

COLUMN-Surging European gas prices to drive down pre-winter demand: Kemp - Reuters News

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LONDON, Sept 14 (Reuters) - European gas prices are surging in an effort to avoid a continent-wide energy shortage this winter by incentivising power producers to switch back to coal and industrial users to consider temporary plant closures. .

European benchmark futures for delivery in January 2022, when heating demand is expected to peak, have hit a record 66 euros (\$78) per megawatt-hour, up from 16 euros a year ago.

Prices have accelerated since the start of April, when gas in storage first began falling below the pre-pandemic five-year average for 2015-2019, signalling an impending shortfall.

Since then, storage facilities have filled more slowly than normal, despite soaring prices, as Europe has struggled to import sufficient gas to reduce the deficit (<https://tmsnrt.rs/3lqgqkV>).

European importers have been locked in competition with Asian buyers to attract extra liquefied natural gas (LNG) cargoes, while pipeline deliveries from Russia have failed to respond.

Unusually slow wind speeds have reduced wind-farm power output in recent weeks, forcing generators to run gas-fired units for more hours, despite the rising

cost of fuel.

As a result, storage across the region is now only 71% full, compared with a pre-epidemic average of 84% for this time of year, according to data from Gas Infrastructure Europe.

Storage rates have not been below 77% at this point of the year throughout the past decade, threatening the region with a gas shortage this winter.

With gas accounting for 19-20% of Europe's primary energy consumption, and the same percentage of electricity generation, the shortfall raises the risk of a wider energy crunch.

The gas price rise, which is helping curb consumption, is being driven primarily by a physical shortage, although it is also likely that it is being anticipated, accelerated and magnified by financial traders.

In response, ultra-high prices will encourage electricity generators to minimise gas-firing and maximise other output (mostly from coal) to stretch gas stocks as much as possible.

Industrial users with heavy gas consumption, including steelworks, cement, ceramics, glassware, fertilisers and petrochemicals, will have to consider whether to reduce output or close temporarily to reduce fuel costs.

In some instances, industrial buyers with long-term gas contracts may be able to sell gas back into the spot market more profitably than using it themselves, increasing availability further.

Since the middle of August, with mid-winter futures climbing above 35 and then 40

euros, the storage deficit has improved slightly, suggesting price-driven gas rationing is starting to work.

Like other commodity markets recently, including lumber, gas prices have probably overshot their sustainable level.

Some of the speculative "frothiness" that has built up in recent weeks is likely to deflate as initial signs of market rebalancing become clearer.

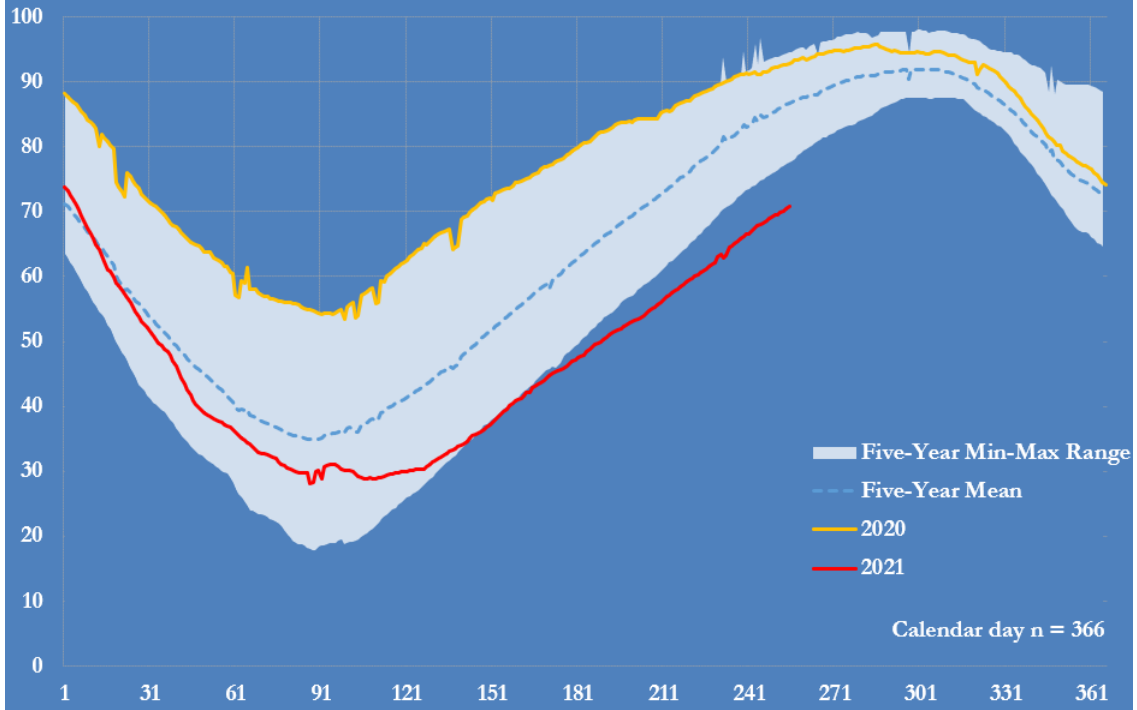
But prices are likely to remain elevated for some time, until evidence emerges of demand destruction in the form of reduced gas generation, industrial plant closures and resales, increased deliveries from Russia and LNG, or the winter proves milder than usual.

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(Editing by Edmund Blair)

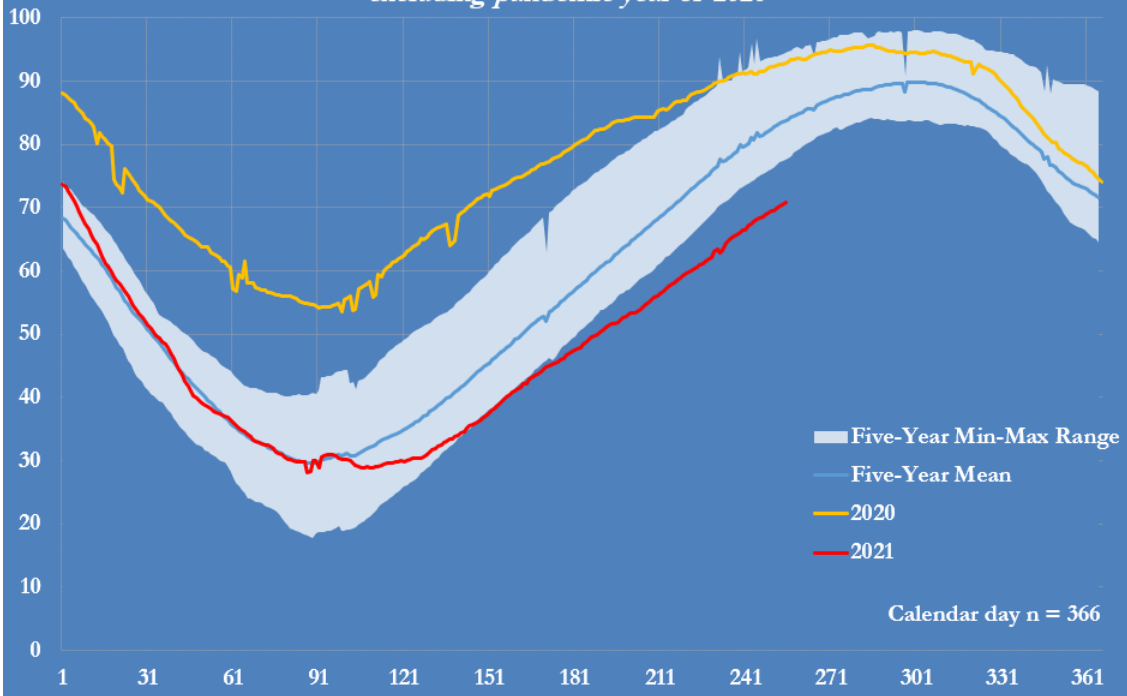
European natural gas inventories reported stocks as percent of total storage capacity



Source: Gas Infrastructure Europe

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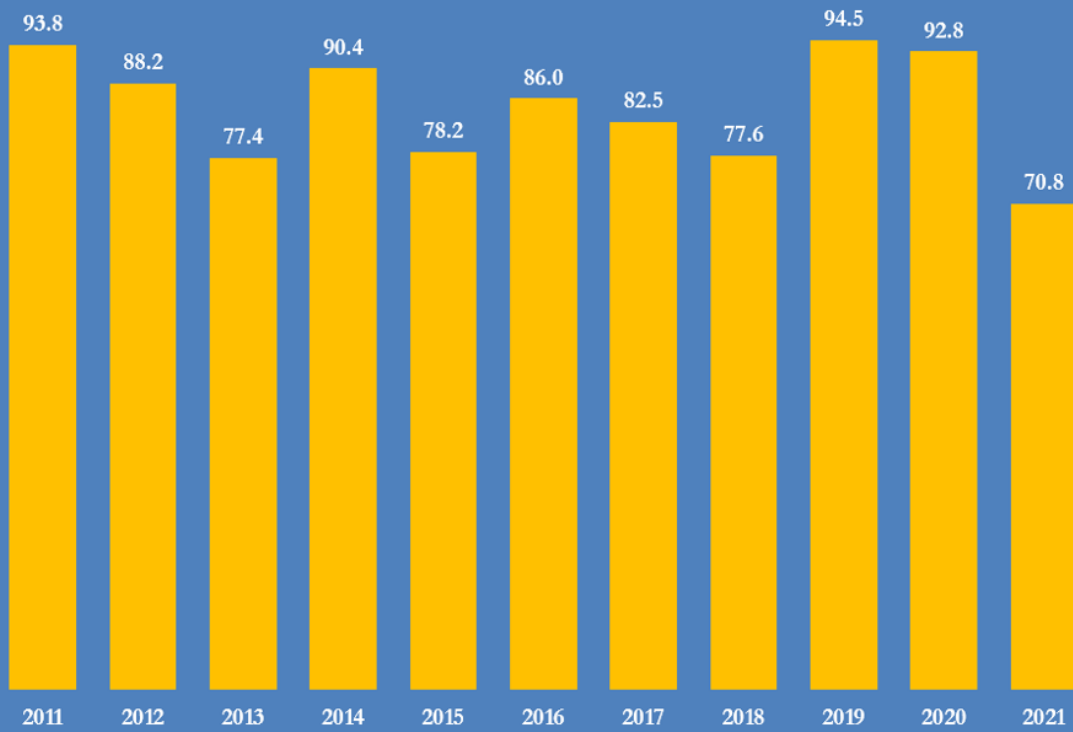
European natural gas inventories
reported stocks as percent of total storage capacity
excluding pandemic year of 2020



Source: Gas Infrastructure Europe

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European natural gas storage, 2011-2021
reported inventories as percent of total capacity each year on Sep 12



Source: Gas Infrastructure Europe

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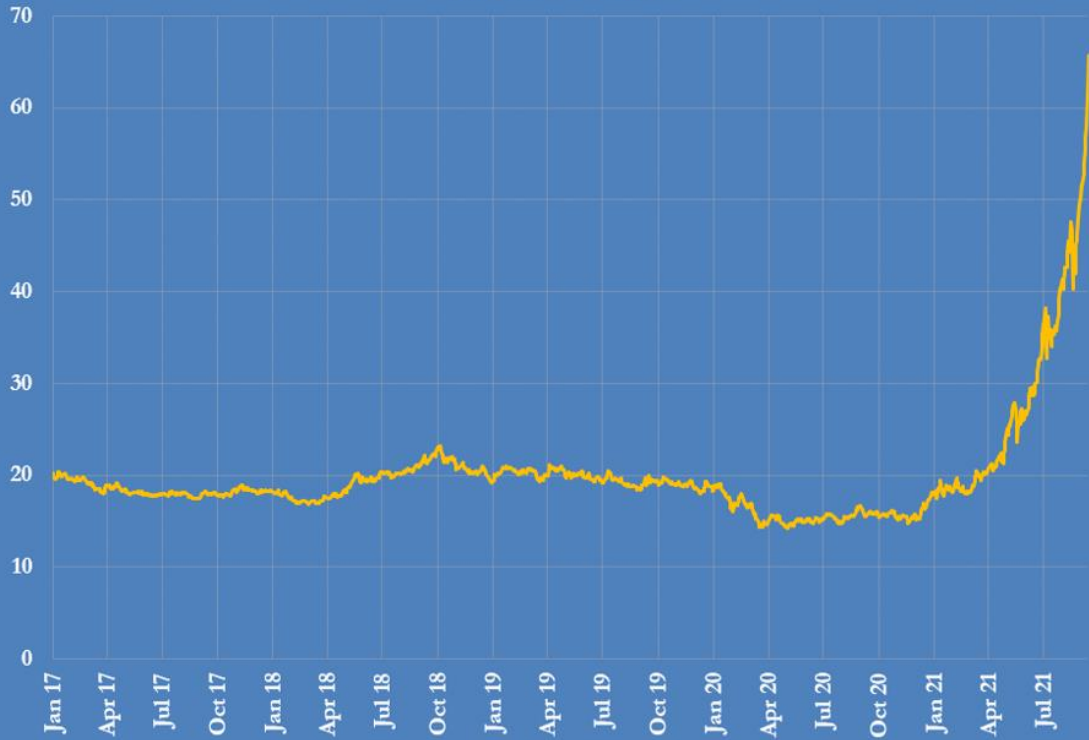
European natural gas storage, 2021 percentage points, surplus (+) or deficit (-) to five-year average



Source: Gas Infrastructure Europe

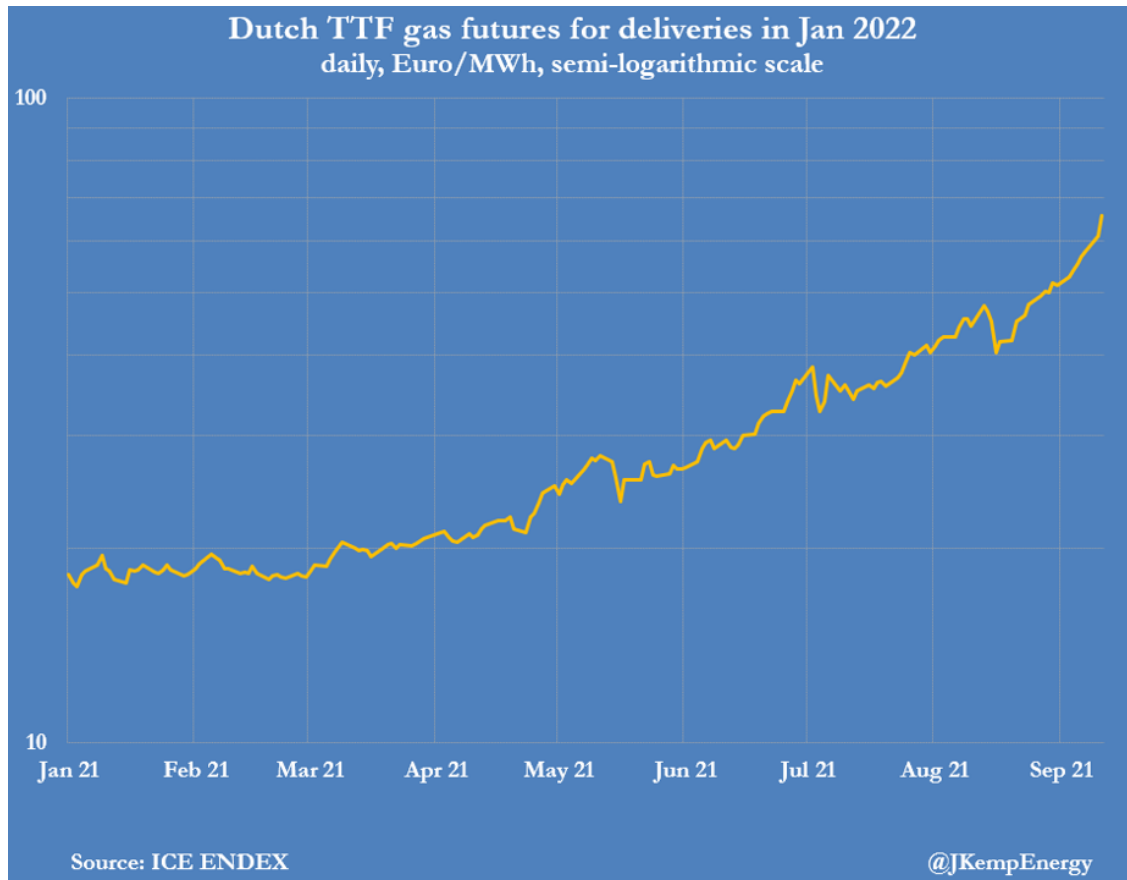
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Dutch TTF gas futures for deliveries in Jan 2022 daily, Euro/MWh



Source: ICE ENDEX

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