

# The Commodities Feed: European natural gas uncertainty

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## Energy

Oil prices managed to continue edging higher yesterday. ICE Brent settled a little over 1% higher on the day, appearing to follow US equities higher. Fundamentally, there was very little in the way of fresh drivers for the crude market. Prompt ICE Brent time spreads have also surged with the recent strength seen in the flat price. The Sep/Oct spread has traded to a backwardation of almost US\$4.50/bbl - highlighting the tightness that still persists in the oil market.

Yesterday, the Saudi Foreign Minister said that there is no lack of oil in the global market and said that instead, the issue was on the refining side. Clearly, the crude market is tight, but refined product markets have been much tighter this year. This is evident when looking at the performance of refined product prices relative to crude oil over the course of this year. There has been a lack of investment in refining capacity, and in 2021, global refining capacity shrunk for the first time in 30 years. The one region where there is a significant amount of spare capacity is China. However, this is providing little help to the global market, given that China has been reducing refined product export quotas for the last couple of years.

The European gas market had another volatile day yesterday with TTF prices trading within a EUR13/MWh range. Although the market still settled lower on the day despite continued concerns over what will happen with Russian gas flows once maintenance of the Nord Stream pipeline finishes on Thursday. ,Russia's Putin has said that gas flows along Nord Stream could fall further, from roughly 60mcm/day to 30 mcm/day, if a turbine (which has been held up in Canada, but is now set to be returned) is not replaced quickly. This would leave Nord Stream operating at only around 20% of capacity. The EU however, is working with the assumption that gas flows along the pipeline won't restart according to the EU's Budget Commissioner. The Commission is also looking to set a voluntary target to reduce gas demand by 15%, with the possibility of mandatory cuts if the situation deteriorates further.

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