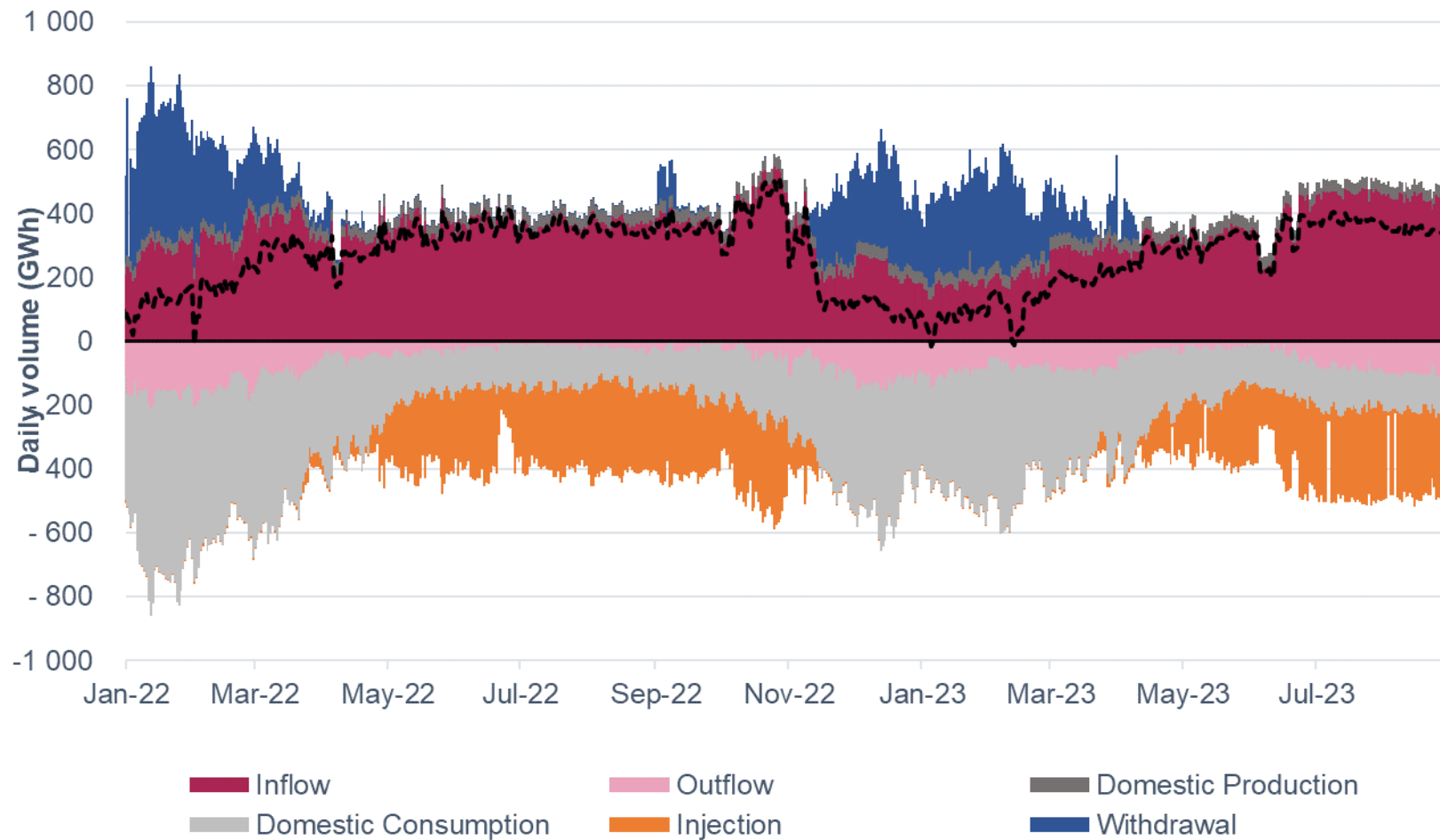
WINTER-SUMMER SPREAD



EXPERT OPINION:

- » **Before 2019**, the winter-summer spread was **close to zero**, fluctuations of a maximum of **2-3 EUR/MWh** were experienced.
- » **Between 2020 and 2022** there were some **larger swings**, for example on September 29, 2021, when the winter-summer spread was **-37 EUR/MWh**. This was due to the **coronavirus pandemic** and the **resulting economic crisis**.
- » **Since 2022**, larger jumps have been observed, and **since January 2023**, an almost **continuous increase** has been observed in the winter-summer spread. These increases are due to the **Russian-Ukrainian war**.
- » **Nowadays**, the average of winter-summer spreads is **around 20 EUR/MWh**, which represents a very large change from the original value close to 0.

HUNGARIAN GAS MARKET BALANCE



EXPERT OPINION:

- » Gas consumption further decreased in August.
- » The **pace of injections speeded up in July and August** in comparison to previous months.
- » **Imports increased** mostly due to higher flows from RS, AT, RO and HR.
- » Since June **export volumes have ramped up**, especially in the direction of UA and SK.

HUNGARIAN DOMESTIC GAS CONSUMPTION

EXPERT OPINION:

- » Since May the consumption remained around last year's level.
- » Most probably **the effects of energy efficiency investments, electrification efforts and gas saving measures introduced in 2022** will remain permanent.
- » Further decrease would require additional investments which might be enhanced by the EKR system or REPowerEU goals.
- » On the other hand, gas usage could grow in case of a colder winter, lower gas prices for industrial users or the cancellation of higher consumer prices above average consumption.

