Winter is coming: Risks and opportunities in natural gas

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Key Takeaways

- Low European gas storage heightens the risk of a winter price spike.
- Long TTF exposure offers a direct way to position for tighter European gas markets.
- US Henry Hub prices reflect more comfortable supply conditions, but winter contracts carry an elevated seasonal premium.
- A Henry Hub calendar spread may benefit if this premium normalises.

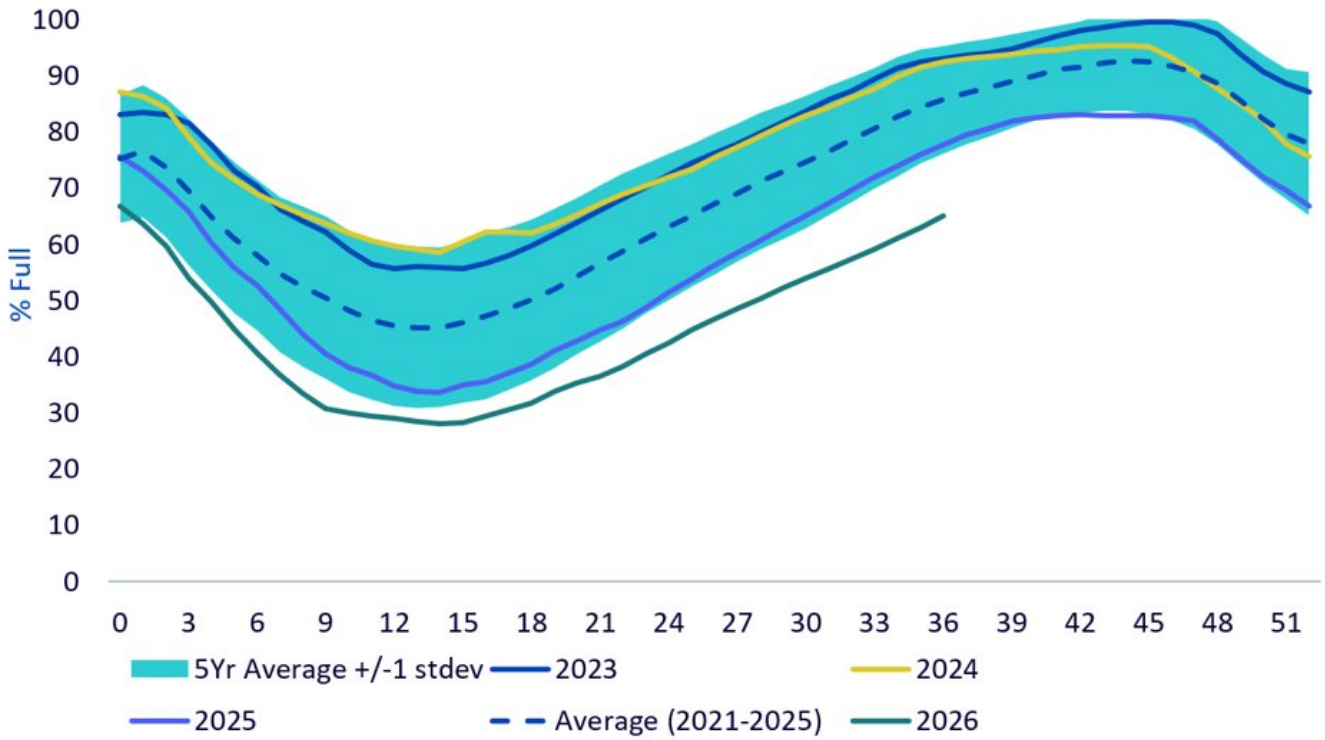
With the Strait of Hormuz disruption, historically low European gas storage levels, and last year's dramatic price spike still fresh in memory, natural gas is back at the centre of market attention, and winter hasn't even started yet. As temperatures eventually will drop later this year, the combination of tight supply and weather-driven demand could make this one of the more volatile heating seasons in recent years.

This blog explores two distinct ways to position around that volatility: a straightforward long position via exchange-traded commodities on European Title Transfer Facility (TTF) gas and a calendar spread strategy of US Henry Hub Natural Gas aiming to exploit rich seasonal risk premia. Each approach carries its own risk and reward profile and limitations. This blog examines the potential risks, rewards and limitations of each approach.

Europe’s tight gas market

European natural gas storage is at its lowest level on record for this time of year (since 2010), at only 65% full (Figure 1). The European Union's headline storage target remains 90%, although the European Commission has encouraged countries to make use of regulatory flexibilities and has indicated that storage of around 80% would be sufficient to secure supply for winter 2026/27.[1] Even reaching an effective threshold of around 75%, after adjusting for country-specific derogations, could prove challenging. More than 100 terawatt-hours of additional gas, worth over €7 billion at current prices, would be required to reach that level.[2]

Figure 1: European gas storage is well below historical seasonal levels

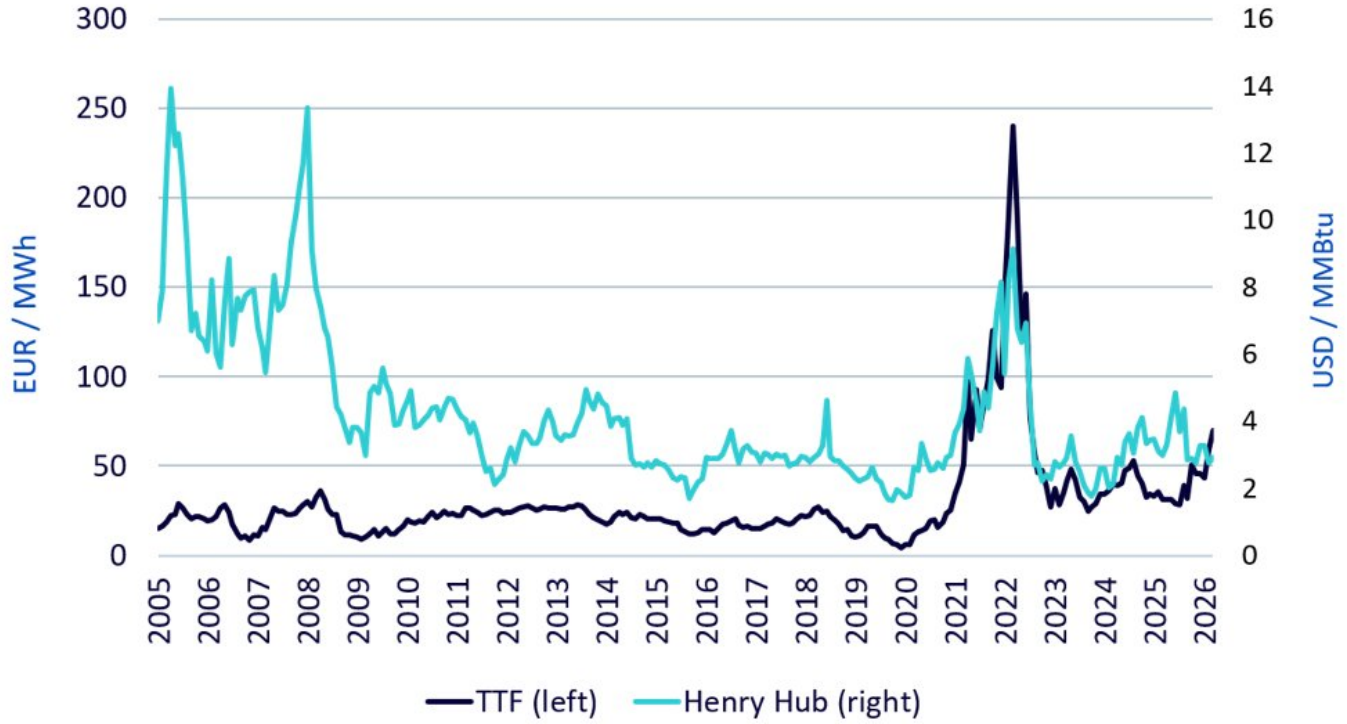


Source: WisdomTree, Bloomberg Finance L.P., from 2021 to 2026 based on weekly data. **Historical performance is not an indication of future performance and any investments may go down in value.**

Idea 1: Hedge for the worst

A cold winter coinciding with low gas storage levels could create an explosive combination. One way market participants can obtain exposure to higher gas prices, whether as an inflation hedge or a tactical trade, is through the liquid European futures markets in Natural Gas or products providing exposure to those futures: TTF futures give exposure to European wholesale gas prices and are usually quoted in euros per megawatt-hour (€/MWh). TTF stands for Title Transfer Facility, the Netherlands' virtual natural-gas trading hub and Europe's main gas benchmark.

Figure 2: Historical prices of US and European natural gas



Source: WisdomTree, Bloomberg Finance L.P., from June 2005 to August 2026, based on monthly data. Henry Hub is the US natural gas benchmark. **Historical performance is not an indication of future performance and any investments may go down in value.**

Although regional prices are linked through global demand and LNG exports, they can vary significantly because finite import and export capacity creates distinct regional supply-demand balances. For example, the United States' large domestic production base and finite export capacity can insulate its gas prices from some of the volatility seen recently in Europe. By contrast, the EU primarily imports natural gas from Norway (30.9%), the United States (26.2%), North Africa (12.7%), as well as Russia (12.5%)[3].

European natural gas provides more direct exposure to European gas-market conditions than US natural gas, although it is subject to the risks discussed below.

As one of the largest providers of commodity exposure, WisdomTree offers a fully collateralised European natural-gas exchange-traded product (ETP). It follows a straightforward rolling-futures strategy that provides continuous exposure to the front-month TTF future without requiring physical delivery.

During the first 10 business days of each month, the WisdomTree European Natural Gas ETC rolls its contracts by unwinding the position in the contract closest to expiry and establishing a position in the next contract.

Table 1: Roll schedule for upcoming months

Upcoming months	Contracts selected
October	November & December
November	December & January
December	January & February

Source: BNP Paribas

Risks and limitations: A long position can lose value if winter temperatures prove milder than expected, storage replenishment accelerates, or geopolitical risk premia ease. Natural gas prices are inherently volatile, and a position intended as a hedge may still incur material losses before colder temperatures arrive.

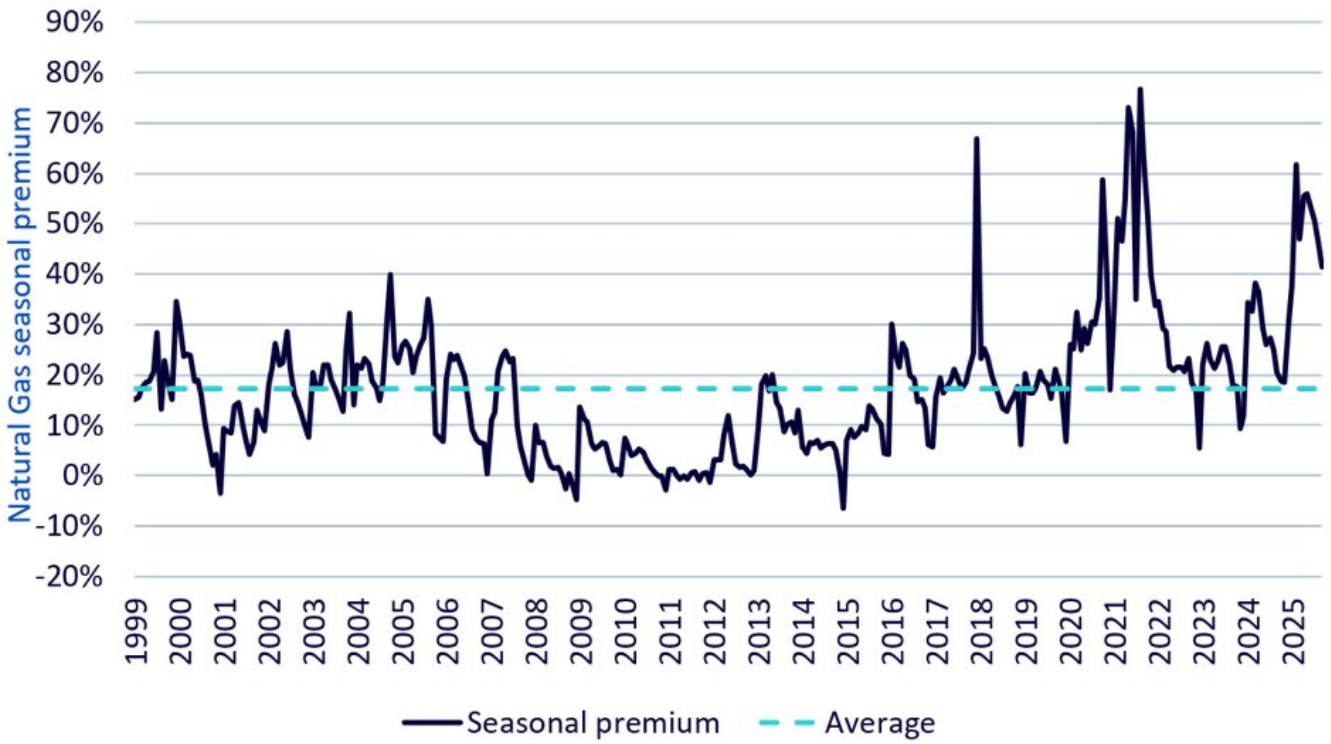
Futures-based exposure also may exhibit roll costs, reflecting the storage, insurance, and financing costs of the equivalent physical replication.

Potential rewards: The position could rise sharply if cold weather coincides with low storage and markets rapidly price in a greater risk of supply shortages. A long TTF position is particularly direct exposure to a deterioration in Europe's supply-demand balance, as well as further disruptions in the global export market.

Idea 2: Extract the rich winter premium in US natural gas

Natural gas supply in the US sits much more comfortably than in Europe, with inventory levels above the five year average[4]. Yet, memories of January 2026's winter storm are still fresh. Despite ample supply in storage ahead of the storm, the severe cold snap pushed front-month contracts to trade near US $7 per MMBtu[5]. As a result, sellers of natural gas with delivery in January 2027 demand an extraordinarily high premium over the following May (Figure 3). Figure 3 shows both the historical and current premium paid for US natural gas delivered in January relative to gas delivered four months later. Winter delivery typically carries a premium, but current levels indicate elevated compensation for selling at a pre-agreed price.

Figure 3: The US natural-gas seasonal premium: How much more expensive is January natural gas vs. 4 months later?



Source: Bloomberg Finance L.P. from 30 December 1999 to 31 August 2026. Seasonal premium is defined as the relative price difference between the January and May contracts of the same year. **Historical performance is not an indication of future performance and any investments may go down in value.**

However, if there's no temperature shock beyond expectations that leads to a price spike, the risk premium currently embedded in winter prices could dissipate. If the premium normalises, a calendar spread could benefit from the narrowing between winter and later-dated contracts; conversely, a further increase in the premium could result in losses.

Positioning for a return of the seasonal premium towards its long-term average would require shorting the winter future and going long, as a hedge, contracts with later delivery. This exposure has the potential to perform well if the currently elevated premium narrows towards its long-term average. However, it would be particularly vulnerable to a price spike if weather conditions become colder than anticipated.

To provide exposure to such a strategy, WisdomTree offers a fully collateralised exchange-traded product (ETP): The WisdomTree Enhanced Commodity Carry ETP (CRRY) aims to extract risk premia embedded in futures curves, including those in natural gas. Its calendar spreads are maintained continuously, rolling contracts before their expiries and following a pre-defined schedule (Table 2). The ETP is also diversified across 23 commodities, thereby sourcing risk premia from a broader range of commodity markets. Currently, 22% of the ETP is dedicated to the natural-gas trade. In the strategy's backtested history, natural gas has accounted for the majority of the strategy's returns, reflecting a strongly pronounced seasonal premium.[6]

Table 2: Contract selection CRRY – Henry Hub Natural Gas

Upcoming months	Short contract	Long contracts
October	November	March ’27 (60%), July ’27 (30%), January ’28 (10%)
November	January ‘27	May ’27 (60%), July ’27 (30%), January ’28 (10%)
December	January ‘27	May ’27 (60%), September ’27 (30%), March ’28 (10%)
January	March ‘27	July ’27 (60%), September ’27 (30%), March ’28 (10%)

Source: WisdomTree, BNP Paribas. The strategy’s long positions in the respective commodity are allocated across three contracts, with the respective target weightings shown in brackets.

Risks and limitations: The principal risk is that winter experiences another temperature shock. Colder-than-expected temperatures could push winter contracts sharply higher and generate substantial losses on the short winter leg of the spread.

The ETP's diversification also makes it an imperfect expression of a natural-gas view. Positions in other commodity markets can add volatility or offset the contribution from the gas spread, so performance may differ materially from that of a standalone winter-versus-summer natural-gas trade.

Potential benefits: If temperatures don’t surprise to the downside and the winter premium falls back toward its historical range, the strategy could benefit from mean reversion in an elevated risk premium. Because the position is hedged with a summer contract, it targets the seasonal shape of the curve rather than an outright fall in natural-gas prices.

The diversification of the ETP may also reduce reliance on a single market outcome, while allowing investors to access the strategy in an exchange-traded format.

Conclusion

Current European gas-market conditions present elevated uncertainty heading into the winter heating season. However, there are several ways for investors to express their views, including by hedging against higher natural-gas prices.

This blog outlined two approaches to obtaining or positioning around natural-gas exposure:

- First, a long position in a TTF-linked ETP offers direct exposure to a further tightening in European gas markets, but it also carries significant weather risk and may be expensive to maintain over the long term.

- Second, a winter-versus-summer calendar-spread position seeks to benefit from a normalisation of seasonal risk premia observed in the US market, but it can incur substantial losses if an unexpectedly cold winter materialises.

Both approaches should be assessed in light of an investor's risk tolerance, investment horizon and objectives. Ultimately, the appropriate approach will depend on whether an investor is seeking protection against a further price spike or expects seasonal risk premia to normalise.

[1] Source: European Commission as of 26 March 2026
[2] For the cost estimate: Bloomberg as of 3 September 2026
[3] European Commission for 2025: https://www.consilium.europa.eu/en/infographics/where-does-the-eu-s-gas-come-from/
[4] US Energy Information Administration, as of 28 August 2026.
[5] Source: Bloomberg Finance L.P., as of 26 January 2026.
[6] Source: WisdomTree as of 31 August 2026. Natural gas weight is based on the average notional exposure of long and short natural gas positions. Attribution is based on backtested history. Backtested performance is hypothetical, does not represent actual performance and is not an indication of future performance. Historical performance is not an indication of future performance and any investments may go down in value.

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