

# European natural gas outperforms US natural gas and could explode higher

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## Key Takeaways

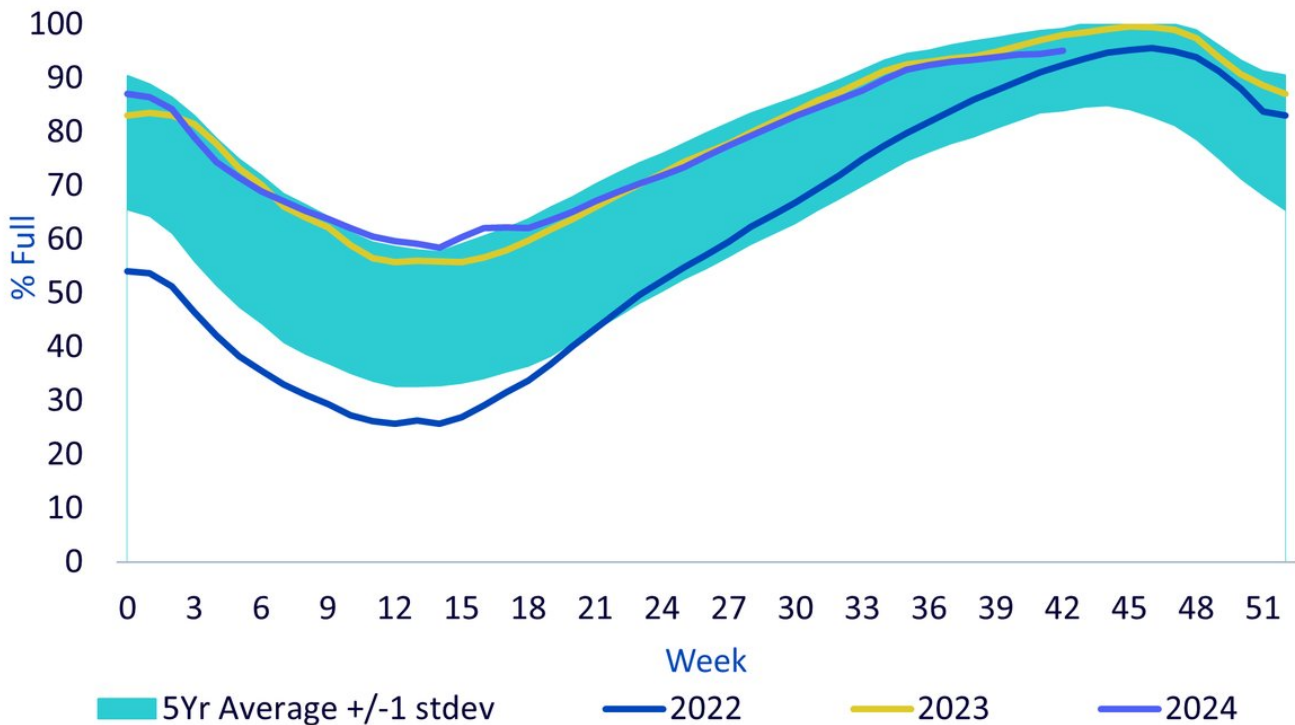
- European natural gas has outperformed US natural gas.
- While 95% full sounds like a lot, European gas storage at these levels is below last year's levels and injections are decelerating.
- We may not be lucky with a mild winter again and a La Niña weather pattern favours colder temperatures.
- Gas supplies from Russia are likely to fall further, tightening the European markets.
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While front month US Henry Hub (HH) natural gas prices are down 12% since the beginning of the year, front month Dutch Title Transfer Facility (TTF) natural gas prices are up 28%<sup>1</sup>. In recent years, energy price shocks have hit Europe harder than the US, spiking European gas prices by a greater amount. With the European gas system more reliant on storage than any time in the past, gas prices are likely to be more volatile.

## Is 95% full enough?

Natural gas stores in Europe are 95% full<sup>2</sup>, but that only equates to 29 days of consumption. This time last year, natural gas storage levels were 99% full and we had a mild winter. Natural gas injections into storage have slowed relative to past seasonal trends.

## European Gas Inventory



Source: Bloomberg, Gasunie, Aggregate Gas Storage Inventory, 31/10/2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

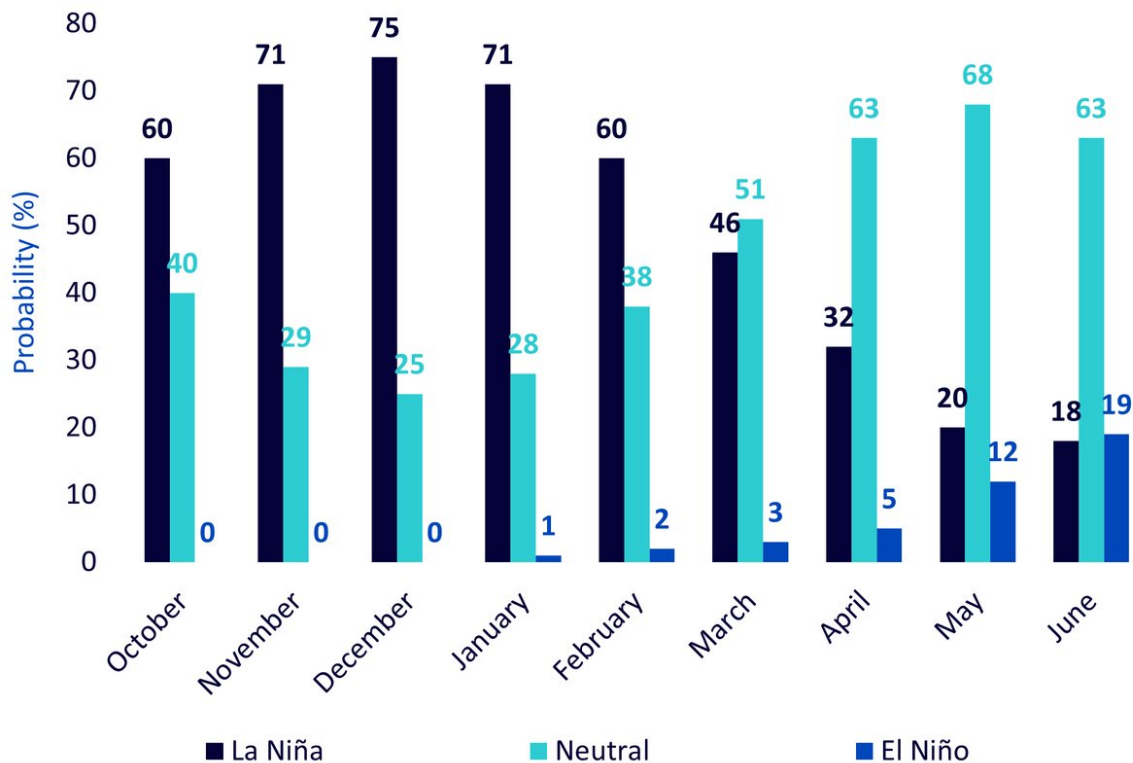
Europe is competing with Asia for liquified natural gas. Should China successfully boost its economy with the monetary and fiscal stimulus it has announced, that could increase its energy needs over coming months and make the LNG market even more competitive.

Assuming normal weather conditions this winter, we are likely to see a draw down to 40% of capacity at the trough. However, a colder winter (such as the winter of 2020) could see a more aggressive draw, to 35%. Storage levels that low were last seen in 2022 – a year in which TTF gas prices rallied by several hundred percent<sup>3</sup>.

## La Niña weather risks loom

There is no guarantee of a mild winter again. In fact, a La Niña weather pattern, which has a 75% chance of forming this winter according to National Oceanic and Atmospheric Administration's Climate Prediction, usually brings colder weather for Europe.

## El Niño Southern Oscillation Forecasts

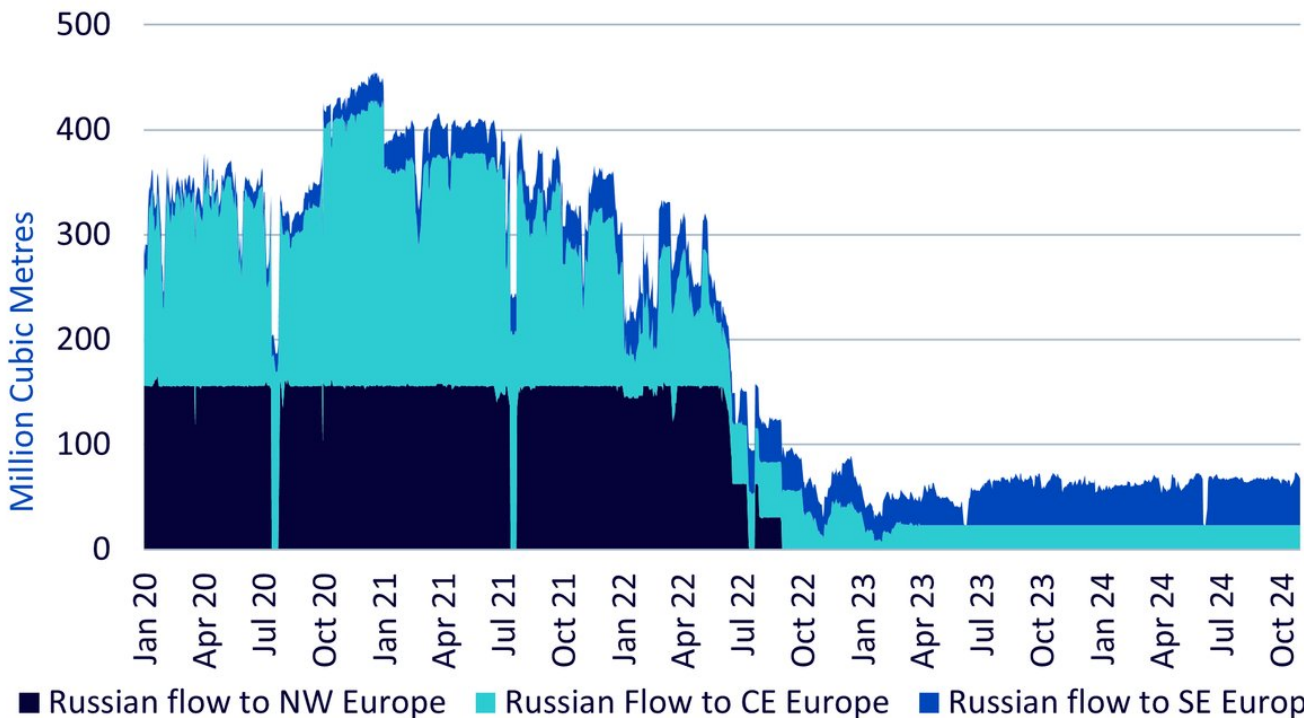


Source: Official National Oceanic and Atmospheric Administration's Climate Prediction, 10 October 2024. La Niña is a cold phase of an El Niño Southern Oscillation (ENSO) and El Niño is a warm phase of an ENSO. Both extremes cause changes in world trade wind patterns (compared to ENSO neutral phases) and thus change weather patterns. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

## Remaining Russian pipeline flows at risk

On 1 January 2025, a major contract governing the transit of Russian gas through Ukraine will end, with significant implications for remaining Russian gas exports to some European Union countries. Despite the war in Ukraine, gas has continued to flow through a pipeline via the country and there has been no significant disruption to these gas supplies so far, even though Ukraine as part of its incursion into Russia's Kursk region has taken control of the only active metering station for the entry of Russian gas to Ukraine, at Sudzha. We doubt that the contract will be extended. In the first eight months of 2024, 5% of all Europe's natural gas imports came from Russian gas via pipeline through Ukraine. Wiping that out, could make European natural gas supplies much tighter.

## Russian Gas Flow to Europe



■ Russian flow to NW Europe ■ Russian Flow to CE Europe ■ Russian flow to SE Europe  
 Source: WisdomTree, Bloomberg. Data from January 2020 to October 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

## Conclusions

Dutch Title Transfer Facility have outperformed their US equivalent. While 95% full sounds nice, storage at these levels are below last year's levels and injections are decelerating. We may not be lucky with a mild winter again and a La Niña weather pattern favours colder temperatures. Gas supplies from Russia are likely to fall further, tightening the European markets.

1 Source: Bloomberg, 31/10/2024

2 Source: Gasunie, Aggregate Gas Storage Inventory, 31/10/2024

3 Source: Bloomberg New Energy Finance

4 Bruegel, 17 October 2024

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