

## Commodities: Energy concerns ease further

Energy prices came under further pressure in February, particularly when it comes to natural gas. Storage in Europe is looking increasingly comfortable, and it is a similar story for the US natural gas market. Oil prices continue to trade in a range-bound manner



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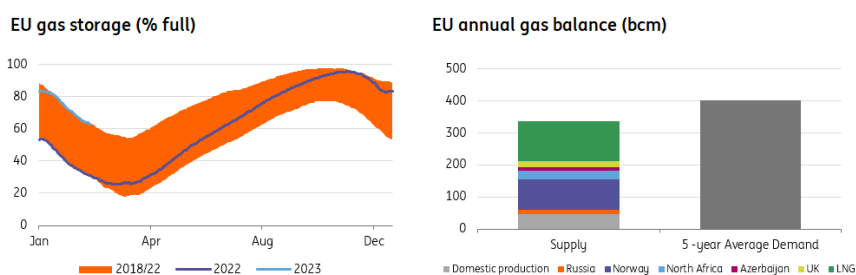
### EU gas storage increasingly comfortable

TTF prices broke below EUR50/MWh in February, the lowest levels seen since August 2021. This has occurred as EU gas storage looks increasingly comfortable. Strong liquefied natural gas (LNG) flows and weaker-than-expected demand has allowed storage to draw at a slower-than-expected pace. We now expect to end this heating season with EU storage at around 54% full, compared to previous expectations of a little over 50%. This is significantly higher than the 26% seen at the end of the last heating season and also above the five-year average of 34%. As a result, the EU will need to only see net additions of around 36bcm over the injection season to hit the EU storage target of 90% by 1 November. Over the same period last year, we saw roughly 67bcm added. This should be much more manageable for the region and in fact, there is a growing risk that storage could essentially be full ahead of the next heating season, which suggests the potential for further

price weakness in the third quarter.

We have revised lower our 2023 TTF forecast from EUR70/MWh to EUR57/MWh. We believe that further downside from current levels is limited as we move further into the coal-to-gas switching range. Lower Asian LNG prices should also start to spark some buying appetite. Risks to our view include a stoppage of remaining Russian pipeline gas flow to Europe, a stronger-than-expected recovery in Chinese LNG demand (we are assuming a little over 10% growth year-on-year) and a stronger European demand response to the more recent weakness in prices. It is worth noting that the EU is still in deficit and so will need to continue to see demand destruction through this year to manage – we are assuming 10% below the five-year average from April onward.

## EU gas storage comfortable but the region is still in deficit



Source: GIE, ENTSOG, Eurostat, ING Research

## US natural gas falls towards pandemic levels

US natural gas prices briefly traded below US\$2/MMBtu in February and hit their lowest levels since September 2020. The US has also seen a largely milder winter this year, which has meant that gas storage has been falling at a slower-than-usual pace. The US went into the 2022/23 winter with natural gas storage 1% below the five-year average at the end of October and, given weaker heating demand, it is now around 15% above the five-year average. This gap is also expected to widen before this winter ends. The extended outage of the Freeport LNG export plant has added further pressure on prices. However, this plant is in the process of restarting, which should provide a further outlet for US gas.

Weaker demand has come at a time when we continue to see supply growth. US natural gas production is expected to grow in the region of 2.2Bcf/day in 2023, which would take total output in excess of 100Bcf/day this year, which would also be record levels. US storage is expected to remain above the five-year average for the remainder of this year, which suggests a limited upside in prices throughout the year.

## Oil market set to still tighten

Oil prices continue to trade in a range-bound manner. Expectations that the oil market will remain well supplied in the near term, along with expectations for a more hawkish Federal Reserve, have kept a cap on prices for the time being.

The market is well supplied in the near term due to Russian supply holding up better than expected. However, we expect that Russian supply will start to decline more aggressively in the months ahead, following the EU ban on Russian refined products. Russia has already announced that it will cut supply by 500Mbbbls/d from March, whilst we expect that Russian output will decline

by a little over 1MMbbls/d YoY in 2023. There are few other suppliers in the market who are able or willing to make up for Russia's shortfall. OPEC has made it clear that it intends to stick to its current cuts throughout the year, whilst US supply growth in 2023 will not be able to make up for the Russian shortfall.

As for demand, we are currently assuming that global demand will grow by 1.9MMbbls/d, which will take demand to record levels this year. This growth is predominantly driven by Asia, specifically China. Given that China dominates global growth, that does leave an obvious downside risk to the market.

Strong demand growth and limited non-OPEC supply growth in 2023 suggest that the market will tighten as we move into the second half of the year. Therefore, we expect Brent to trade back above US\$100/bbl later this year.

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