

Geopolitical environment supports oil as weather sends gas soaring

Commodities have had a strong start to the year. In fact, the Bloomberg Commodity Index is on course for its strongest performance for a January in more than a quarter of a century. Numerous geopolitical risks, policy uncertainty, freezing weather conditions and USD weakness have provided a boost to energy and metal prices



The US gas market has dominated market moves recently, with a severe winter storm across the US raising heating demand and leading to production shut-ins

Oil up for now but surplus set to weigh on prices

Oil prices have held up well so far this year, with several geopolitical events providing support to the market. The US arrest of Venezuela's president and escalating tensions between the US and Iran pose risks to supply, particularly with the latter. An escalation between the US and Iran puts around 1.5m b/d of Iranian oil exports at risk – but clearly, any escalation would also raise concerns over broader Persian Gulf oil flows through the Strait of Hormuz, where roughly 20m b/d moves through.

There have also been disruptions to oil supply elsewhere. This has proved supportive for the prompt Brent timespread, which has strengthened this month. Kazakh oil exports from the CPC

terminal in Russia have been under pressure following drone attacks on the terminal, while oil production from the country has also faced unplanned outages due to power issues. Still, these flows are set to recover in the weeks ahead. Meanwhile, freezing weather conditions in the US not only provide support to demand for heating fuels but also pose a risk to some US oil production and refinery operations.

However, the scale of the expected oil surplus in the market suggests that if and when geopolitical risks ease, we should see oil prices coming under pressure. We continue to hold onto the view that ICE Brent will average \$57/bbl over 2026. A weakening in timespreads would make us even more confident in the view of lower oil prices.

Natural gas prices surge on US deep freeze

Natural gas prices have seen significant strength through January. Initially, strength was seen in the European market, with colder weather, tighter storage, and speculative short-covering providing a boost to TTF.

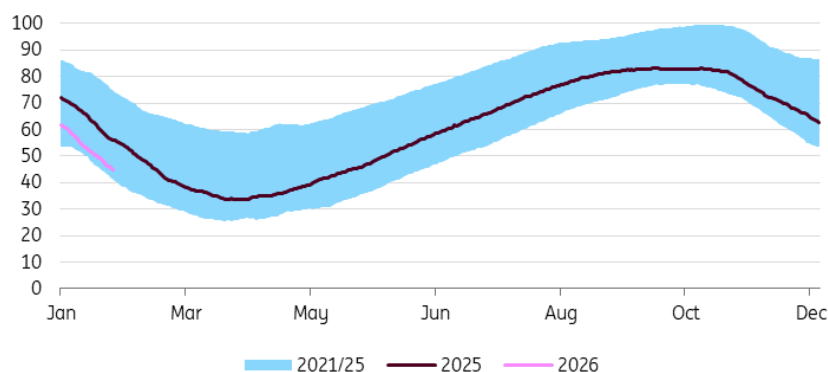
However, more recently, the US gas market has dominated market moves, with a severe winter storm across the US raising heating demand and leading to production shut-ins. This saw Henry Hub front-month futures more than double in as little as 10 days, trading to their highest levels since 2022. Speculators were also caught off guard, holding a net short in Henry Hub ahead of the storm. Short covering from speculators would have only added fuel to the fire. The impact of the storm is likely to lead to a significant drawdown in US natural gas storage, but given that storage was very comfortable ahead of the storm, it should be manageable; we expect that prices will correct lower, assuming no longer-term impact on supply from the storm.

The US winter storm has raised further supply concerns for Europe, with US LNG plants having reduced operating rates, suggesting that US LNG flows to Europe could slow. This has led to European gas prices trading at a large premium to Asia to ensure LNG cargoes are directed to Europe.

It is looking increasingly likely that EU gas storage will finish the 2025/26 heating season below 2022 levels. However, the difference between 2022 and 2026 is that now we have a sizeable amount of LNG export capacity ramping up, which should ease supply concerns in the medium to long term. In addition, there is much less uncertainty over Russian gas flows to Europe in 2026 than in 2022.

We retain our forecasts for TTF to average EUR33/MWh over the first quarter of 2026 and EUR30/MWh over the full year 2026.

EU gas storage tighter than usual (% full)



Source: GIE, ING Research

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