

# What's Hot: European natural gas is the hottest energy commodity so far this year

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## Key Takeaways

- **Colder Winter & Rising Demand** – La Niña has brought a colder winter to Europe, increasing natural gas demand. Supply constraints have worsened with the expiration of Russia's gas transit deal with Ukraine, leaving Europe reliant on liquefied natural gas (LNG).
- **Falling Storage Levels** – Gas storage in Europe is lower than in the past two years, especially compared to post-Ukraine war levels. Previously, Russian pipeline gas ensured stable supply, but current shortages raise concerns.
- **Futures Market & Price Surge** – TTF front-month futures prices have surged 13.9% in 2025 due to supply shortages, while rolling futures strategies have yielded even higher returns (18.3%) due to market backwardation.
- **Storage Incentives & Market Distortions** – With futures in backwardation, traders lack incentives to store gas for winter 2026. The EU's mandate for 90% storage capacity by November 2025, along with potential subsidies, is further distorting prices.
- **Ukraine War & Market Outlook** – U.S.-Russia talks could lead to an end to the Ukraine war, potentially affecting European gas supply. For now, tight supply continues to support high prices, benefiting rolling futures strategies.
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## La Niña brings a cold winter to Europe

We are firmly in a La Niña<sup>1</sup> phase, and the colder winter in Europe this year compared to the past two may be evidence of this naturally occurring weather pattern manifesting itself. It is also possible that temperatures are below average, given that the baseline has been shifting higher due to global warming.

## Rising demand and supply constraints

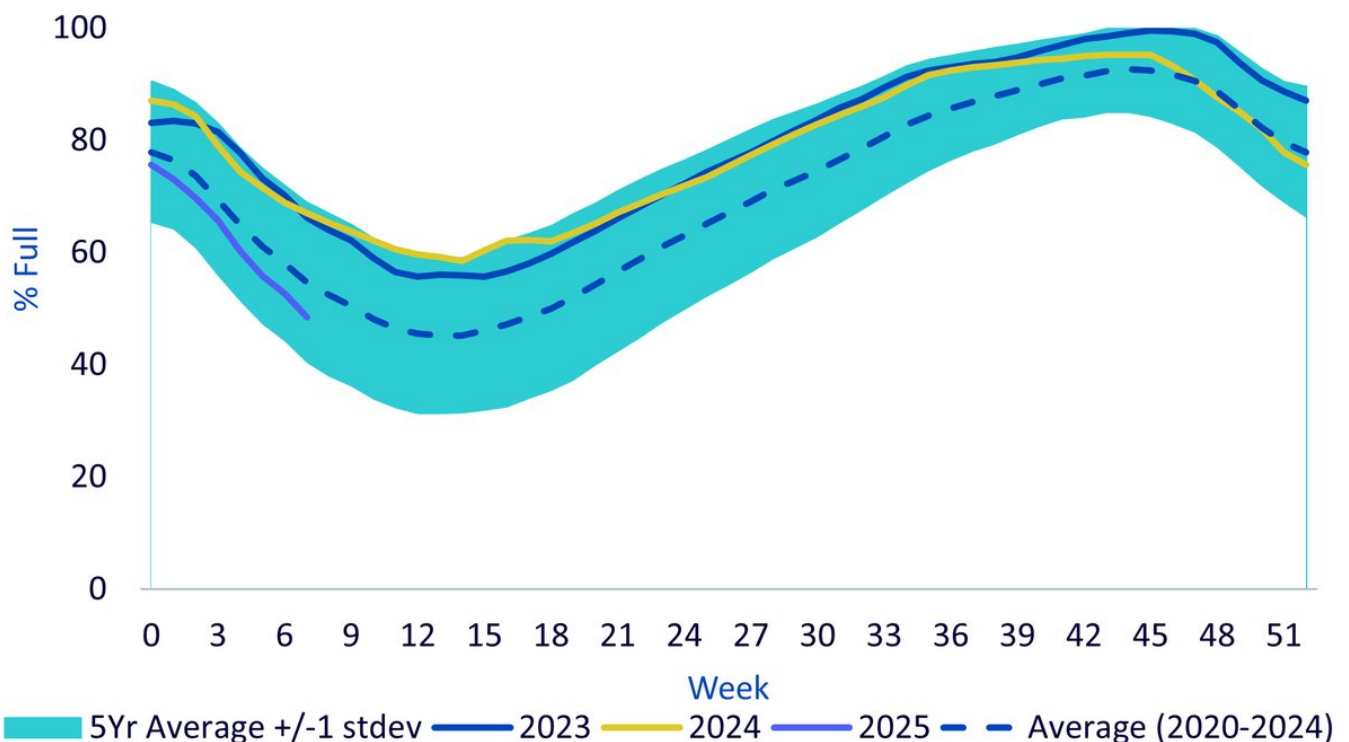
This winter, demand for natural gas in Europe has been higher than in the past two years. The situation has been exacerbated by the expiration of a five-year gas transit agreement between Russia and Ukraine in January 2025. With no pipeline gas flows to western Europe from Russia via Ukraine, supply is

significantly tighter. Europe is now heavily reliant on liquefied natural gas (LNG) shipments from around the world—including, ironically, from Russia.

## Storage levels falling rapidly

European gas storage levels are lower than the average for the past two years and significantly below 2023 and 2024 levels. The 2023 and 2024 levels are particularly relevant, as they represent the post-Ukraine war years. Prior to 2022, storage levels were less of a concern due to the decades-long reliability of Russian gas pipeline flows.

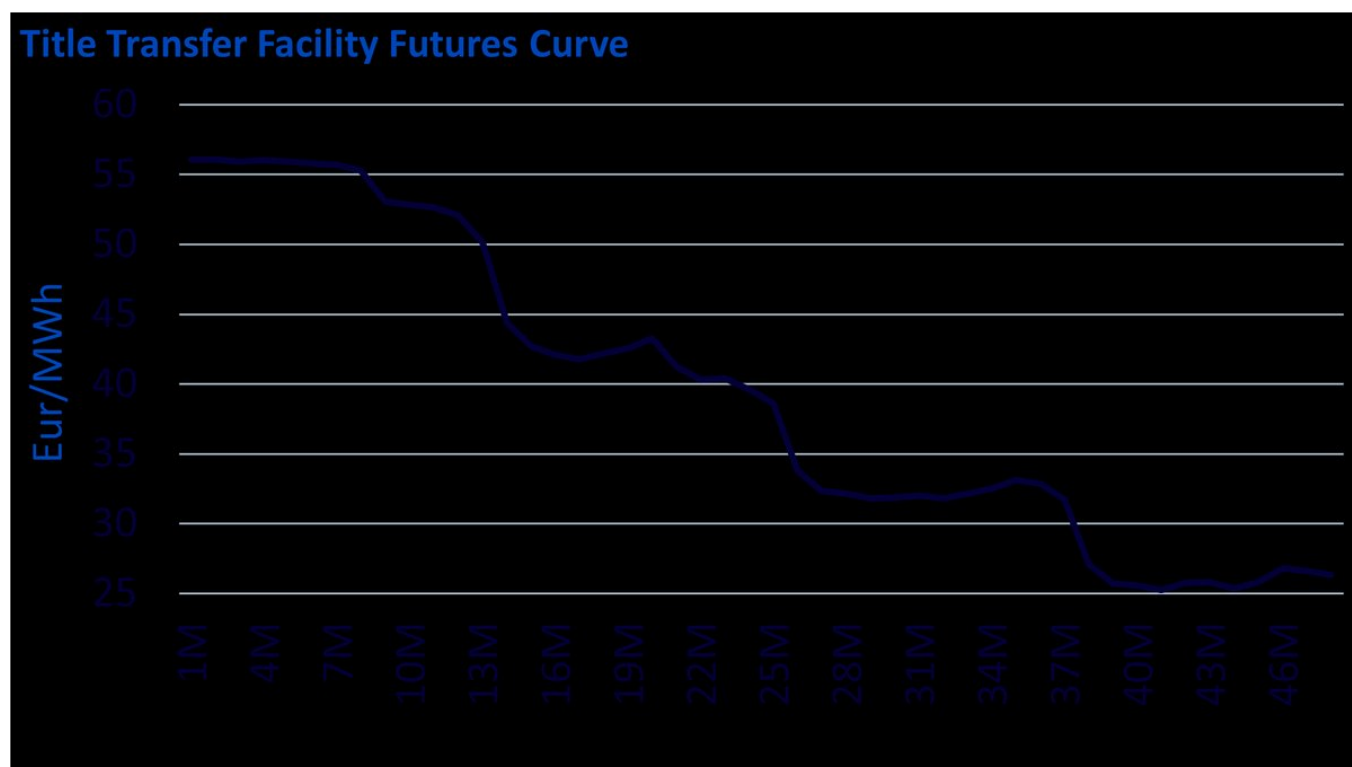
### European Gas Inventory



Source: WisdomTree, Bloomberg. January 2019 – February 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

## Rolling futures benefit from higher spot and curve backwardation

The tightening of gas supply has driven a 13.9% rally in Title Transfer Facility (TTF) front-month futures prices since the beginning of this year (as of February 12, 2025). A rolling futures strategy, such as the BNP Paribas Rolling Futures W0 TZ Index, has delivered even higher returns due to the backwardation in the TTF futures curve, yielding 18.3% over the same period. As a result, European natural gas has been one of the best-performing commodities year-to-date and over the past 12 months—surpassed only by coffee.



Source: WisdomTree, Bloomberg. 12 February 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

## Diminished incentives to fill storage

The futures curve remains in backwardation for the foreseeable future, with summer 2025 prices exceeding winter 2026 prices. This reduces traders' incentives to store gas ahead of winter 2026, as they risk financial losses based on the futures curve's shape. To encourage storage, some seasonal contango in the spring and summer months would be necessary.

## A doom loop of distortions

A key factor exacerbating these distortions is the European Commission's mandate for gas storage to reach 90% capacity by November 1, 2025. Additionally, individual countries face interim targets for February 1 (barely met), May 1, July 1, and September 12. These strict targets may be contributing to rising gas prices, as traders anticipate government intervention to fill storage in the coming months.

The situation worsened after Germany's Trading Hub Europe (THE) announced on January 21 that it was in discussions with the economy ministry about subsidizing gas storage replenishment if market backwardation persisted. Instead of calming markets, the announcement fuelled speculation, as traders recognized a profit opportunity by purchasing the contracts that would be targeted by the subsidies.

At a Gas Coordination Group meeting in Brussels on February 13, several countries are expected to push for relaxed storage targets to mitigate market distortions, according to a Bloomberg report citing anonymous sources. Increased flexibility could help ease the current market imbalances.

## Is the Ukraine war nearing an end?

On February 12, 2025, President Trump and President Putin agreed to initiate negotiations to end the war in Ukraine during a phone call. U.S. Defense Secretary Pete Hegseth ruled out deploying U.S. troops to enforce any eventual peace, stated that Ukraine is unlikely to reclaim all occupied territories, and suggested that Ukrainian NATO membership is no longer a realistic objective. It remains unclear what role Europe will play in these negotiations and whether gas supplies from Russia could resume if the U.S. brokers a deal.

## Conclusions

For now, tight natural gas supply conditions in Europe continue to support TTF prices, while backwardation in the futures curve benefits rolling futures strategies. If unaddressed, current market distortions could exacerbate supply constraints next winter due to the lack of incentives for storage. However, a resolution to the Ukraine war may ease supply conditions, depending on the terms negotiated.

1 La Niña is a climate phenomenon characterized by unusually cold ocean temperatures in the central and eastern equatorial Pacific, typically leading to changes in global weather patterns, including cooler-than-average temperatures in some regions and warmer conditions in others, along with increased rainfall and drought patterns.

2 [https://energy.ec.europa.eu/document/download/1517283e-7cfc-4f8e-81be-271ab18190e9\\_en?file-name=C\\_2024\\_8352\\_1\\_EN\\_annexe\\_acte\\_autonome\\_part1\\_v1.pdf](https://energy.ec.europa.eu/document/download/1517283e-7cfc-4f8e-81be-271ab18190e9_en?file-name=C_2024_8352_1_EN_annexe_acte_autonome_part1_v1.pdf)

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