

## Energy Market Drivers:

Geopolitics remain in focus and neutral stance on gas, power and EUA prices after the latest rally

April 12, 2024

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## Market view oil: Geopolitics sets the short-term direction

The market focuses on the tense situation in the Middle East. The [Wall Street Journal](#) wrote late last night that an Iranian retaliatory attack could come within 24 or 48 hours. Gold rose to a new all-time high this morning on the news.

We are now in a situation like in October last year when Hamas attacked Israel. The oil market will be nervous ahead of the weekend. Many traders will be cautious about being short over the weekend, which can cause volatility today.

If the retaliation attack does not come over the weekend or is of a smaller (symbolic) extent, the market can expect to breathe a sigh of relief on Monday, and the price might fall back.

### Bullish OPEC report

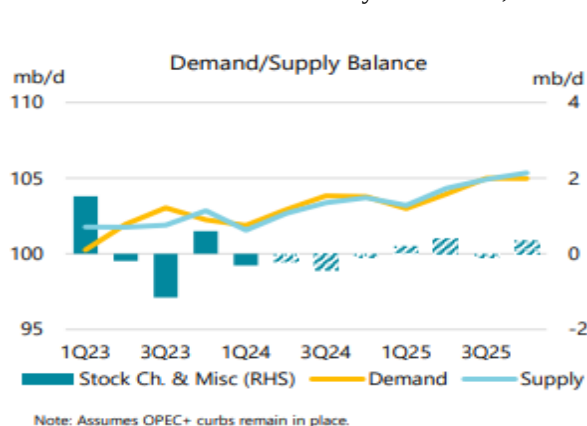
Yesterday, OPEC released its monthly oil market report. The cartel's outlook is optimistic, projecting a 2.2 mb/d increase in oil demand by 2024. In contrast, non-OPEC+ production growth is expected to slow down, from 1.3 mb/d in March to 1.2 mb/d. As highlighted by the OPEC report, this shift in dynamics could lead to a substantial draw on stocks. The next crucial OPEC and OPEC+ meeting (JMMC) are both scheduled for June 1.

### Bearish IEA report

On the other hand, today's IEA Oil Market report was more bearish on oil demand. The agency said that, "World oil demand growth continues to lose momentum with 1Q24 growth of 1.6 mb/d, 120 kb/d below our previous forecast due to exceptionally weak OECD deliveries. With the post-Covid rebound now largely complete, and vehicle efficiencies and an expanding EV fleet acting as further drags on oil demand, growth in 2024 and 2025 slows to 1.2 mb/d and 1.1 mb/d, respectively."

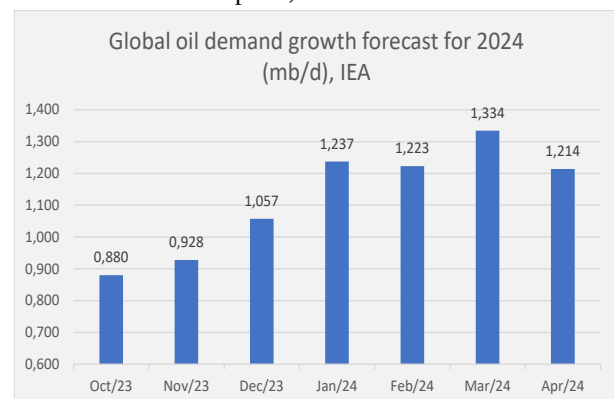
Hence, the IEA slashed its 2024 demand forecast by 120,000 bp/d to 1.2mb/d. This brakes the IEA tendency to adjust its demand forecast higher. In five out the last six IEA Oil Market Reports the demand forecast has been revised higher. In fact, this looks like a 180 degree turn-around from the IEA. This is quite important as the bullish March report was an important factor behind the increase in oil prices in the 2<sup>nd</sup> part of March. The market has not reacted to the IEA report today. But that is likely due to the market focusing solely on geopolitics.

IEA now sees a smaller inventory draw in H2, 2024



Source: IEA

IEA oil demand growth forecast for 2024 in the last seven Oil Market Reports, mb/d



Source: Macrobond, Bloomberg

## There is still a risk of a test of USD 100 over the next 3–4 months, but a lower geopolitical premium is a downside risk

With Brent trading above USD 90, we have reached our earlier target. We still see Brent in a USD 86-93 range for the next two months. **If we see a move below USD 87, we consider it an attractive buying level.**

The big question is like last week whether the price drivers mentioned above warrant a move higher to USD 100 for Brent later in the year. We believe we have seen an improvement in the oil market's fundamentals that points to a test of USD 100.

**However, we would like to recommend a bit of cautiousness here.** The geopolitical premiums are fluid and can evaporate from one day to another. For example, Monday will be volatile based on the Middle East events. OPEC and, notably, Saudi Arabia have a large spare capacity. If we move to the mid-90s, we expect that the Saudis will start to signal that they target a stable oil market and that putting oil back on the market is possible. The IEA report could also be seen as a sign that demand growth is still uncertain.

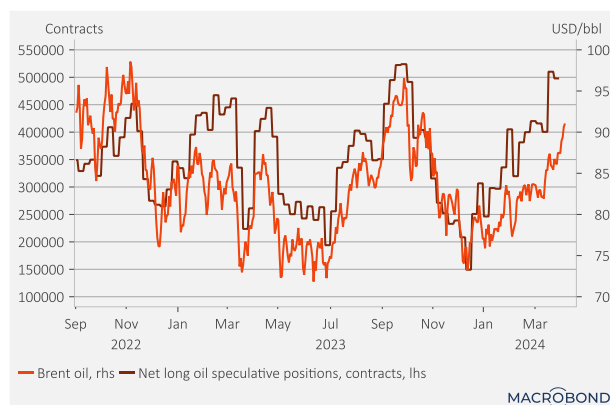
## Fed "higher for longer" and asset allocation supportive for commodities

Finally, it seems we are now in a "higher for longer" environment for the Fed. This is weighing on bonds, rate-sensitive stocks (duration) and supporting the US dollar. Hence, a general risk-off sentiment which is negative also for oil and other commodities.

However, we might also be seeing a sector rotation at the moment. Investors rotate away from "duration" into assets benefitting from growth here and now. After the last CPI data, investors might also look for assets that could provide inflation protection. If that is the case, it will favour exchange products like crude oil, but notably not cracks, as investors look for liquidity that can only be found in Brent and WTI.

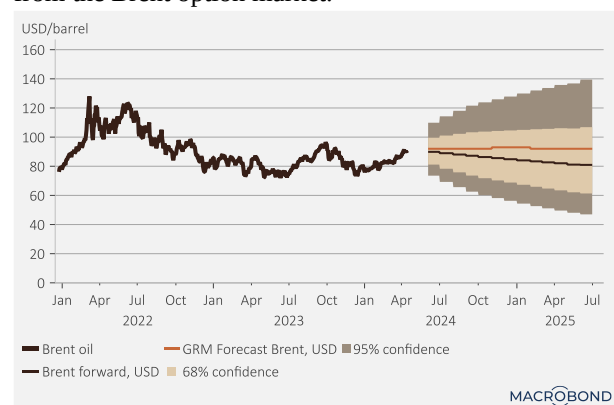
We will get new speculative positions data tonight that can shed light on the latest speculative activity.

Many net-long speculative positions



Source: Bloomberg

Oil prices trading close to USD 90. Cone is derived from the Brent option market.



Source: Macrobond, Bloomberg

## Market view gas, power and EUA: Chinese LNG demand and Russian gas supplies are bull factors

TTF gas prices are up more than 12% this week and are trading just below EUR 30 Mwh.

Many analysts have pointed to abundant EU inventories and weak European demand as factors that would depress prices this spring and summer. But so far, gas prices have been up close to 30% since late February.

### Why a robust gas market with large inventories?

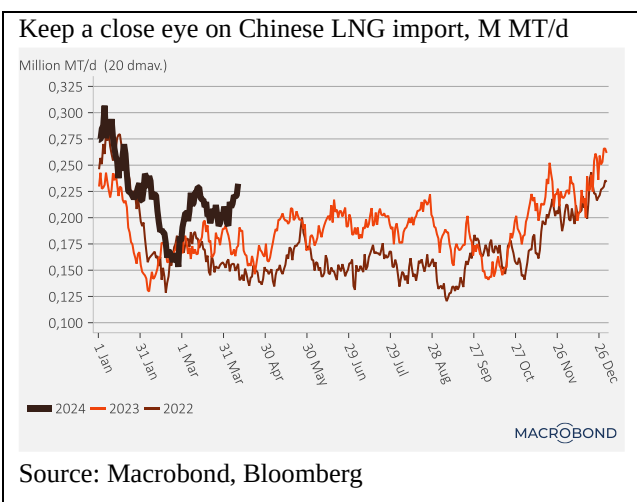
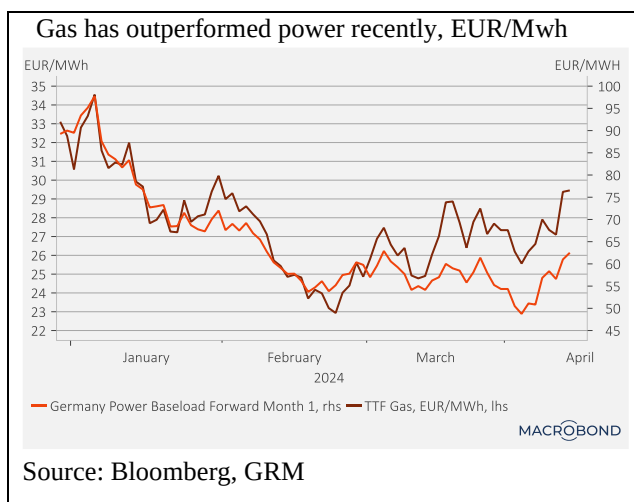
This week, Russian missile attacks destroyed more of the Ukrainian gas infrastructure. Hence, it seems the EU cannot use the vast Ukrainian underground storage facilities to expand gas inventories ahead of winter.

There are also reports of Egypt—once a gas exporter—experiencing an acute lack of gas ahead of summer peak demand.

Finally, we this week got news that the the European Parliament approved legislation allowing countries to temporarily block Russian gas imports. Notably, there also seems to be a legal path towards blocking Russian buying capacity in the European gas infrastructure.

Earlier this week, we published [a paper on gas prices](#). We pointed to the following three reasons why prices might not fall this spring and why consumers should consider hedge gas exposure ahead of the winter.

- 1) The European industrial sector is slowly recovering
- 2) Better Chinese numbers and a pick-up in Chinese LNG import
- 3) Sanctions on Russian LNG and pipeline gas to the EU

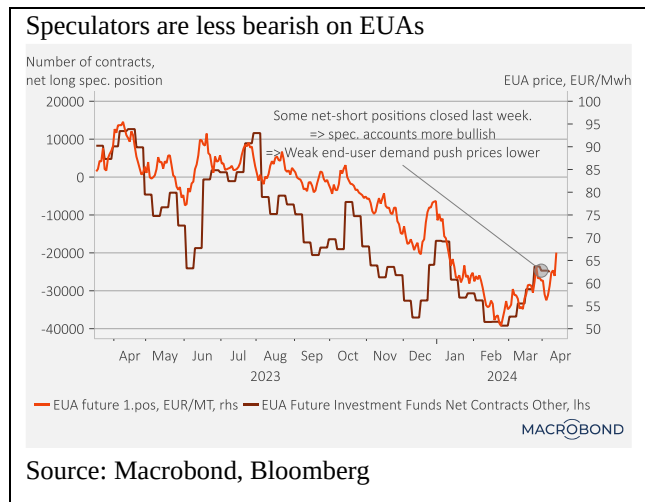
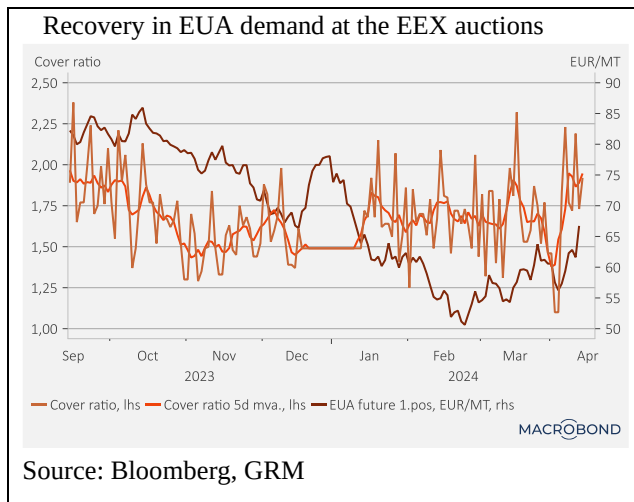


## Are EUA's becoming too expensive?

We follow two indicators for the EUA market: 1) The cover ratio at the EEX auctions and 2) the speculative positions data.

We see the cover ratio as an indicator of end-user demand. Market makers buy EUAs at the auction if they have end-user/client demand. In that respect, it was noteworthy that the cover ratio has

recovered after it was just 1.1 on Tuesday last week. This week's speculative positions data showed that the speculative market remains net-short, though some short-covering was seen during March. It could indicate that the latest move higher in EUA prices is speculative buying (short covering) and not improved end user demand.



### Short-term market view:

**We believe EUR 27 MWh for Gas and EUR 65 MT for EUA DEC-24 contract are solid support levels.** Add to the hedge ratio if we see price dips towards these support levels.

However, after the latest move higher in EUA, power and gas prices, we take a more cautious stance on the market. The "thermals" seem sensitive to negative news now.

## Market Drivers next week: Geopolitics and speculative position data

The market will continue focusing on geopolitics for outright prices and cracks next week. Notably, the ICE gas oil crack is very sensitive to, for example, Ukrainian attacks on Russian refineries. The big theme is, of course, if Iran will be more involved in the war between Hamas and Israel. However, we also know that a geopolitical premium cannot stay in the price for long. If nothing happens, the premium will slowly disappear.

Inventory data remain essential, and Wednesday's usual DOE data can potentially move oil markets again. We will also follow the speculative oil data published after the US close tonight. Given we have the thesis that we currently see a sector rotation into oil and other commodities, the data are essential to follow.

Notably, for the EUA market, the focus remains on the almost daily EEX auctions and the cover ratio that we see as an indicator for underlining EUA demand. At the same time, we still have a lot of speculative short positions in the EUA futures market; therefore, the rally in EUA prices this week might be due to short-covering. Hence, we will closely follow the speculative EUA data on Wednesday.

There are no significant financial events or key data next week.

### Price overview

12/04/2024 14.07

|                                                      | 12 Apr 2024 | Change 1D,% | Change 5D,% | Change 1M,% | Change 1Y,% | Change YTD,% |
|------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Brent 1.pos., USD/bbl                                | 90,9        | 1,2         | -0,3        | 9,8         | 3,9         | 15,2         |
| ICE Gasoil 1.pos., USD/MT                            | 836,0       | 1,6         | -4,1        | 0,8         | 7,8         | 10,2         |
| Jet Fuel NWE CIF 1M, USD/MT                          | 884,0       | 1,1         | -1,6        | 4,1         | 5,5         | 11,6         |
| Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT           | 846,6       | 1,3         | -1,4        | 4,0         | 6,0         | 13,6         |
| Marine Fuel 0.5% FOB Barge Swap Rotterdam M1, USD/MT | 597,0       | 0,6         | -0,7        | 6,3         | 7,6         | 15,9         |
| Fuel Oil 3.5% FOB Rotterdam Barge 1M, USD/MT         | 481,5       | 0,5         | -2,0        | 7,8         | 5,1         | 16,6         |
| Biodiesel, RME FOB Barge 1M, USD/MT                  | 1201        | -6,3        | -8,5        | 0,9         | -11,4       | 1,0          |
| Biodiesel, UCOME FOB Barge 1M, USD/MT                | 1341        | -2,3        | -4,4        | 5,5         | -10,3       | 5,3          |
| Biodiesel, FAME-0 FOB Barge 1M, USD/MT               | 1156        | -7,2        | -10,9       | 3,2         | -9,0        | 3,7          |
| EUA spot, EUR/MT                                     | 68,4        | 3,3         | 14,0        | 20,0        | -36,4       | -12,9        |
| EUA Dec-24, EUR/MT                                   | 69,9        | 2,6         | 13,3        | 19,1        | -44,0       | -15,1        |
| TTF Gas 1M, EUR/Mwh                                  | 29,3        | -0,2        | 9,2         | 15,5        | -46,3       | -10,4        |
| TTF Gas Cal-25, EUR/Mwh                              | 35,2        | 0,7         | 10,5        | 18,0        | -38,1       | -3,0         |
| API 2 coal 1M forward, USD/MT                        | 118,6       | 0,1         | 2,2         | 10,8        | -3,6        | 18,8         |
| API 2 coal Cal-25, USD/MT                            | 120,7       | 1,1         | 2,4         | 14,0        | -2,4        | 20,7         |
| Power Baseload Germany 1M forward, EUR/Mwh           | 62,5        | 2,4         | 18,7        | 12,0        | -72,0       | -44,0        |
| Power Baseload Germany 2025, EUR/Mwh                 | 83,0        | -7,3        | 4,8         | 11,1        | -57,8       | -14,9        |

Source: Macrobond, Bloomberg, GRM. Indicative, non-tradeable prices

## Hedging views: We recommend a hedging ratio above the company benchmark for oil consumers. Neutral on gas, power and EUA hedge ratios

### Oil: Add to consumer hedges on dips below USD87 in Brent

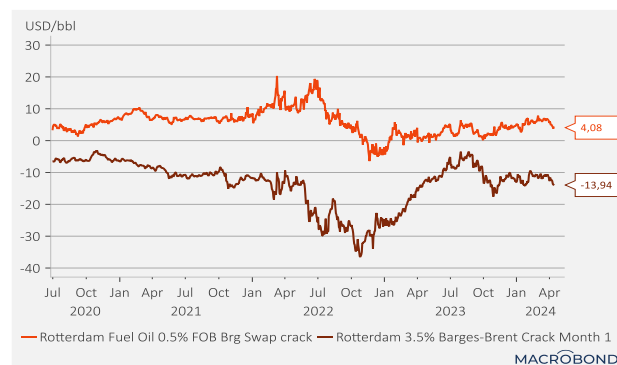
Table 1 on the next page summarises our market views and hedging recommendations in our different markets.

In our last issue, we argued that Brent prices below USD 87/bbl would offer an attractive entry level for new consumer hedges. We still recommend that consumers have a hedging ratio **above their individual company benchmark**. The backwardation in the oil product curves is a positive feature from a consumer hedging perspective. Read more about backwardation in the February 23 issue of [Energy Market Drivers](#).

### EUA, gas and power: Neutral on hedge ration

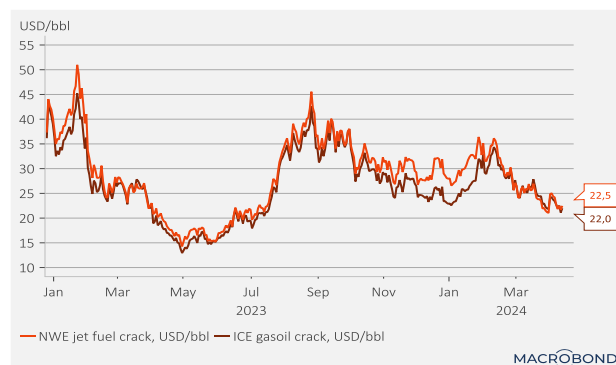
As solar power returns, power, gas, and EUA prices might see a set-back in the spring, creating more attractive entry levels for new consumer hedges. However, the market is likely prepared for this situation, which might indicate that the higher prices will continue in the coming months. All in all, we now take a neutral stance on the gas, power and EUAs hedge ratios.

Lower FO cracks (vs Brent). Rising inventories weigh on inventories and Brent sees more speculative support, USD/bbl



Source: Bloomberg, GRM and Macorbond

ICE Gasoil/jet fuel cracks have edged lower again as Ukraine has attacked no new Russian refineries and as Brent see more speculative support than products, USD/bbl



Source: GRM and Macrobond

#### Brent and ICE Gasoil forecast GRM

|                                      | Spot | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | avg. 2024 |
|--------------------------------------|------|---------|---------|---------|---------|---------|-----------|
| Brent GRM Forecast avg., USD/bbl     | 90,0 | 82      | 92      | 92      | 93      | 92      | 90        |
| Brent forward avg., USD/bbl          |      |         | 90      | 88      | 86      | 83      |           |
| Brent Consensus forecast (Bloomberg) |      | 82      | 84      | 84      | 84      | 82      | 83        |
| WTI GRM Forecast, USD/bbl            | 85,8 | 78      | 88      | 88      | 89      | 89      | 86        |

|                                               | Spot | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | avg. 2024 |
|-----------------------------------------------|------|---------|---------|---------|---------|---------|-----------|
| ICE Gasoil crack avg., USD/bbl (GRM Forecast) | 22   | 28      | 31      | 31      | 33      | 32      | 31        |
| ICE Gasoil avg., USD/MT (GRM Forecast)        | 841  | 820     | 914     | 916     | 939     | 924     | 897       |
| ICE Gasoil Forward, avg., USD/MT              |      |         | 833     | 821     | 811     | 795     |           |

Source: GRM, Bloomberg

#### HSFO and VLSFO forecast GRM

|                                                                   | Spot | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | avg. 2024 |
|-------------------------------------------------------------------|------|---------|---------|---------|---------|-----------|
| HSFO (1M 3.5% Rotterdam Barge) crack avg., USD/bbl (GRM Forecast) | -14  | -12     | -10     | -10     | -12     | -11       |
| HSFO (1M 3.5% Rotterdam Barge), USD/MT (GRM Forecast)             | 476  | 445     | 519     | 521     | 514     | 500       |
| HSFO (1M 3.5% Rotterdam) Forward, avg., USD/MT                    |      |         | 482     | 485     | 468     | 477       |

|                                                                    | Spot | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | avg. 2024 |
|--------------------------------------------------------------------|------|---------|---------|---------|---------|-----------|
| VLSFO (1M 0.5% Rotterdam Barge) crack avg., USD/bbl (GRM Forecast) | 4    | 6       | 6       | 6       | 5       | 6         |
| VLSFO (1M 0.5% Rotterdam Barge), USD/MT (GRM Forecast)             | 591  | 561     | 620     | 622     | 622     | 712       |
| VLSFO (1M 0.5% Rotterdam Barge) forward, USD/MT                    |      |         | 597     | 579     | 564     | 580       |

Source: GRM, Bloomberg

Table 1: GRM market and hedging views – updated April 12, 2024

|                                  | Market view next month                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Market view from one month and beyond                                                                                                                                                                                                                                                                      | Hedging implications                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Brent oil                        | We expect Brent to stay in a USD 87-93 range. Geopolitical risks are upside risks together with the OPEC+ announcement on cut extension into Q2. Stronger USD and weaker risk sentiment downside risks.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Focus on on seasonal demand pick up in Q2 and Q3 and high "call on OPEC". OPEC+ production cuts to be extended throughout 2024 to support prices. Range : USD 80-100 that is expected to last throughout 2024. Downside risks depend on non-OPEC supply growth and OPEC compliance. Test of USD 100 likely | We recommend that consumers have a hedge ratio above their individual company benchmark. The 2024 curve remain slightly in backwardation. We see prices above the forward curve in 2024. Add to hedge when Brent trades below USD87.                                                                                                                                                                      |
| ICE Gasoil (Diesel/Jet fuel,MGO) | Still, a relatively tight physical situation in ARA for Gasoil/diesel. Refinery maintenance in Europe to add to tightness. Red Sea closure and Ukraine attacks on Russian refineries are supportive. If we see a reopening of the Red Sea downside risks are present. Weak consumer demand also a risk.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | To follow Brent. But risk of new spikes in crack vs Brent as refineries have a difficulties keeping up with demand. A weaker recovery in Chinese product demand (higher export) could loosen the market. Red Sea reopening a clear downside risk. Lack of Russian supplies an upside risk.                 | We recommend that consumers have a hedge ratio above the individual company benchmark. ICE Gasoil is in backwardation. We see prices above the forward curve. Add to hedge when Brent trades below USD83.<br><br>Suppliers (inventory hedging): Consider rolling hedges early (if possible).                                                                                                              |
| VLSFO                            | The market to become better supplied with VLSFO as the Al-zour refinery in Kuwait have stepped up export. But supplies are lacking. Still modest demand in Port of Rotterdam though "south of Africa" could add to demand. Strong gasoline crack supportive and add risk to the upside.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | To follow Brent. VLSFO is expected to stay weak vs Brent (small premium or even negative) as supply from Al-zour refinery returns and muted demand. Stronger Gasoline demand/crack add support on the upside.                                                                                              | We recommend that consumers have a hedge ratio at the individual company benchmark as VLSFO premium might fall again. Flat price to follow Brent higher.                                                                                                                                                                                                                                                  |
| 3.5% HSFO                        | 3.5% HSFO to stay weak short term (more negative crack vs Brent). Seasonality points to a weaker market and high inventories in ARA. Europe is a net exporter of residual oil. Hence, Red Sea closure means lower export and downward pressure on prices.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 3.5% HSFO is expected to strengthen vs Brent (lower discount). Shipping demand might rise also due to the Red Sea tensions. Feedstock availability to stay low as Saudi and Russia is cutting back heavy/sour crude. We see prices above the forward curve. Demand picks up seasonally over the summer     | We recommend that consumers have a hedge ratio above their individual company benchmark. We expect prices to trade above the forward curve and a more expensive crack.                                                                                                                                                                                                                                    |
| Natural Gas TTF                  | EU gas inventories are rising and will be full earlier than last year. Warm weather also weighs on prices. The market is now less sensitive to any supply disruptions. Focus on possible sanctions on Russian gas and a growing global (China) demand.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Even though the inventories might be filled earlier than last year, we expect a nervous market ahead of next winter. Focus on possible industrial demand pick up and possible new sanctions on Russian gas exports. Outright low price relative to LNG costs.                                              | We recommend that consumers hedge especially the 2024/25 winter as the risk of a new price spike is still evident. Consider hedging the 2024/2025 winter season and calendar-25 on price set-backs (front-month at EUR 27/Mwh).                                                                                                                                                                           |
| EUA                              | The weak German economy and high use of renewables in power production weighs on demand. However, auction demand has picked up and speculative short-covering could add support. But we have seen a strong rally that give some downside risks now.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | The Q1 set-back in prices was likely justified and further downside in the spring cannot be ruled out. Range EUR 60-80 MT later in the year. Sensitive to gas prices and weather. Focus on TNAC announcement June 1.                                                                                       | Better entry levels might be seen in the spring for buyers. But market is prepared for spring weakness. The EUA curve reflects the interest rate curve and is in contango. Entities that have to hand in allowances should compare internal funding costs to the implicit cost-of-carry in the EUA futures curve when considering buying EUAs "physically" or using the futures curve to hedge EUA risks. |
| Market comment                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                           |
| Power                            | Two major incidents have pushed power prices in Europe higher this week. The destroying of a Ukrainian 1,8 GW powerplant and bombing of gasstorage. In addition, EU legislation is tightening when it comes to Russian gas exporters' access to bid on European gas infrastructure. Cal 2025 contract in Germany rose from 80 €/MWh to a top at 93 €/MWh before easing a bit to 90,50 €/MWh. Major driver has been nat. gas, driven higher by a tightened supply till next winter. Clean Spark Spread has gone into a positive area in Q4-24, so hedgers might appear to lock in profit.<br><br>Short term healthy gasstorage and for next 6 month no heating demand. On long term and outlook to lower interests and a possible return of higher European industrial demand can move prices higher. |                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                           |

Source: GRM

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