Oil demand worries and natural gas supply risks

Demand concerns and prospects for a supply surplus in 2025 have weighed on oil prices; we've revised lower our Brent forecast for the rest of the year. European natural gas prices remain elevated on the back of supply risks

The European natural gas market is nervous about ongoing maintenance in Norway

Demand fears weigh on oil

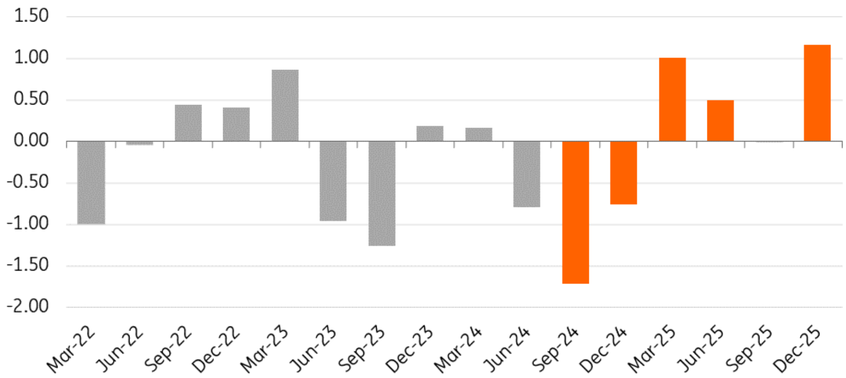
Oil prices saw a fair amount of volatility in August. In fact, implied volatility in ICE Brent hit a year-to-date high during the month. Several supply risks have arisen, providing a short-term boost to prices. However, this has been short-lived, with demand concerns continuing to weigh on sentiment.

Demand concerns are centred around China, where cumulative imports over the first seven months of the year are down 2.1% year-on-year, while apparent domestic consumption has fallen year-on-year for the last four months. Given that China is expected to make up a significant portion of global oil demand growth, weaker domestic demand has had an impact on oil prices. However, global oil demand is still expected to grow in the region of 1m b/d in 2024 and by a similar amount in 2025.

A key uncertainty for the market is OPEC+ policy. OPEC+ members are scheduled to start unwinding their additional voluntary cuts from October 2024 until the end of September 2025. The process should see the group bringing more than 2m b/d of oil back onto the market. However, the group stated from the beginning that plans to bring this supply back can be paused or reversed depending on market conditions. Demand concerns and the fact that Brent is trading below US$80/bbl could delay plans to increase supply. However, much will also depend on how the situation in Libya evolves. A dispute between the Western and Eastern governments in Libya has seen the eastern government shutting down oil fields, putting 1.2m b/d of oil supply at risk. If this dispute lingers, it could provide OPEC+ members the opportunity to increase their supply without actually seeing a net increase in global oil supply.

Weaker Chinese demand has led us to revise our Brent forecast lower for the remainder of the year. We now expect ICE Brent to average US$80/bbl in the fourth quarter of this year, down from our previous forecast of $84/bbl. In addition, our balance is showing a slightly larger surplus in 2025, which has led us to cut our 2025 Brent forecast from an average of $79/bbl to $77/bbl. Our balance sheet assumes that OPEC+ will stick to its plan to unwind additional voluntary supply cuts.

Global oil market to return to surplus in 2025 (m b/d)



Source: ING Research, IEA, EIA, OPEC

Supply risks propping up European natural gas

The European natural gas market was well supported in August. TTF traded above €40/MWh on several occasions during the month. The strength in the market is due to increased speculative activity caused by growing supply risks, rather than fundamentals becoming increasingly bullish. Speculators built their net long in TTF to a record high in August.

There are several supply risks facing the market. This includes concern that remaining Russian pipeline flows via Ukraine could be disrupted due to recent developments between the two countries. Ukrainian attacks in the Kursk region of Russia, specifically near the Sudzha entry point, where Russian pipeline gas enters Ukraine before making its way to the EU, threaten around 40mcm/day of supply to Europe, equivalent to almost 15bcm of natural gas annually. However, for now, these flows remain uninterrupted.

Russian pipeline gas via Ukraine is still set to stop at the end of this year. Ukraine has made it very clear that it has no intention to extend the transit deal with Russia, which expires on 31 December

2024. The EU and Ukraine are looking at alternatives, including a possible gas swap with Azerbaijan. No renewal in the transit deal should be largely priced into the market, given that Ukraine has made its position clear over the past year. However, there is still the potential for a knee-jerk reaction in prices, particularly if the 2024/25 winter is colder than usual.

The market is also nervous about ongoing maintenance in Norway. This maintenance has led to a drastic reduction in Norwegian gas flows to Europe. While this maintenance is scheduled, and not a surprise to the market, there is concern over the potential for an overrun in work, which could leave the market tighter than expected going into the next heating season.

Supply risks and healthy speculative appetite in the gas market have forced us to revise our forecasts for the remainder of 2024. We expect TTF to average €37/MWh in the fourth quarter of 2024, up from €35/MWh previously. Although, this suggests that we still see prices trading down from current levels. Storage is more than 92% full and hit the European Commission's target two months early. We expect storage will be close to 100% full by the start of the 2024/25 heating season.

In addition, further LNG capacity is expected to ramp up later this year and in 2025, leaving the global LNG market more comfortable next year. As a result, we continue to expect TTF to average €29/MWh in 2025.

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