

## Commodities: Milder winter offers some comfort to energy markets

A mild European winter has seen gas prices continue to collapse in January and Europe is likely to get through this winter in a comfortable state. However, there are still clear upside risks. Oil prices have been more rangebound, but we see prices moving higher later in the year as the market tightens



A mild winter has allowed Europe to build up its gas storage levels

### Drastic change in the natural gas outlook

A late start to the 2022/23 heating season saw Europe building gas storage almost until mid-November. At a little more than 95% full, storage was essentially maxed out. This was far above the target of 80% by 1 November 2022 set by the European Commission. While there have been some cold spells in the current heating season, it has been largely mild, which has meant storage levels have held up well. In fact, there have been days this winter when storage has seen net increases. Storage at the moment is around 72% full, well above the five-year average of around 53% for this time of year.

Assuming Europe does not experience a prolonged cold spell in the current heating season, the region should exit the 2022/23 winter with storage above 50% full. This is significantly higher than the 26% seen at the end of the last heating season and above the five-year average of 34%.

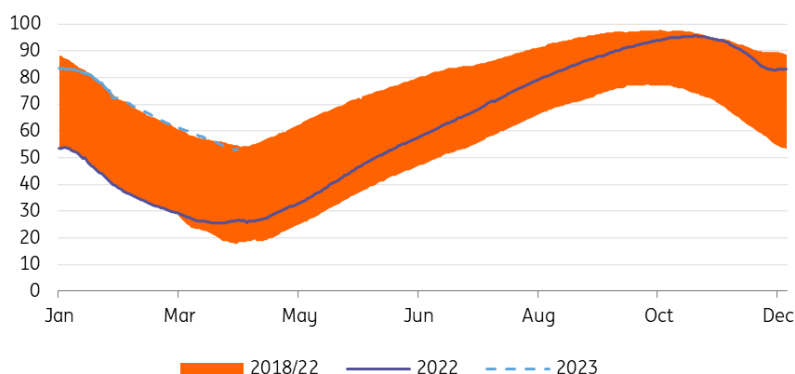
Ending this winter with very comfortable inventories makes the job of refilling storage over the injection season and hitting EU inventory targets of 90% by 1 November 2023 easier. Between 1 April and the end of October last year, the EU added in the region of 67 billion cubic metres (bcm) to storage. If we were to see similar storage levels at the start of the next heating season, the EU would only need to add around 43bcm of gas this year.

A more comfortable European balance suggests that prices do not need to trade as high as initially expected, although prices will still remain historically high in order to ensure adequate demand destruction and liquefied natural gas (LNG) supply. We expect TTF to average EUR70/MWh over 2023 with prices peaking over the fourth quarter of 2023 to average EUR80/MWh.

The assumption to these forecasts is that we do not see a further decline in remaining Russian pipeline flows to Europe, and that Europe sees a marginal increase in LNG imports in 2023 (this would mean not seeing a return to 2021 LNG import volumes for China) and that we see demand destruction in the region of 10% from April 2023 onwards. These factors should ensure that the EU hits its target of having storage at least 90% full by 1 November 2023.

Clearly, an upside risk to our view is if we see Russian flows fall further and/or stronger-than-expected Chinese LNG imports in 2023.

## EU storage to exit this winter comfortably (% full)



Source: GIE, ENTSOG, Eurostat, ING Research

## Oil market set to tighten

Oil prices have been trading in a largely rangebound manner so far this year, although there is still plenty of uncertainty over the demand outlook (which will really depend on how strong a recovery we see from China this year) and Russian oil supply.

Global oil demand is expected to grow in the region of 1.7MMbbls/d this year, which would take global oil demand above pre-Covid levels and to a record 101.3MMbbls/d. Around 50% of global demand growth is expected to come from China this year, following the reversal of its zero-Covid policy.

As for Russian supply, the EU ban on Russian seaborne crude oil imports came into force in December and whilst there was an initial drop in Russian seaborne export volumes, we have seen a recovery. On 5 February, the ban will include Russian refined products, which could prove more disruptive for oil markets, given the challenge of rerouting refined products that would have gone

to the EU to other destinations. We expect that the Russian oil supply will fall in the region of 1.3MMbbls/d year-on-year in 2023 due to the EU ban on Russian crude and refined products. Clearly, the risk to this view is if Russia manages to find new homes for its refined products, much like it has done with increased crude oil flows to India and China.

The oil market is comfortably supplied over the first quarter of the year with Russian supply holding up better than expected, whilst a milder winter will also mean reduced fuel demand for heating purposes. This leaves the oil market in surplus over the first quarter, which suggests that the upside for prices is limited in the short term. However, in the medium to long term, the market is expected to tighten which should see prices moving higher from the second quarter onwards. We expect ICE Brent to average US\$100/bbl over 2023, with the bulk of strength coming in the second half of the year, when we see prices averaging US\$108/bbl.

## Author

### Warren Patterson

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).