The Commodities Feed: European gas surges on payment uncertainty

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Gas storage tank

Energy

Oil prices surged by more than 5% yesterday, which saw Brent settling above $120/bbl. A key driver for the move appears to be further supply disruptions from the Black Sea. The Caspian Pipeline Consortium terminal on Russia's coast has suspended the loading of cargoes due to damage caused by bad weather recently. It is expected that this disruption could last for weeks and could see exports fall by 1MMbbls/d. The terminal exports oil from Kazakhstan which arrives at the terminal by pipeline. Clearly, this disruption comes at a bad time for the oil market, which is already dealing with significant tightness due to the self-sanctioning of Russian oil.

The latest numbers from the EIA show that US commercial crude oil inventories declined by 2.51MMbbls over the last week, although when factoring in SPR releases, total crude inventories fell by 6.7MMbbls. The drawdown in stocks was largely driven by an increase in export volumes with them growing by 908Mbbls/d over the week. In addition, refinery run rates edged higher, which saw crude inputs increase by 277Mbbls/d. However, crude oil stocks did increase by 1.24MMbbls at Cushing. This is the second week where inventories at the WTI delivery hub have edged higher, and so likely easing some concerns over tank bottoms. Although for now, this is not reflected in the prompt WTI time spread, where the backwardation has only deepened in recent days. Refined products saw a further decline in inventory levels, with gasoline and distillate fuel oil stocks falling by 2.95MMbbls and 2.07MMbbls respectively.

The European natural gas market saw significant strength

The European natural gas market saw significant strength yesterday, rallying by more than 18% and seeing prices briefly breaking above EUR130/MWh. The catalyst for the move was an announcement that Russia would require all countries they deem as 'unfriendly' to pay for gas in rubles. Given that the EU is classed as 'unfriendly' this would apply to gas flows to Europe. It would appear that the move is an attempt to prop up the ruble, which has come under pressure since the implementation of sanctions. However, this move leaves plenty of uncertainty in the gas market. Under contracts, unless there is an option for ruble payment, it may be difficult to implement. Several European buyers have already said they will continue to pay in euros, given that their contracts do not allow for such a change. However, if Russia insists on ruble payment, this would potentially leave other parts of these contracts open to renegotiation, such as their duration. The other issue is that even if a buyer is willing to pay in rubles, it may prove quite challenging given the sanctions put in place against a number of Russian banks. Clearly, the uncertainty over how this will play out means that European prices will likely remain well supported.

The European Commission (EC) yesterday also put forward proposals to ensure adequate natural gas supply over the winter. The EC is proposing that gas storage will need to be at least 80% full by 1 November. This will then increase to 90% in the following years. There will also be intermediary targets during the injection season that storage operators will need to meet. In addition, the EC is proposing a new mandatory certification for all storage operators. This would be to reduce the risk of outside influence on what is classed as critical infrastructure. Non-certified operators would have to give up control of their EU gas storage facilities. In cases where such divestment is necessary, the operator would receive 'fair compensation' for storage facilities.

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