European natural gas outperforms US natural gas and could explode higher

Published 4 November 2024

Nitesh Shah
Head of Commodities and Macroeconomic Research, WisdomTree Europe

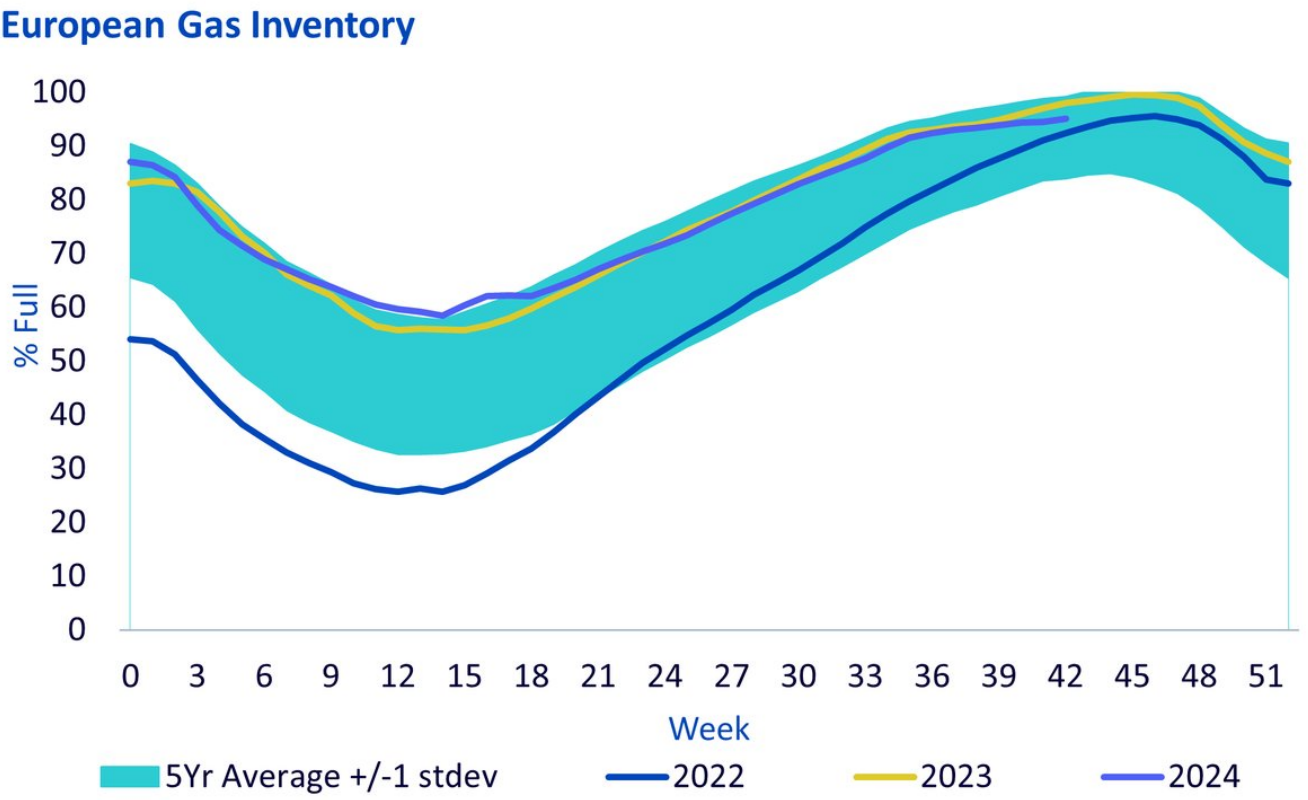
Key Takeaways

- 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.

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%[1]. 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[2], 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.



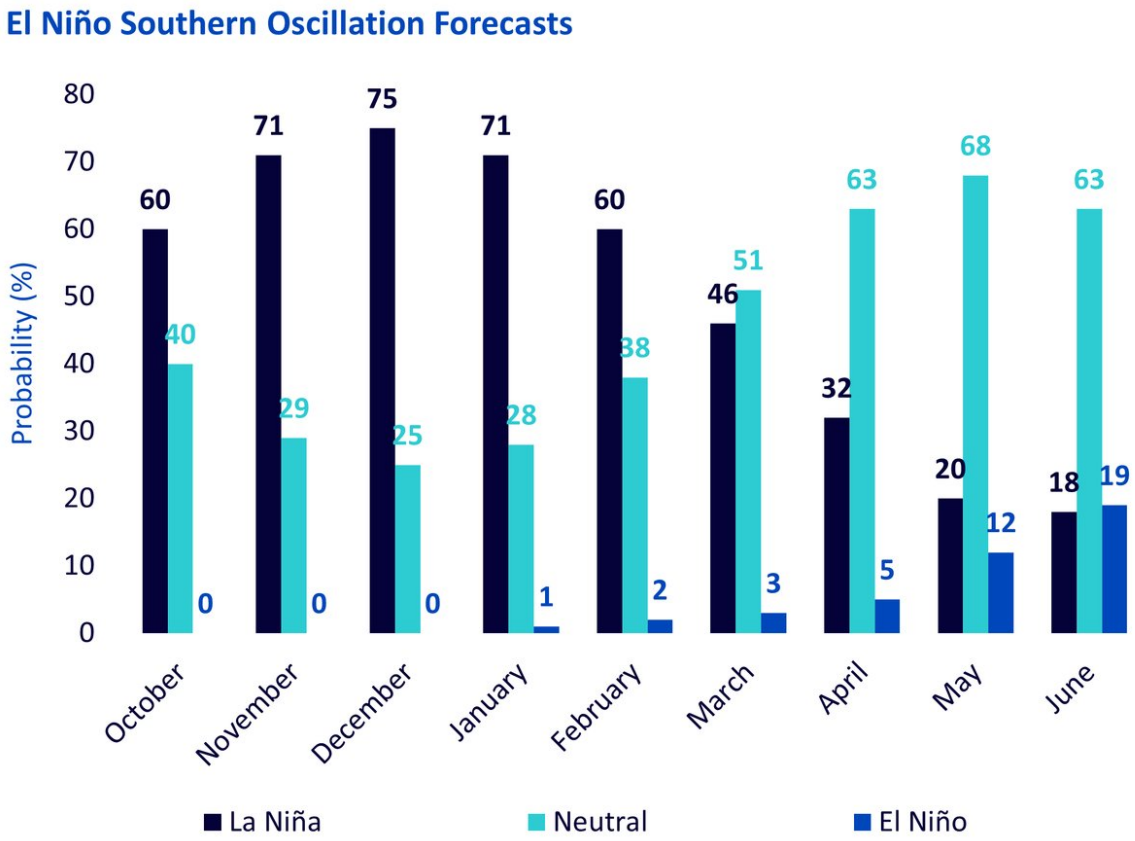
Source: Bloomberg, Gasunie, Aggregate Gas Storage Inventory, 31/10/2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

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[3].

La Niña weather risks loom

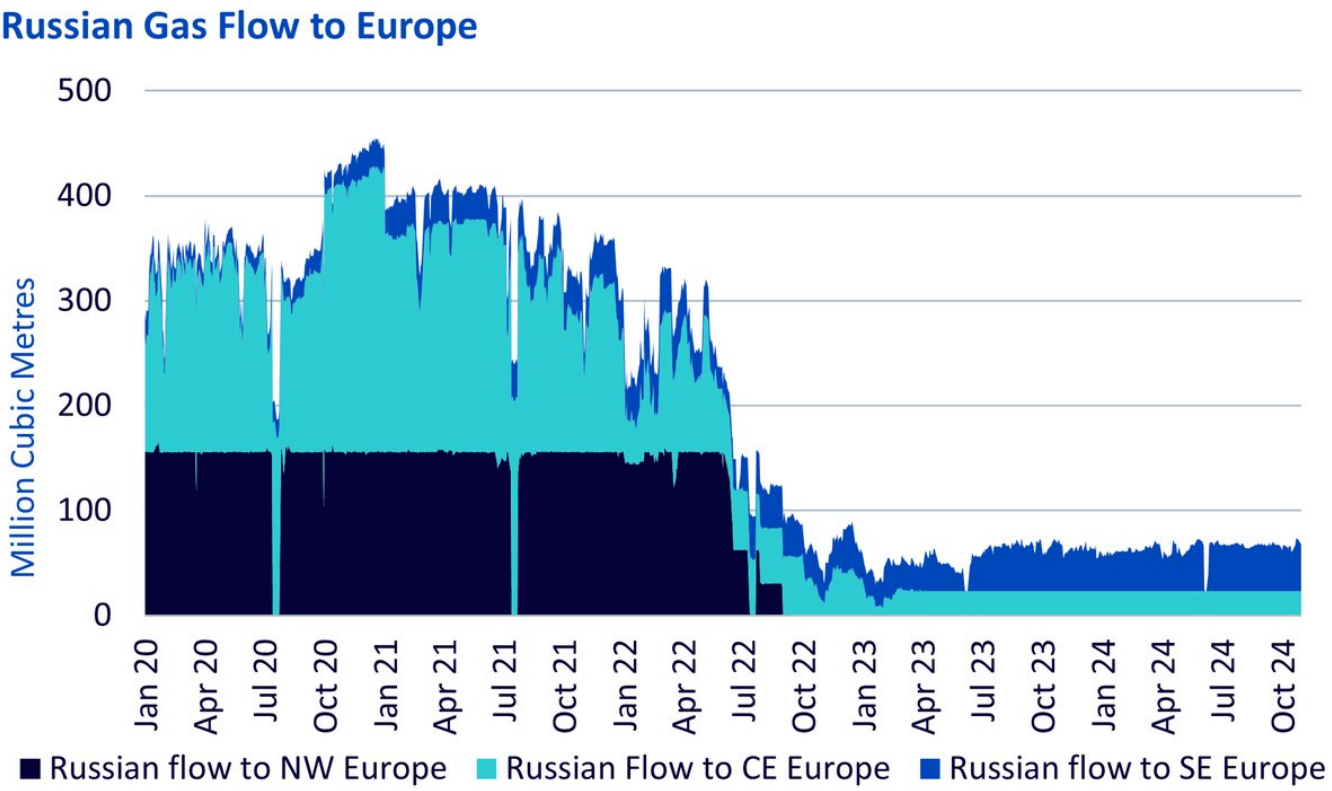
There is no guarantee of a mild winter again. In fact, a La Niña weather pattern, which has a 75% chance of forming this winter according to National Oceanic and Atmospheric Administration's Climate Prediction, usually brings colder weather for Europe.



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[4] imports came from Russian gas via pipeline through Ukraine. Wiping that out, could make European natural gas supplies much tighter.



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

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for

distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Multi Asset Issuer PLC (the “Issuer”) issues products under a Prospectus (“WTMA Prospectus”) approved by the Central Bank of Ireland, drawn up in accordance with the Directive 2003/71/EC. The WTMA Prospectus has been passported to various European jurisdictions including the UK, Italy and Germany and is available on this document.

The BNP Paribas Rolling Futures W0 TZ Index is the exclusive property of BNP Paribas (“BNPP”). The BNP Paribas Rolling Futures W0 TZ Index is used by WisdomTree Multi Asset Management Limited under licence. The Index-linked Securities/Index-linted notes are not endorsed or approved in any way by BNPP. BNPP do not make any warranties whatsoever in relation to the BNP Paribas Rolling Futures W0 TZ Index and are not liable for any losses caused by the use thereof.

The methodology of and rules governing the index (the "Index Methodology" and the "Index") are proprietary and shall not be reproduced or disseminated without the prior written consent of the “Index Sponsor” (as defined in the “Index Rules” **available on http:** //www.wisdomtree.eu/home). None of the Index Sponsor, the index calculation agent (where such party is not also the Index Sponsor, the "Index Calculation Agent") nor, where applicable, the index Investment Advisor (the "Index Investment Advisor") guarantee that there will be no errors or omissions in computing or disseminating the Index. The Index Methodology is based on certain assumptions, certain pricing models and calculation methods adopted by the Index Sponsor, the Index Calculation Agent and, where applicable, the Index Investment Advisor, and may have certain inherent limitations. Information prepared on the basis of different models, calculation methods or assumptions may yield different results. You have no authority to use or reproduce the Index

Methodology in any way, and neither the Index Sponsor nor any of its affiliates shall be liable for any loss whatsoever, whether arising directly or indirectly from the use of the Index or Index Methodology or otherwise in connection therewith. The Index Sponsor reserves the right to amend or adjust the Index Methodology from time to time in accordance with the rules governing the Index and accepts no liability for any such amendment or adjustment. Neither the Index Sponsor nor the Index Calculation Agent are under any obligation to continue the calculation, publication or dissemination of the Index and accept no liability for any suspension or interruption in the calculation thereof which is made in accordance with the rules governing the Index. None of the Index Sponsor, the Index Calculation Agent nor, where applicable, the Index Investment Advisor accept any liability in connection with the publication or use of the level of the Index at any given time. The Index Methodology embeds certain costs in the strategy which cover amongst other things, friction, replication and repo costs in running the Index. The levels of such costs (if any) may vary over time in accordance with market conditions as determined by the Index Sponsor acting in a commercially reasonable manner. The Index Sponsor and its affiliates may enter into derivative transactions or issue financial instruments (together, the "Products") linked to the Index. The Products are not in any way sponsored, endorsed, sold or promoted by the sponsor of any index component (or part thereof) which may comprise the Index (each a "Reference Index") that is not affiliated with BNP Paribas (each such sponsor, a "Reference Index Sponsor"). The Reference Index Sponsors make no representation whatsoever, whether express or implied, either as to the results to be obtained from the use of the relevant Reference Index and/or the levels at which the relevant Reference Index stands at any particular time on any particular date or otherwise.

No Reference Index Sponsor shall be liable (whether in negligence or otherwise) to any person for any error in the relevant Reference Index and the relevant Reference Index Sponsor is under no obligation to advise any person of any error therein. None of the Reference Index Sponsors makes any representation whatsoever, whether express or implied, as to the advisability of purchasing or assuming any risk in connection with the Products. The Index Sponsor and its affiliates have no rights against or recourse to any Reference Index Sponsor should any Reference Index not be published or for any errors in the calculation thereof or on any other basis whatsoever in relation to any Reference Index, its production, or the level or constituents thereof. The Index Sponsor and its affiliates shall have no liability to any party for any act or failure to act by any Reference Index Sponsor in connection with the calculation, adjustment or maintenance of the relevant Reference Index and have no affiliation with or control over any Reference Index or the relevant Reference Index Sponsor or the computation, composition or dissemination of any Reference Index. Although the Index Calculation Agent will obtain information concerning each Reference Index from publicly available sources that it believes reliable, it will not independently verify this information. Accordingly, no representation, warranty or undertaking (express or implied) is made and no responsibility is accepted by the Index Sponsor or any of its affiliates nor the Index Calculation Agent as to the accuracy, completeness and timeliness of information concerning any Reference Index. The Index Sponsor and/or its affiliates may act in a number of different capacities in relation to the Index and/or products linked to the Index, which may include, but not be limited to,

acting as market-maker, hedging counterparty, issuer of components of the Index, Index Sponsor and/or Index Calculation Agent. Such activities could result in potential conflicts of interest that could influence the price or value of a Product.

For Investors in Switzerland

This document constitutes an advertisement of the financial product(s) mentioned herein.

In Switzerland, this communication is only targeted at Qualified Investors.

The prospectus and the key investor information documents (KID) are available from WisdomTree's website: **https:** //www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

For investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.