ceegex

CENTRAL EASTERN EUROPEAN
GAS EXCHANGE

Global & Regional Market Analysis

NATURAL GAS, June 2023

19/07/2023

Disclaimer: This document contains analyst opinions, which don't necessarily represent the official views of CEEGEX or HUDEX.

STORIES OF THE MONTH

JUNE 2023

- European gas prices breached 40 EUR/MWh in June due to the outage extensions on **Norwegian infrastructure** (leakage and planned maintenances). Works are planned to end by mid-July, then restart by the end of August.
- Prices jumped also as the Netherlands prepared to permanently close **Groningen** field in 2023 or at the latest 2024.
- Most concerns related to **summer temperatures** resulting in high gas usage (air-conditioning), cooling problems in nuclear plants and challenges in coal shipping, or the potential for rising LNG demand from Asia.

- The first gas contracts tendered via the **AggregatEU** have been signed, said EC on 9 June. No details were disclosed on prices or volumes as commercial confidentiality has to be respected. The EC informed about the next tender for joint buying to aggregate gas demand up to March 2025. (Registration between 26 June – 3 July.)
- EFET called for withdrawing the **temporary emergency measures** introduced in 2022.

- **New transmission tariffs** were published on 8 June valid from 1 October 2023.
- On 19 June Hungarian government announced a 200 EUR/MWh **price cap from 1 July in power contracts** agreed by companies last year in three key sectors (processing industry, accommodation providers and the warehouse and transport industry).

- Gazprom stopped flows via its 31.5bcm **Turkstream between 5 and 12 June** due to planned annual maintenance.
- **MVM CEEnergy** has agreed to buy 100 mcm of natural gas from Azerbaijan's state energy firm **SOCAR**, Peter Szijjarto said on 2 June.
- **MVM CEEnergy** also entered a deal with **Srbijagas** to set up SERBHUNGAS.
- On 8 June the Hungarian foreign minister said natural gas supplies from **Turkmenistan** could play a role in resolving the energy crisis caused in Europe & Hungary has increased interest in participating in building the infrastructure allowing deliveries from Turkmenistan.

- Romanian OMV Petrom discovered **new crude oil and natural gas resources** in the Oltenia and Muntenia regions of southern Romania.
- OMV Petrom and Romgaz approved the development plan (4 billion EUR) for the continuation of the **Neptun Deep project**. Production is estimated to reach annually 8 bcm for 10 years.
- ROHU **Csanádpalota capacity** will be increased from 1 October 2023 to 0.30 mcm/h.

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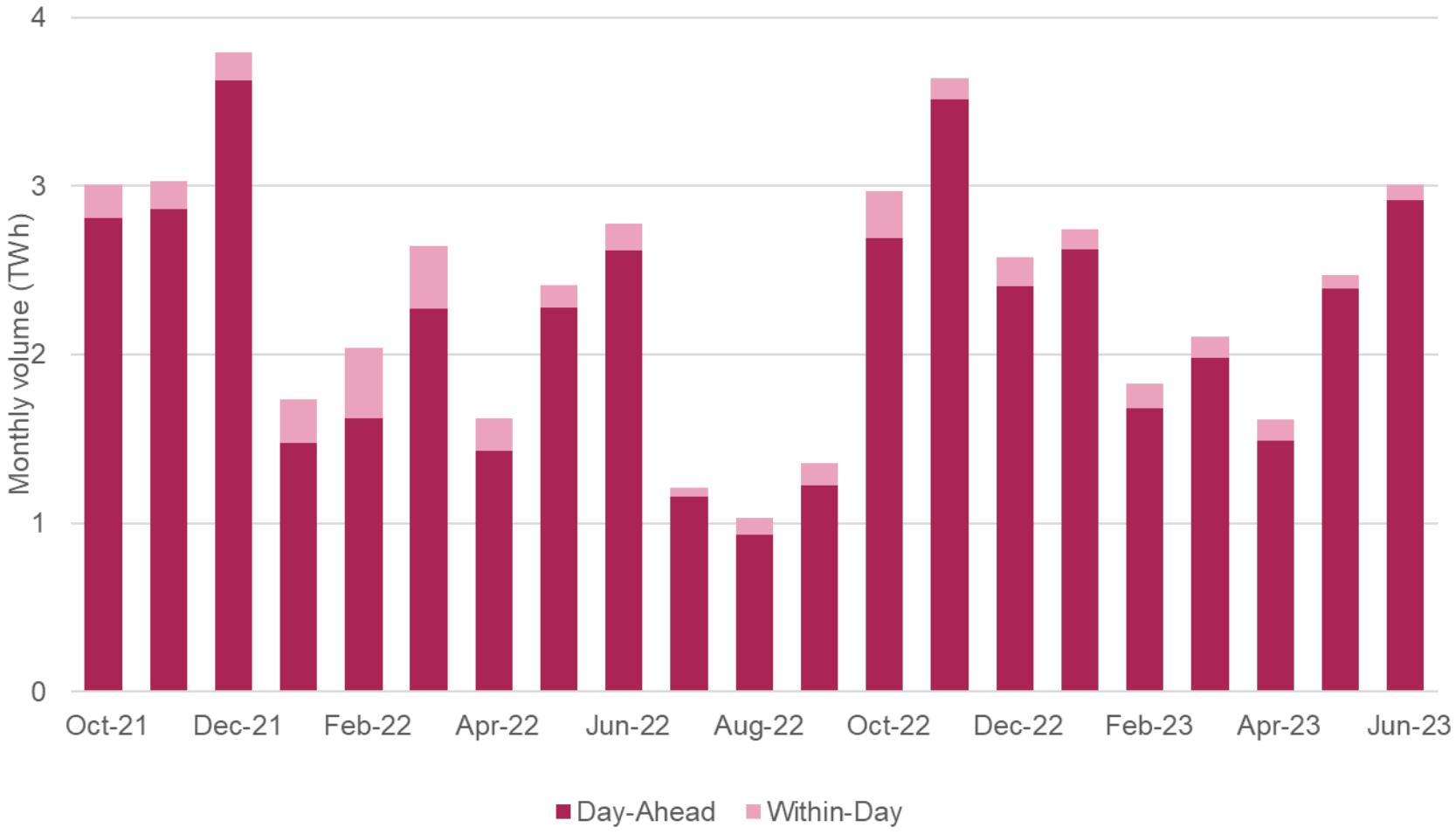
Sources: Argus, Bloomberg, ICIS, IEA, Euractiv, EC, Financial Times, G7, Montel, NRGreport, Portfolio, Platts, Reuters

TRADED VOLUMES

EXPERT OPINION:

- CEEGEX DA traded volumes increased in June and surpassed 2022 June values.
- The TTF FM-spot spread was slightly positive, but remained around 0, so there was no real incentive to use the volumes of the long-term contracts instead of buying on spot markets.



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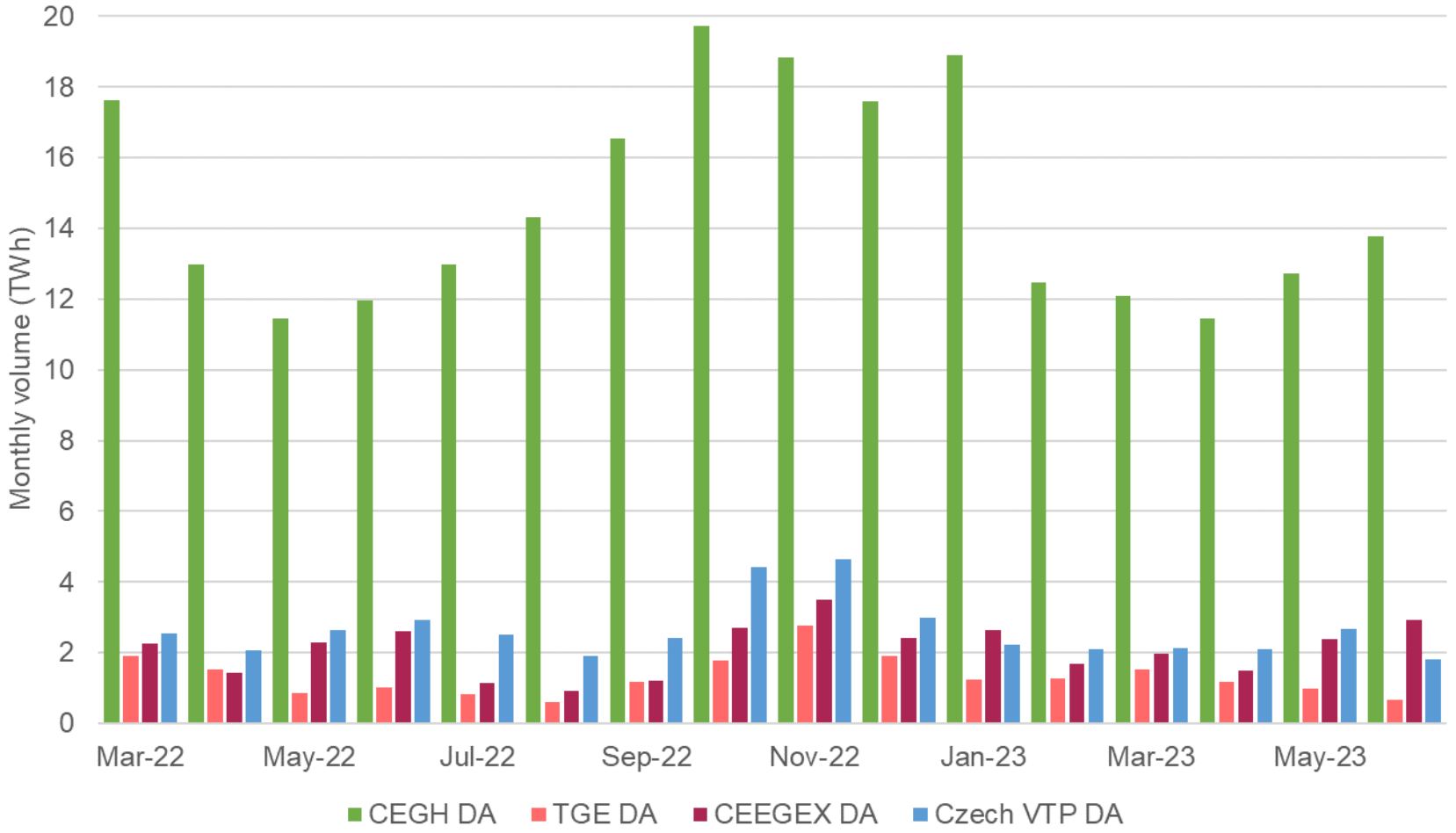
Sources: CEEGEX

REGIONAL SCOPE DA MARKETS



EXPERT OPINION:

- Traded volumes on other regional benchmarks started to increase in May.
- The increase continued in June on CEEGEX and CEGH, while Polish and Czech volumes dropped.
- Improved trading activity might be attributed to favourable W-S spreads incentivizing storage injections.
- In 2022 traded volumes decreased globally, this seems to change now.

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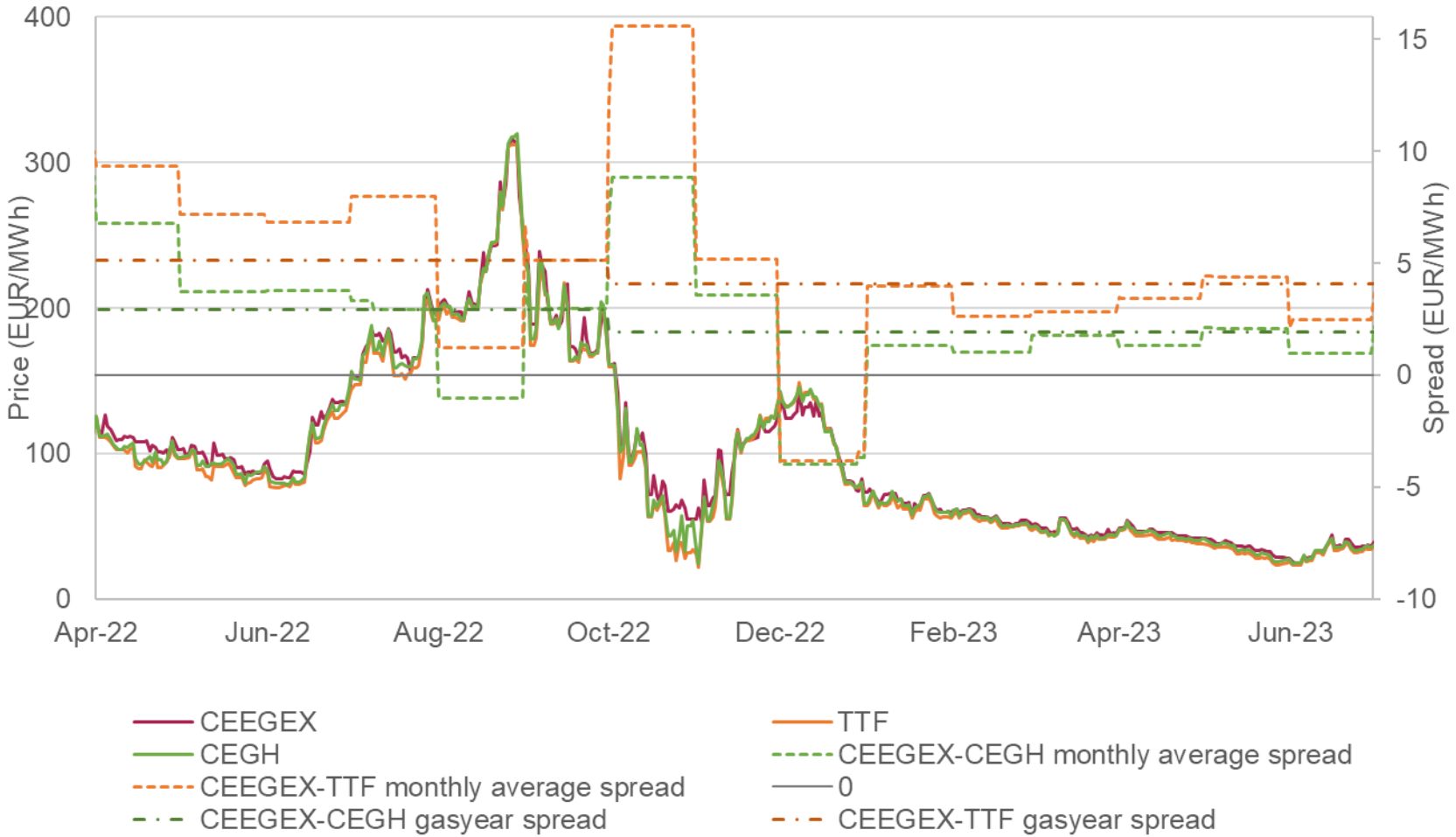
Sources: CEEGEX, Refinitiv

REGIONAL PRICES AND SPREADS

EXPERT OPINION:

- The CX-CEGH and CX-TTF spreads narrowed in June in comparison to previous month.
- 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.
- The pace of injections in HU is the slowest in CEE, which provides support. In addition, the country's high dependence on Russian pipeline deliveries is associated with higher risk premium in comparison to NW Europe. Due to these both factors CX's premium is expected to remain in 2023.



Sources: CEEGEX, EEX

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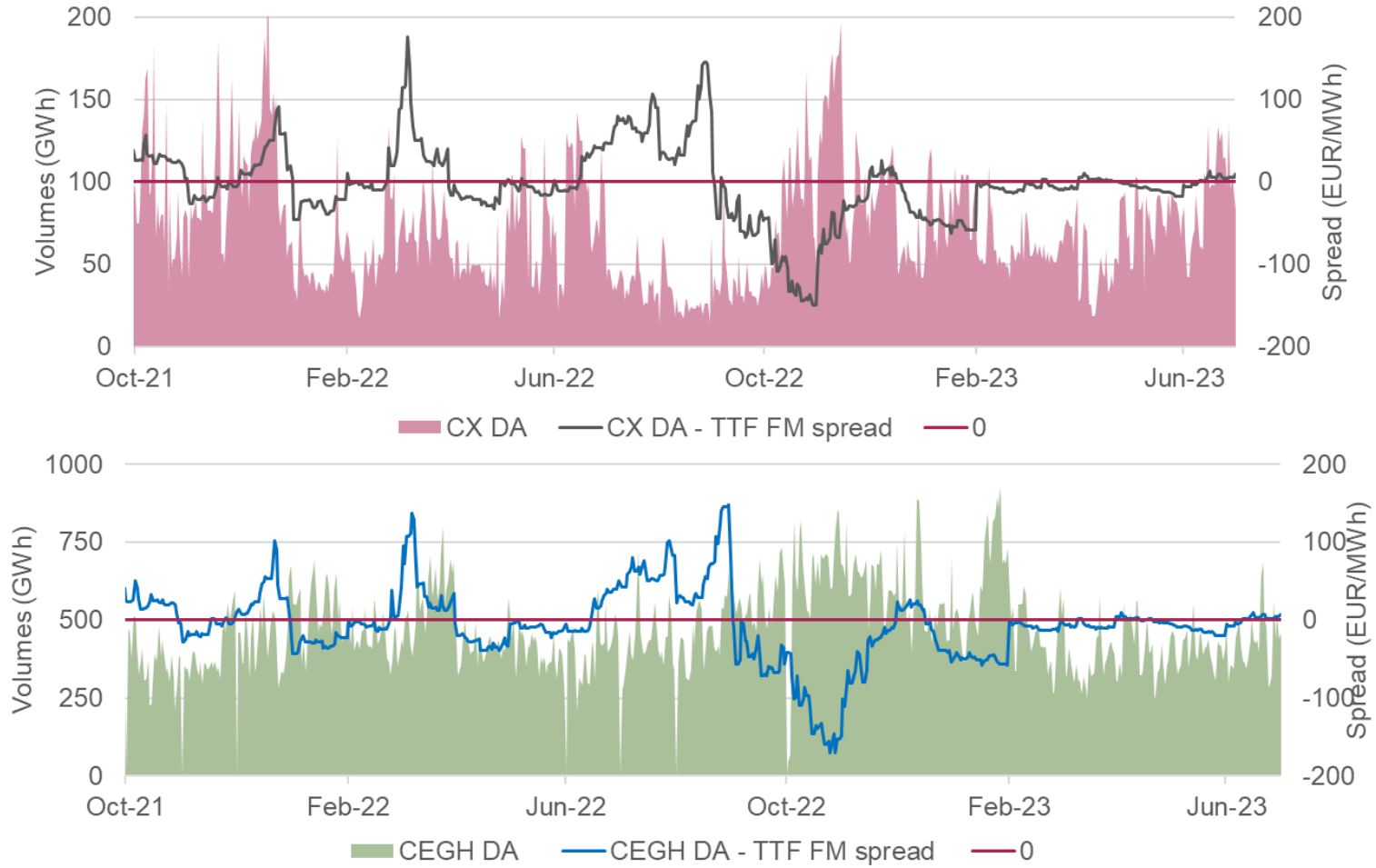
TTF FM-SPOT SPREADS

EXPERT OPINION:

- Between February and April, the TTF FM-spot spread remained close to 0, which meant there was no real incentive to trade spot volumes.
- By mid-May both spreads spread slipped below 0, which materialized in slightly higher DA trades on CEEGEX and CEGH.
- In June, the spread returned to the previous trend and remained around 0.



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Sources: CEEGEX, EEX

JAPANESE CANDLES

EXPERT OPINION:

- Since January prices have been pressured by mild weather, low demand & high LNG inflow.
- In June prices surged amid Norwegian export infrastructure maintenance and the news about Groningen closure. The volatility increased and approached 2022 levels.
- Heatwaves and low water levels during summer might support price increases, but it's safe to say that this year they won't even get close to 300 EUR/MWh.
- 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's unlikely to last for more than a couple of weeks after which prices will moderate.

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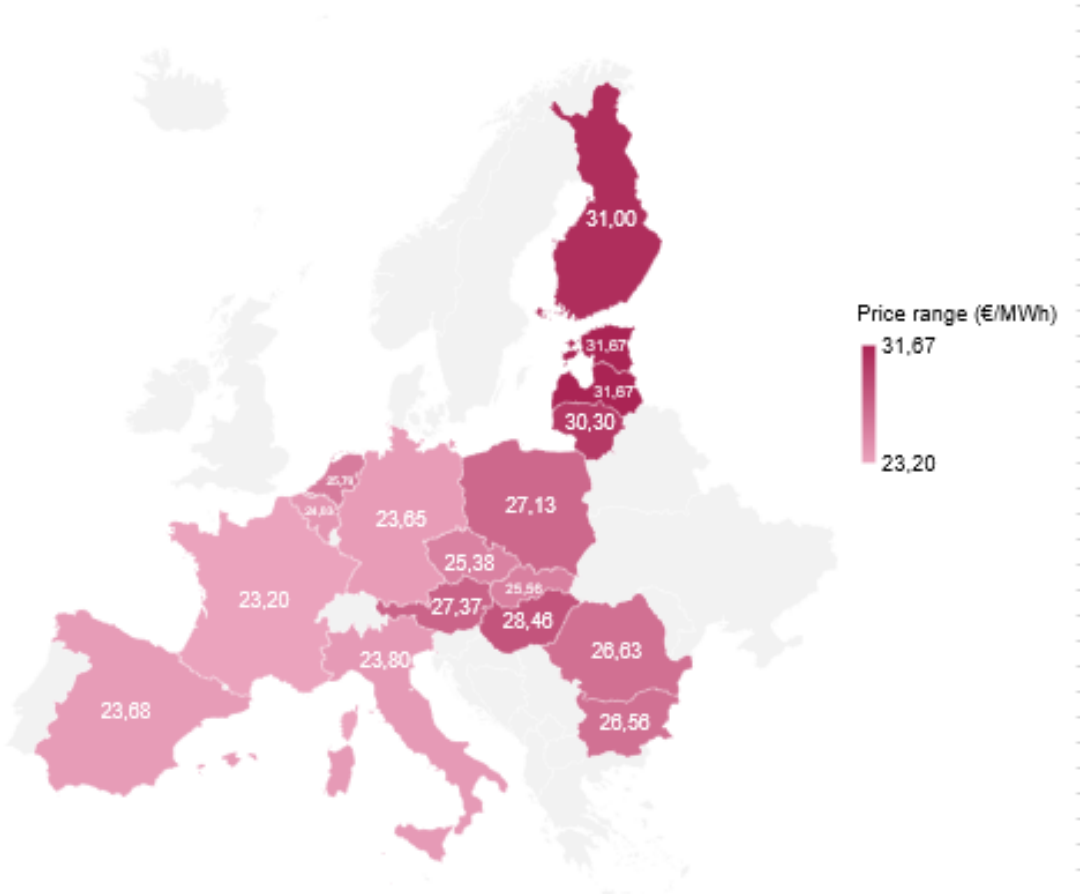
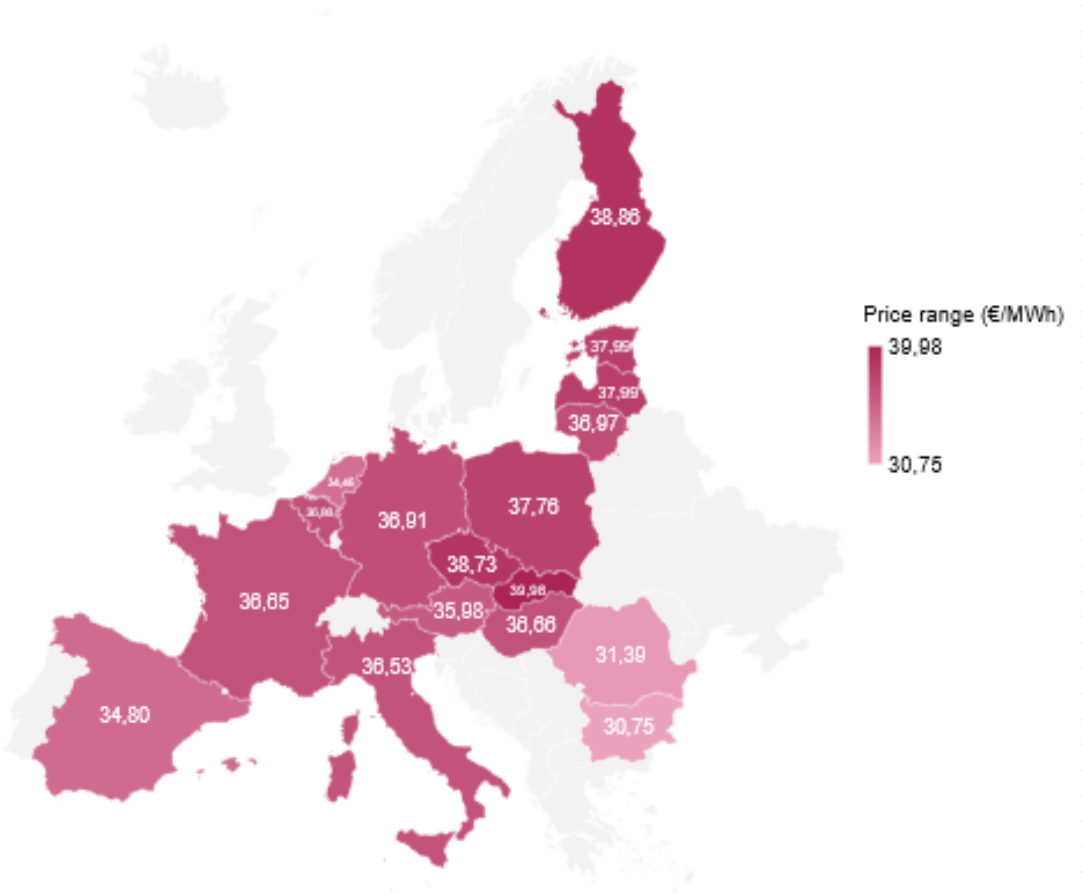
Sources: CEEGEX, ICIS, Refinitiv

NATURAL GAS PRICES SNAPSHOT

01/06/2023



30/06/2023



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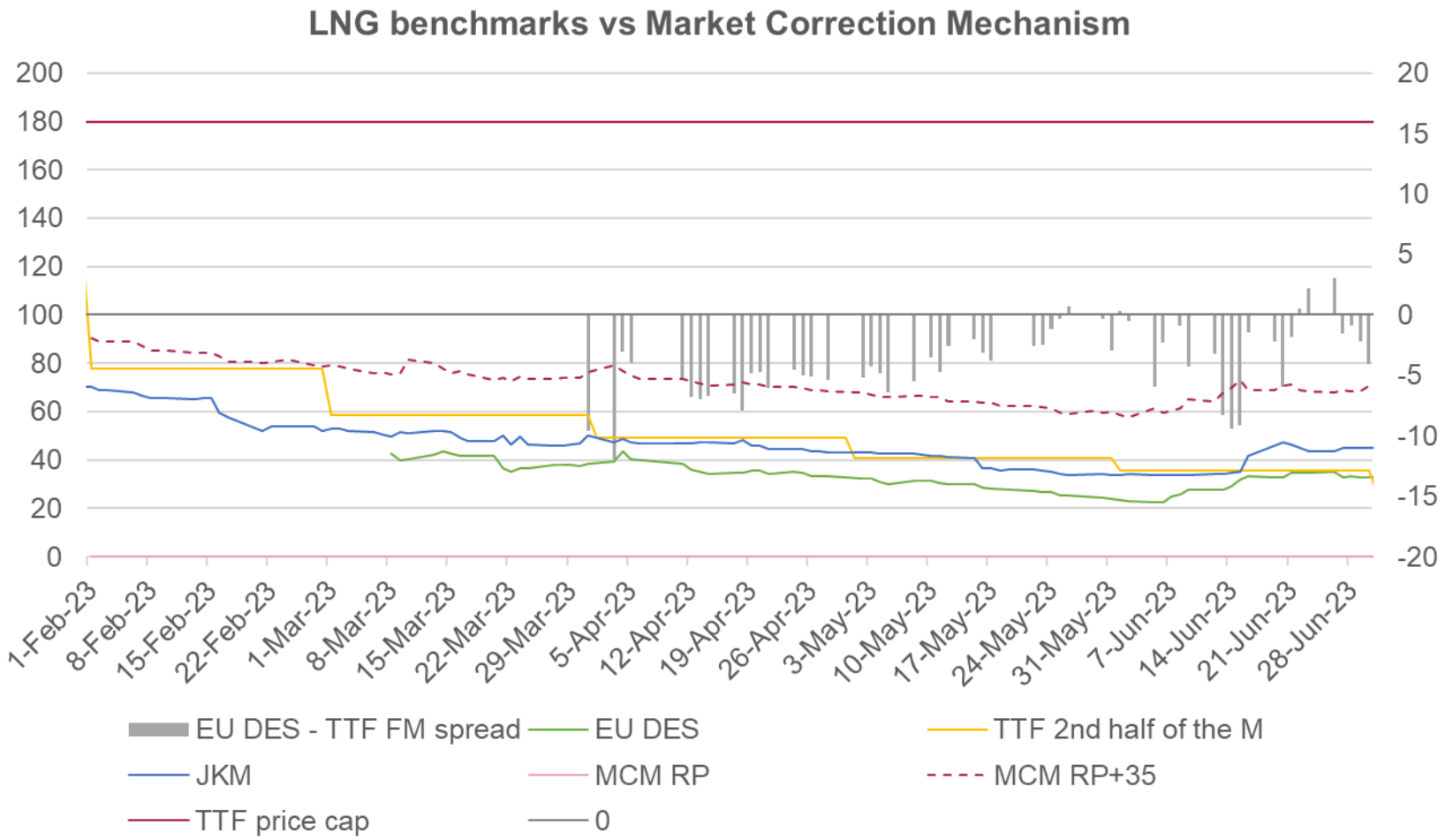
LNG BENCHMARKS VS MCM

EXPERT OPINION:

- ACER started publishing a set of new benchmarks in 2023:
  - EU DES = LNG price benchmark for EU (NWE & SE) based on data reported by market participants
  - MCM RP = benchmark price based on EU DES, JKM, HH. This is the first basis of the „price cap" activation.
  - EU DES – TTF FM spread = This is the second basis of the „price cap" activation.
- The EU's LNG benchmark started to increase together with Asian prices in June after several months of decrease.
- The spread between TTF FM and EU DES have increased.
- Still both conditions are far from the activation level.



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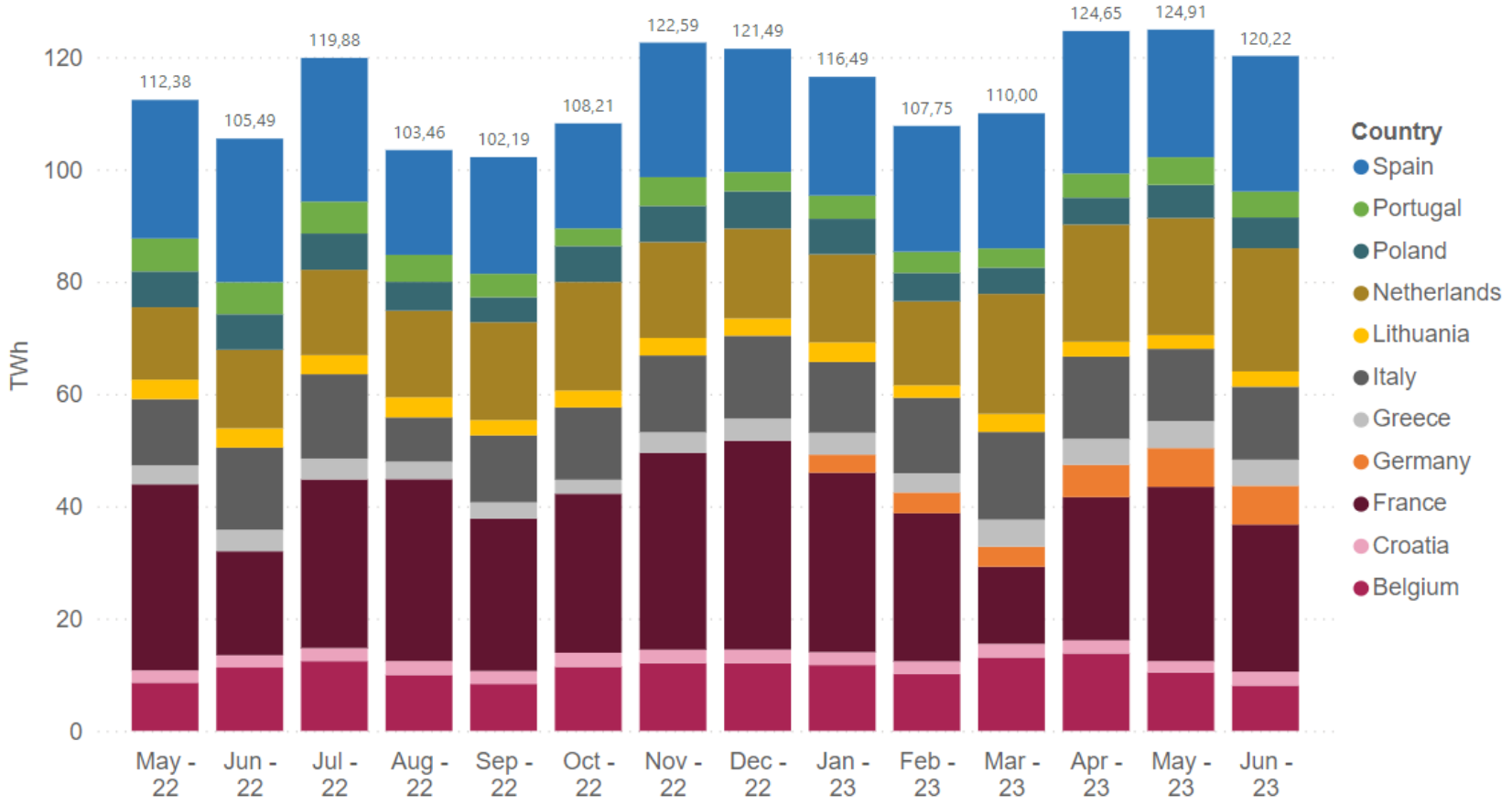
Sources: CEEGEX, EEX

RECORD LNG SEND-OUTS BY EUROPEAN COUNTRIES*



EXPERT OPINION:

- This year, the demand of LNG send-outs are growing.
- The chart shows an increase of 15 TWh between June last year and June this year. **Yoy French, German and Dutch demand has increased significantly.**
- 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 **June LNG flows at the two terminals are 1.8 TWh.**

- Excluding UK, Finland (data not available)

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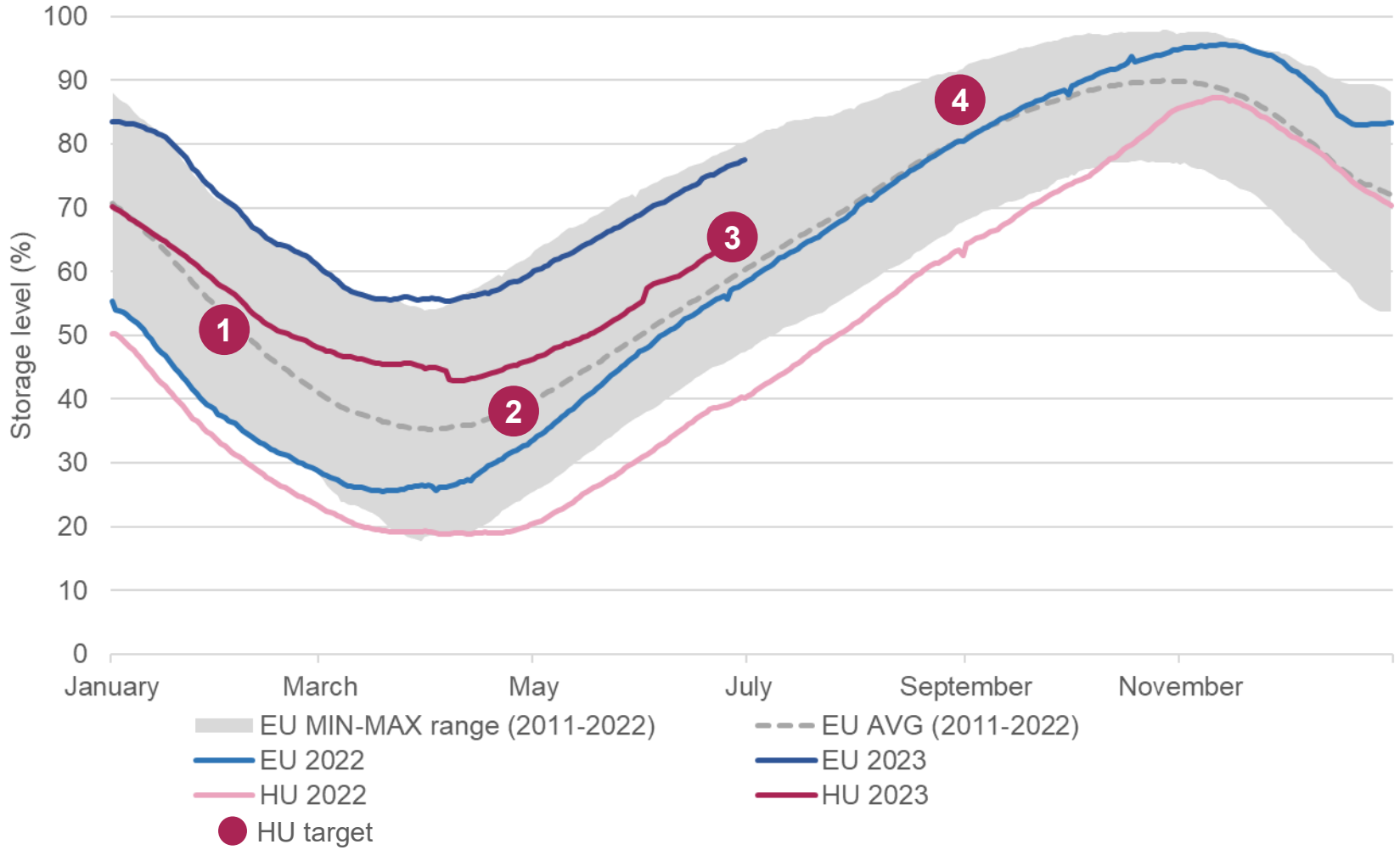
Source: Alsi, Reuters

GAS STORAGE LEVEL IN EU AND HU

EXPERT OPINION:

- Aggregated EU storages were at 77% on 30 June. **Most EU countries reached or surpassed their current intermediate storage goal.**
- EU storage levels are on similar level to 2020 June values (80%), when demand was pressured by COVID.
- **Hungary was on 66% and reached the July target.**
- **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%**



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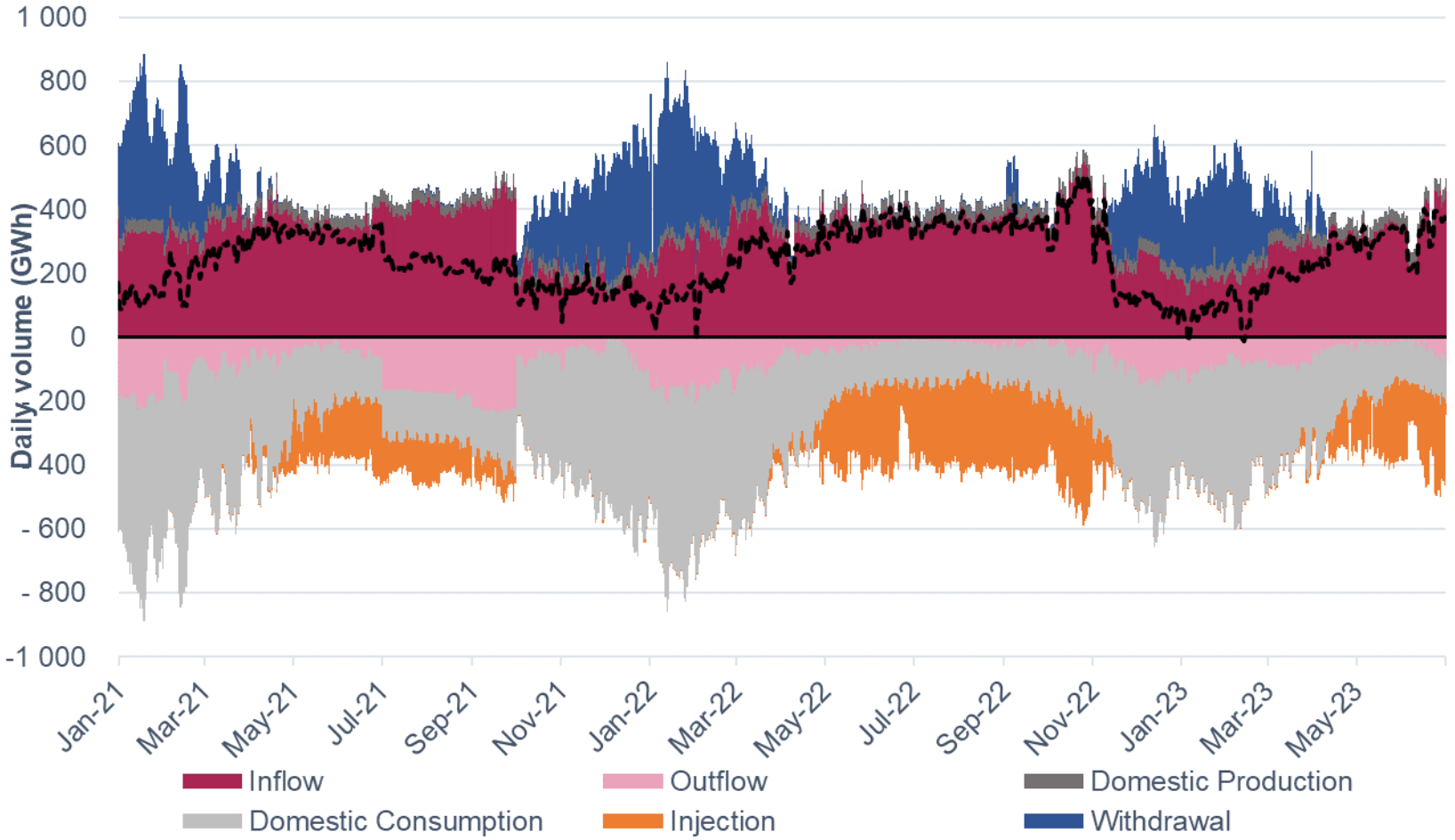
Sources: CEEGEX, FGSZ, AGSI, EUR-Lex, ICIS

HUNGARIAN GAS MARKET BALANCE



EXPERT OPINION:

- Gas consumption continued to wane away in June.
- Injections remained stable in June, but had not increased YoY.
- Imports increased mostly due to higher flows from RS and RO.
- The drop in imports and injections was caused by the announced annual maintenance of the TurkStream pipeline. AT imports stopped during annual maintenance at the ATHU (Mosonmagyarovar) interconnector between 19-23 June.
- In June export volumes ramped up, especially in the direction of Ukraine (see separate story).

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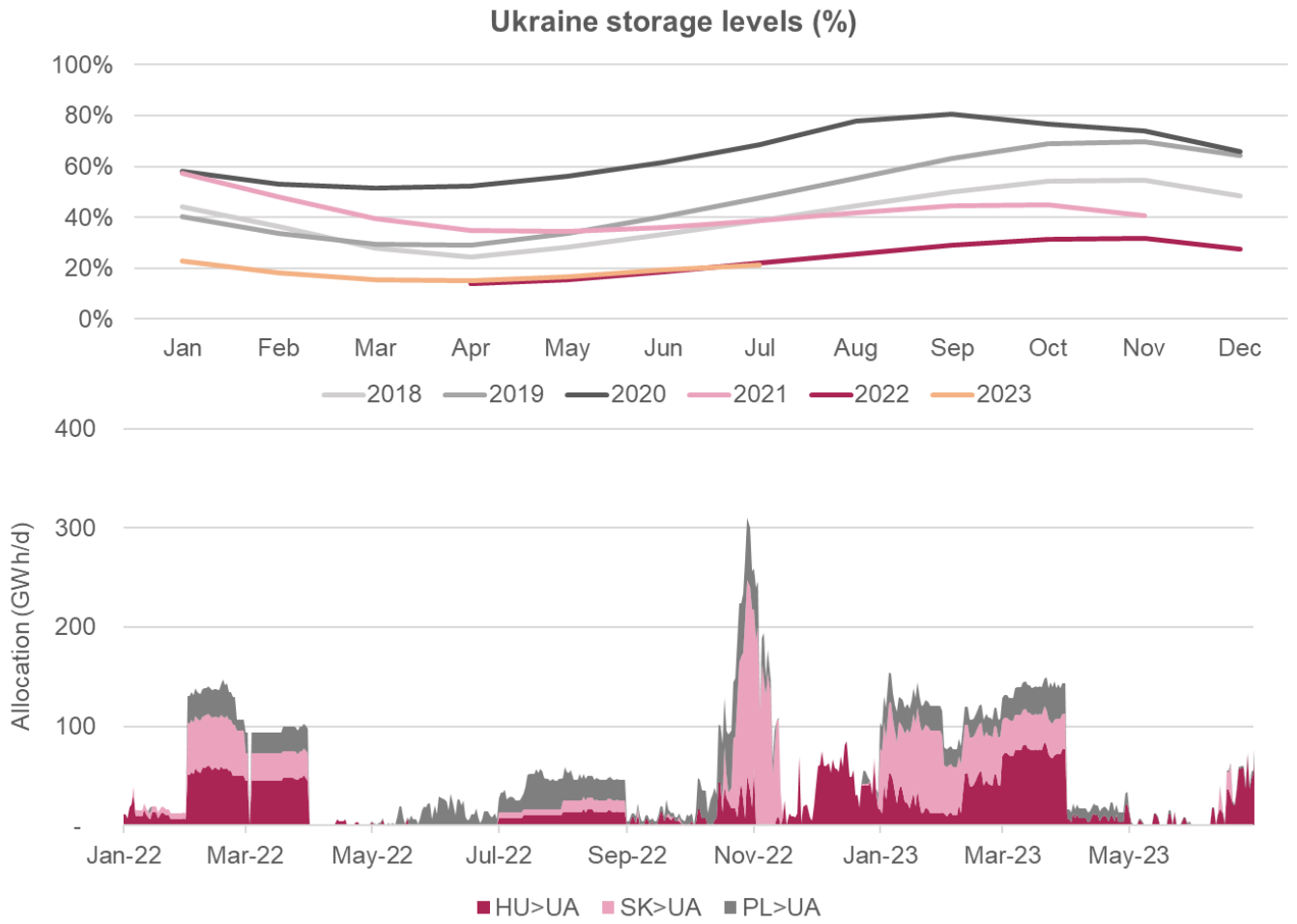
Sources: ENTSO-G, FGSZ

UKRANIAN GAS STORAGES



EXPERT OPINION:

- UA has **~33bcm of gas storage capacity**, which is currently filled to 1/4, same as last year level but significantly below previous years' levels.
- The EU storage levels are filling up more than expected, while the **Ukrainian storages are underutilized**.
- The biggest Ukraine storages are near the Polish border, far from the conflict zone.
- In April, Ukrtransgaz (Ukraine's gas storage operator) was certified as a European storage operator.
- Ukraine storage injections moved up in June, following change in rules regarding proof of origin.
- **In June imports into UA from HU significantly rose.**

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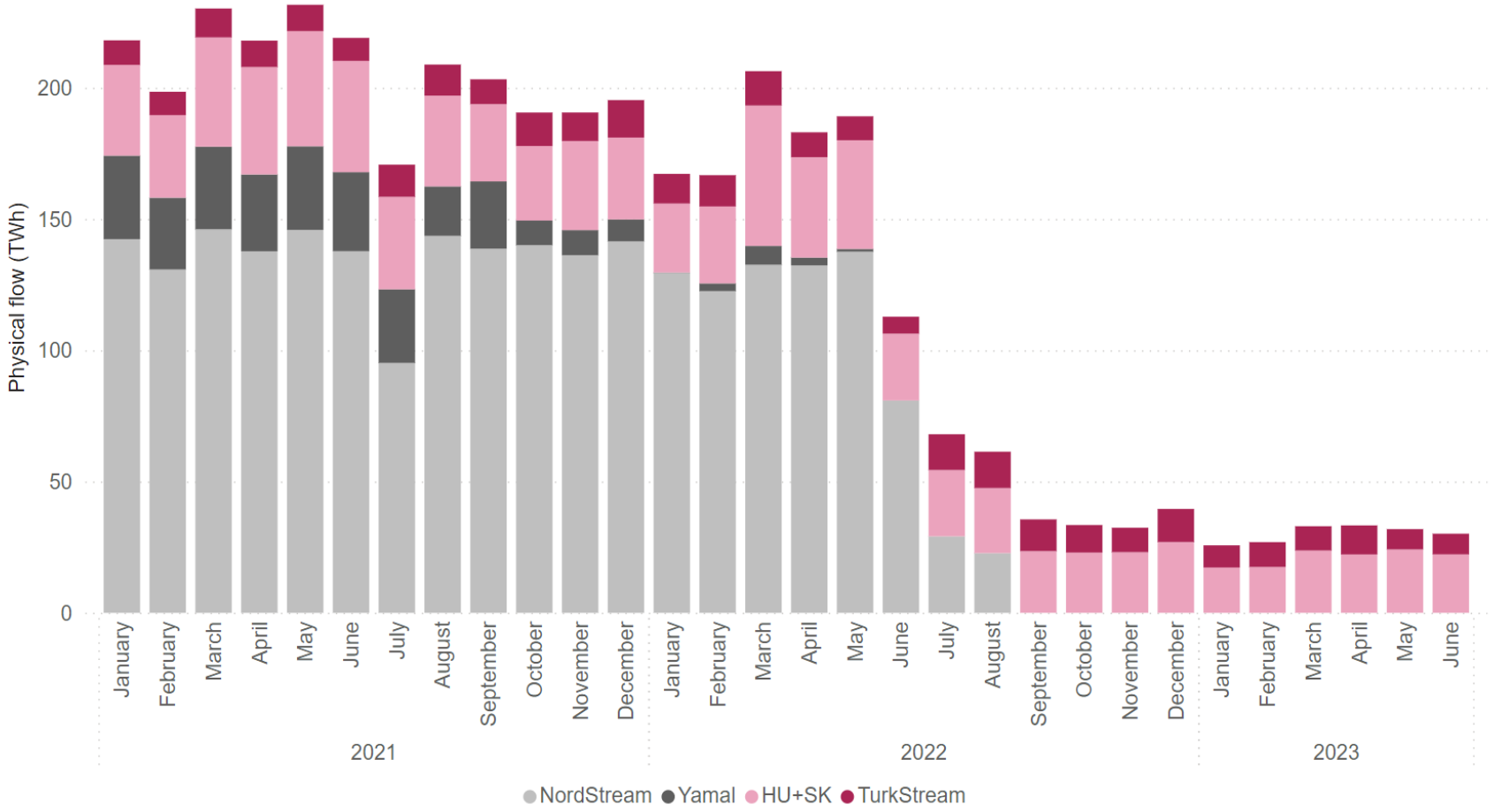
Sources: Agsi, Entso-g

THE ROLE OF RUSSIAN GAS EXPORTS IN THE FUTURE OF EU



EXPERT OPINION:

- Poland terminated its inter-governmental agreement with Russia on natural gas deliveries through the **Yamal** pipeline in May 2022.
- In September 2022 several underwater explosions damaged the **Nord Stream** pipeline, which causing the gas flow to stop.
- Natural gas deliveries through **TurkStream** fell in May to **7.75 TWh** which is the lowest since June 2022. The daily technical capacity is around **0.58 TWh/day** on this pipeline.
- **TurkStream** maintenance started on June 5 and finished as scheduled. The maintenance didn't affect the monthly flow.

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Sources: ENTSOG, Reuters, S&P

GRONINGEN GAS FIELD CLOSURE

~2800 Bcm

Biggest gasfield in Europe

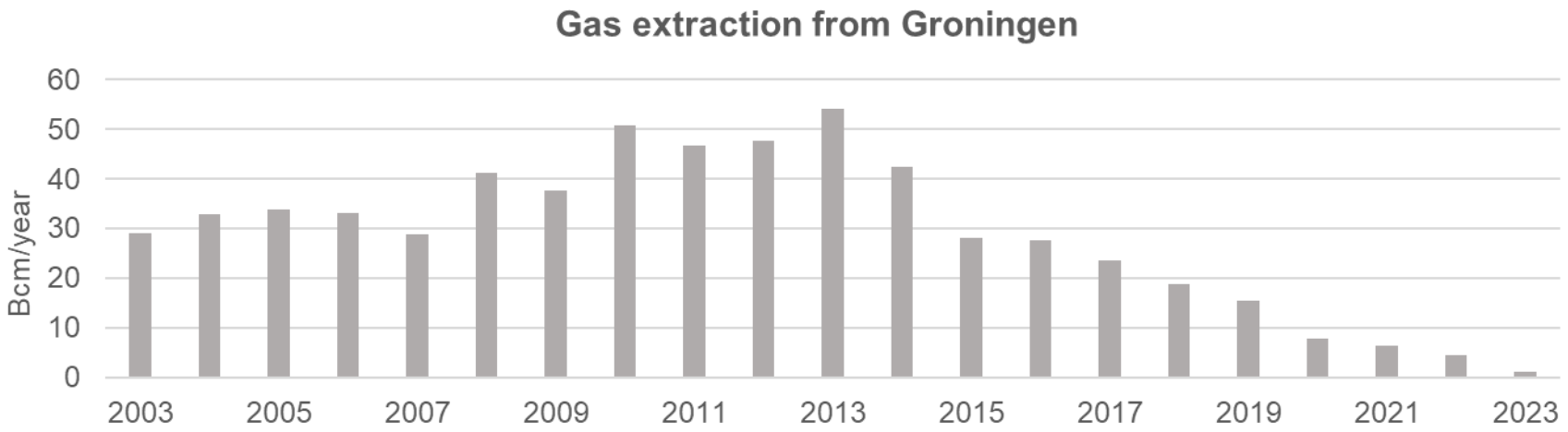
Planned closure Oct 2023

Discovered in 1959

100+ of earthquakes

First earthquake in 1985

Magnitude up to 3.6



EXPERT OPINION:

- Groningen gas field was discovered in 1959 and began production in 1963.
- Groningen gas field is one of the world's largest natural gas fields.
- In the last few years the government wanted to cease gas extraction in the area for safety reasons, after decades of extraction has reduced pressure on the gas-bearing rocks below the surface, causing them to contract.
- **Continuously decreasing production since 2013.**
- Groningen gas field will **shut down permanently from 1 Oct 2023**
- After the closure of Groningen gas field, about **450 Bcm of gas will remain in the ground**, which is around one year's worth of gas demand in the EU.

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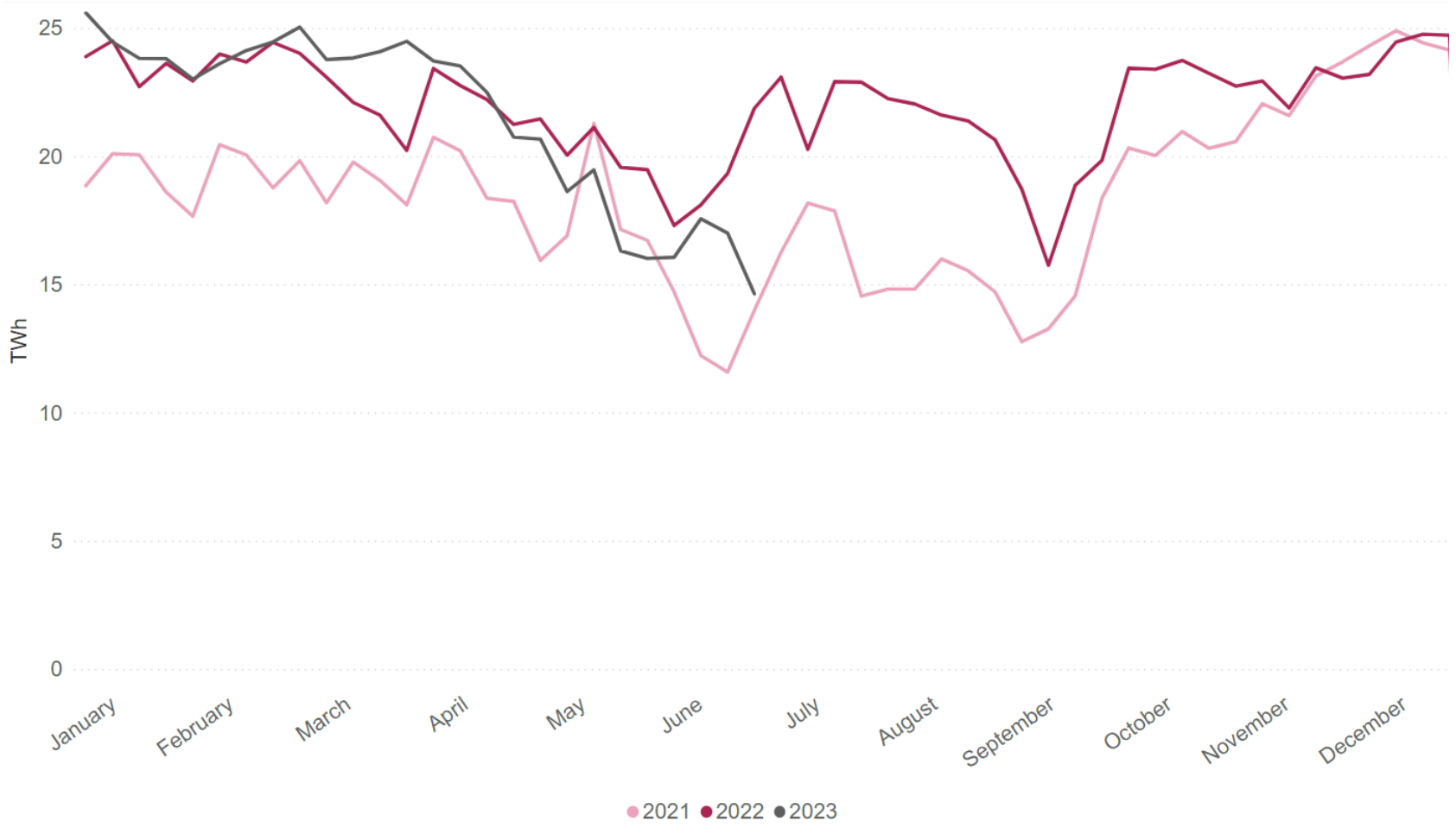
Sources: Bloomberg, Reuters, nlog

NORWEGIAN GAS IMPORT EUROPE



EXPERT OPINION:

- **Norway has become the largest supplier of natural gas to Europe** after the continent cut ties with Russia following its war in Ukraine.
- **Transmission** from Norway to Europe **fell by a third to 2.27 TWh**. **The outages will end in mid-July, but Norway will be undergoing further maintenance work for a month from the end of August**.
- **Prices have risen since the beginning of June due to the market reaction to the shortage of Norwegian gas**, although these maintenance operations are usually carried out during the summer each year.
- **Shell extended the outage to July 15 from 21 June due to problems with the plant's cooling system**. Located in North-western Norway, the Nyhamna gas processing plant processes gas from the Ormen Lange and Aasta Hansteen fields with **779,6 GWh/d of export capacity.**

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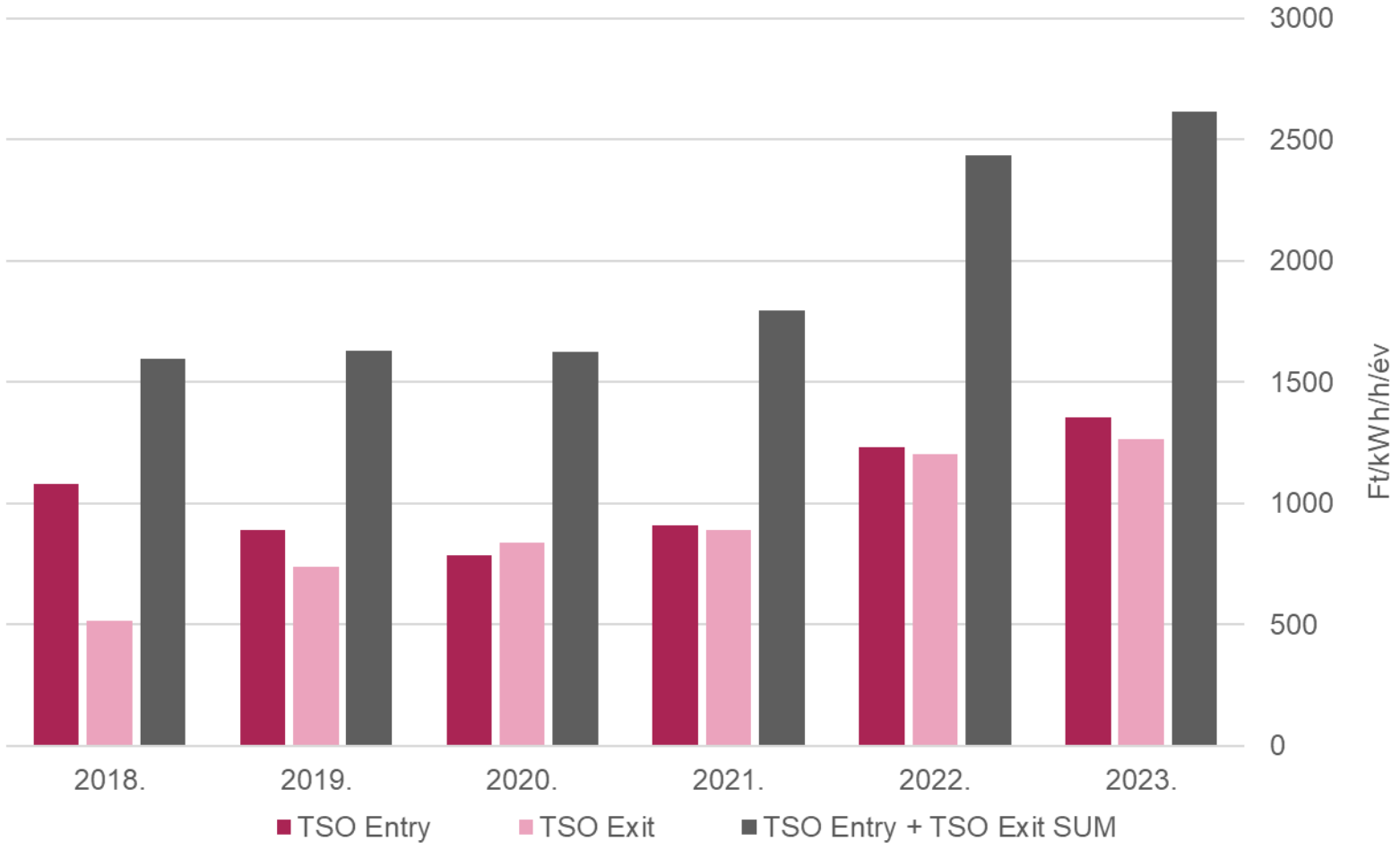
Sources: Entso-g

TSO Capacity tariff price evolution



EXPERT OPINION:

- Because of decreasing volumes MEKH increased capacity tariffs to compensate the income.
- **From Oct. 2023:**
  - TSO Entry fee change: **+9,8%** (YoY)
  - TSO Exit fee change: **+5,1%** (YoY)
- However, the increase in fees is much smaller than compared to the previous year. Which was **36%** and **35%**.

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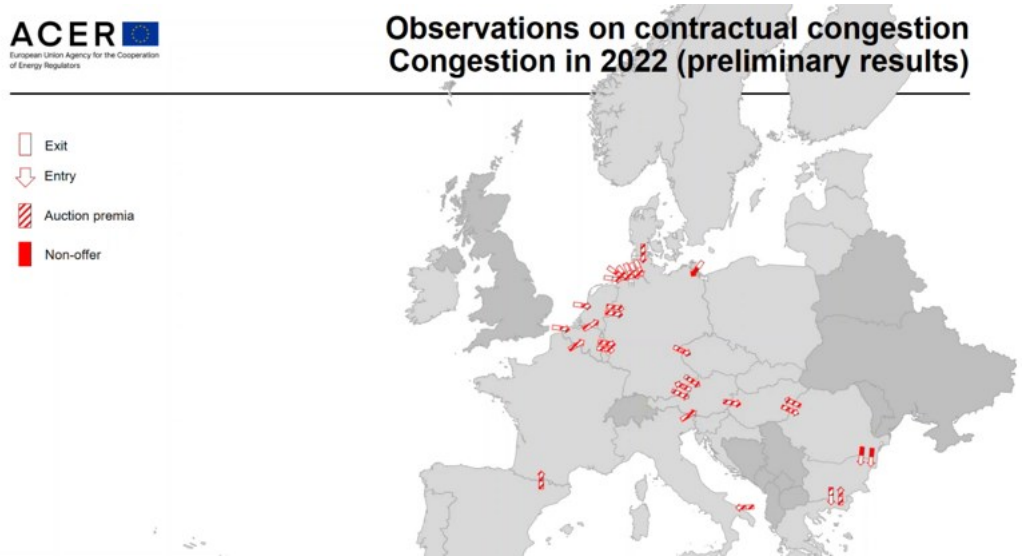
FIRM IP CAPACITY BOOKING CHANGES EXPECTED

- **On 31 May 2023 ACER and ENTSOG proposed solutions for increased flexibility to book firm gas capacity at interconnection points.**
- The story goes back to 2020 January when European Federation of Energy Traders (EFET) proposed to enhance firm IP capacity bookings. Since then, two consultations and a workshop took place. The latter was followed by a FUNC online survey last August. The proposal still requires a consultation before the European Commission would initiate an amendment of the CAM NC.

The proposal is expected to help managing bottlenecks and increase liquidity on gas markets.



The current proposal:

- For WD products the closing time for the first bidding round would be 4.5h earlier
- DA capacities would be available for the next 7 days individually until the end of the month
- In case of Y,Q, M products the capacities which were not allocated would be offered as weekly capacities
- Parallel to Q auctions, those three M products would be also available, which are constituting the given quarter
- BOM would be also introduced for capacity

This way market participants could build capacity products that are available on commodity markets.

For more details download: https://lnkd.in/dGehQhuf

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Source: ACER, ICIS