Energy Market Drivers:

OPEC+ and geopolitics drive oil prices higher. Update on the gas market

November 1, 2024

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Market view oil: Upside risk as we head into election week

In last week's issue, we looked closer at the impact of the US election on the oil market and the US Dollar. We concluded that one should not overstate the short-term to medium-term impact on the oil market. The effects on the US dollar and interest rates might potentially be more pronounced.

This week, we will look at the latest developments in geopolitics and what we should expect from OPEC+ regarding the announced production increase on December 1.

We see an upside for Brent going into election week based on our view that OPEC+ will confirm a delay in the production increase as geopolitics are back on the agenda. The market will also scrutinise the US election on November 5 and the Fed Meeting on November 7. We expect a 25bp rate cut.

Two main drivers for oil next week: OPEC+ and Geopolitics

1. **We expect OPEC+ to confirm that the production increase will be delayed, but geopolitics a risk factor**

On Wednesday, Reuters reported, based on sources close to decision-makers, that OPEC+ plans to postpone the increase in oil production by 180,000 barrels on December 1 by a month or more.

These plans have already been delayed once, as the production increase was initially planned to start on October 1. The sources that Reuters quotes cite weak demand and rising supply.

We expect OPEC+ to officially confirm over the weekend or early next week that the planned production increase has been postponed. OPEC has built a reputation for announcing changes one month ahead. Furthermore, the exact production quotas are essential for countries like Saudi Arabia that announce OSPs (Official Selling Prices) at the beginning of the previous month.

However, the Reuters story might not be correct. We notice that we have not seen similar stories in other media. The recent spike in oil prices due to renewed geopolitical concerns might also make it more likely that OPEC+ will go through with the production increase; before the Reuters story broke, that was our main view.

When the Reuters story came out, Brent traded around USD 72.00 and rose to USD 72.50 in the aftermath. If OPEC+ had tried to test the market to see the market reaction, they would have probably been slightly disappointed by the modest market reaction. If the sources had said the production increase would go through, we would not have been surprised to see Brent testing the USD 70 level.

Overall, we see little room for OPEC+ to increase production in December or next year. Confirmation that the production increase would be further delayed would reinforce that OPEC+ continues to pursue a price rather than a volume strategy.

We anticipate the Brent price moving towards USD 80 throughout 2025. Our view is based on the notion that OPEC+ will add very little extra oil to the market in 2025 and that the global economy will develop better than feared, fuelled by lower interest rates.

2. Geopolitics back on the agenda as Iran might attack Israel from Iraq

Yesterday, geopolitics returned to the agenda. The media outlet Axios reported, based on Israeli intelligence sources, that Iran is preparing a major retaliatory strike from Iraq on Israel.

The attack could occur within the coming days, even before the US election. According to Axios Israeli intelligence suggests the attack is expected to be carried out using a large number of drones and ballistic missiles.

The Iranian Revolutionary General Hossein Salami said yesterday that Israel made a mistake when it attacked Iran and stressed that Iran's response would be "different from any scenario" Israel might expect. According to FT he warned that Iran's retaliation would be "unimaginable".

CNN also reported during the week that, according to a high-ranking Iranian source, the recent attack on Israel would be met with a "definitive and painful" response.

Hence, it seems that the rhetoric from Iran has changed and been stepped up over the last week, making the Axios story more credible.

Overall, the market must price in a higher geopolitical risk premium in the coming weeks. We should also expect a nervous market ahead of the weekend.

If an attack occurs, it would represent a significant escalation, and Israel would likely retaliate.

Israeli military chief Lieutenant General Herzi Halevi warned, according to FT earlier in the week, that Israel would "strike very hard" if Tehran retaliated. "If Iran makes the mistake of launching another missile barrage at Israel, we will once again know how to reach Iran, with capabilities that we did not even use this time, and strike very, very hard," he said.

This time, we would expect attacks on oil and nuclear installations.

There is also speculation that Israel may strike Iran even without an Iranian attack again after the election, especially if Trump wins.

Oil price Outlook: We see Brent moving towards USD 80 In 2025

We have not changed our central forecast for Brent. We still expect it to trade in the mid-70s in Q4, edging towards USD 80 in 2025. Our forecast is based on an improving global economy supported by monetary easing globally and, notably, the expectation that the energy-intensive Chinese economy will receive a boost from the latest easing measures. We see China growing around 5% next year. See our forecast for oil, products and EUR/USD on the next page.

We no longer expect OPEC+ to add more oil on December 1, and we believe the plan for more oil in 2025 will be delayed again in Q1 2025. We also assume that Saudi Arabia will be putting a lot of pressure on quota busters like Iraq, Kazakhstan, and Russia to improve quota adherence and that quota compliance will improve.

Last week, we argued that the market has become too complacent about geopolitical risks. That seems to be about to change now.

Our Brent, ICE Gasoil, 3.5% and 0.5% Marine Fuel forecasts above the forward curves and spot. We expect a stronger USD

	Spot	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	avg. 2025
Brent, USD/bbl	74	76	77	80	81	80	80
ICE Gasoil, USD/MT	**680**	**685**	**700**	**730**	**738**	**730**	**725**
Jet CIF NWE cargo, USD/MT	730	735	750	780	788	780	774
Jet CIF NWE cargo, EUR/MT	**672**	**681**	**715**	**750**	**757**	**750**	**735**
Rotterdam							
HSFO (1M 3.5% Rotterdam Barge), USD/MT	416	445	438	457	457	451	451
VLSFO (1M 0.5% Rotterdam Barge), USD/MT	**497**	**514**	**514**	**527**	**533**	**527**	**525**
Singapore							
FO 380 CST 3.5% FOB Spore Cargo 1M (GRM Forecast)	423	445	450	469	469	463	463
Sing Marine Fuel 0.5% FOB Swap, USD/MT (GRM Forecast)	**550**	**590**	**585**	**599**	**599**	**593**	**594**

		Spot	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/USD	Consensus		1,10	1,11	1,12	1,13	1,13
	GRM	**1,09**	**1,08**	**1,07**	**1,05**	**1,04**	**1,04**
USD/DKK	Consensus		6,77	6,71	6,65	6,62	6,59
	GRM	**6,87**	**6,90**	**6,96**	**7,10**	**7,16**	**7,16**

Source: GRM, Bloomberg

Market view TTF gas: Market very nervous ahead of winter

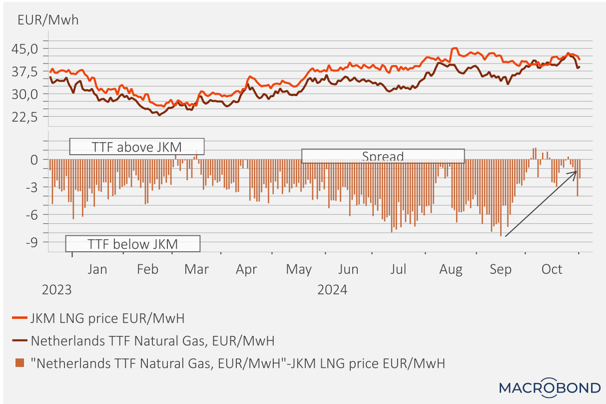
TTF gas prices have been relatively volatile over the last two weeks, with the front-month trading between EUR 43.5 and EUR 38 MWh.

The market is caught between healthy European gas invnetories ahead of the winter, rising geopolitical risks, and robust Asian LNG demand.

TTF Gas prices, EUR/MWh

Source: Bloomberg, GRM, Macrobond

TTF gas prices have caught up with the Asian JKM LNG price, EUR/MWh



Source: Bloomberg, GRM, Macrobond

Supportive factors:

The Chinese fiscal and monetary easing has boosted hopes that the Chinese economy will recover, adding further to the demand for imported LNG in China. The two Chinese manufacturing PMI numbers edged above 50 in October, implying an improvement in the Chinese manufacturing cycle.

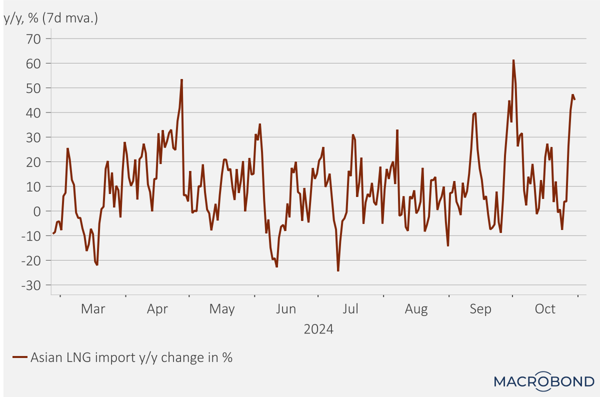
Over the past month, we have seen increased LNG imports to Asia, notably China. Currently, Asian and Chinese LNG imports are up more than 40% y/y. Note that the LNG import data are volatile from week to week.

During the winter and in 2025, the global competition for LNG will be the primary driver for international LNG prices and European TTF prices. The TTF gas price is no longer a local European gas price but an international benchmark where supply and demand in the global LNG market are as important as the EU fundamentals.

While the demand for Asian LNG has picked up, the EU import of LNG has been modest in 2024. Currently, imports are 40% lower for this time of the year compared to 2023.

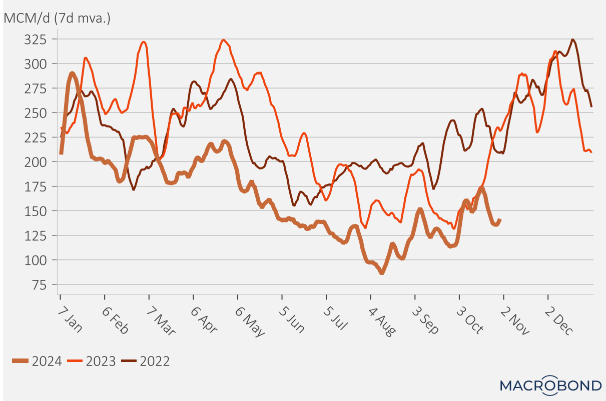
However, if we get a surge in EU gas demand from a cold spell or if some of the pipeline gas from Norway or Russia drops, the pick-up in LNG demand will be sizeable, which potentially could have a significant price impact.

Asian LNG imports are up more than 40% y/y, % y/y



Source: Bloomberg, GRM, Macrobond

EU imports of LNG have been low so far, but that might change over the winter, MCM/d.



Source: Bloomberg, GRM, Macrobond

Geopolitics is another critical factor for the gas market. We see two crucial geopolitical events that can impact the gas market.

The most significant impact would be if we see **a new escalation in the Middle East**. It would add to the risk, albeit small, that the LNG transport through the Strait of Hormuz will be impacted. To put the impact into perspective, the LNG export from Qatar alone is roughly 35% of the total Asian LNG imports.

However, it is probably more likely that we will see an end to the Russian gas flows through Ukraine when the 5-year transit agreement expires at the end of December this year. There is a lot of speculation about whether a new deal can be reached between Russia and Ukraine. Many analysts point to the idea of transporting gas from Azerbaijan through the pipelines. Gas that will be swapped for Russian gas.

Ukraine has been firm in rejecting such a plan. However, yesterday, Bloomberg ran a story that a deal might be imminent, though it was rejected by the Slovakian gas importer SPP this morning. Both news have created volatility in the market.

There seems to be a growing probability of a deal to secure gas through Ukraine. However, we keep our central scenario that the gas flows through Ukraine will end by year-end.

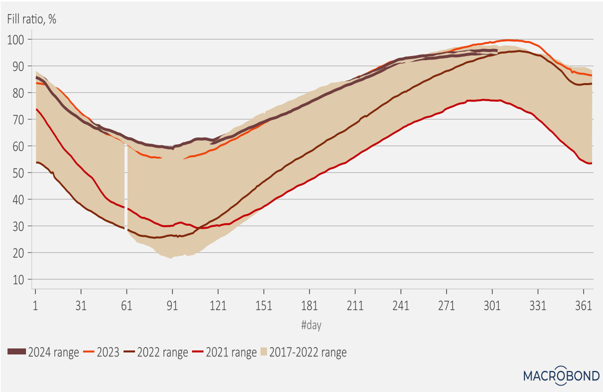
Bearish factors:

If we see a deal securing Russian gas, it will weigh on the gas price.

The EU fundamentals also remain healthy, with EU inventories 95% full, though close to 4 percentage points below the level a year ago. The filling rate slowed in October, notably as EU LNG imports slowed and as the weather remained mild.

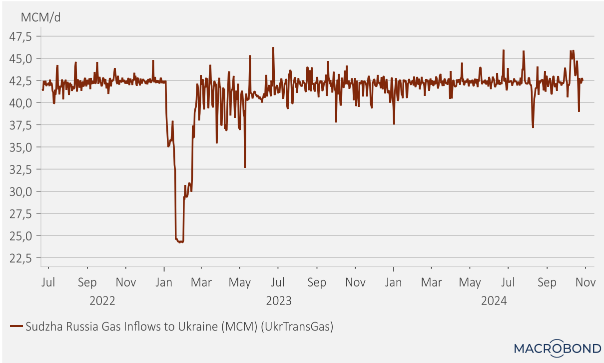
Furthermore, the speculative position data indicates that net-long speculative positions remain excessively high, making the market sensitive to bearish news. If we see a de-escalation in the Middle East, mild weather for an extended period, or a deal to secure gas through Ukraine, we should expect TTF gas prices to drop.

EU inventories are almost full ahead of winter, %



Source: Bloomberg, GRM, Macrobond

Will the flows through Ukraine continue? Inflows to Ukrinaen from Sudzha, MCM/d



Source: Bloomberg, GRM, Macrobond

Gas Price Outlook: Three scenarios for gas prices

Given the many uncertainties regarding the natural gas price over the winter and next year, we have created three scenarios.

Our central scenario is scenario 2 in the box on the next page. We particularly emphasise:

- Asian demand, including China, for LNG is strong and expected to stay strong during the winter and during 2025.
- We assume that Russian gas through Ukraine (about 5% of EU gas imports) will stop at the end of December 2024.
- We expect a normal winter and that industrial demand will gradually rise in Europe and Asia.

We therefore expect that, on average, the gas price will trade at EUR 43 in Q1 and EUR 38 in Q2. The price pressure will likely ease once we move out of the winter months. The most considerable downside risk to our forecast is that gas continues to flow through Russia.

• We also have a **low-price scenario**. We assume that Russian gas flows continue through Ukraine. We assume that global industrial demand weakens and a small geopolitical premium

• In the **high-price scenario**, we assume a cold winter and that the global economy surprises on the upside. The conflict in the Middle East affects LNG shipments from Qatar, with Iran blocking the Strait of Hormuz for a short period.

See overview chart on the next page

TTF gas scenarios (average quarterly forecasts for TTF, EUR/MWh)

Scenario	Assumptions	Price outlook
(1) Demand remains weak and supply fears overdone (downside)	Full EU inventories. Norwegian supplies return. Ukraine accept gas from Azerbaijani. European industrial demand remains weak, and the winter turns out mild.	* Gas edges lower towards EUR 30 end Q4 2024 as the Russian gas returns * More downside pressure in Q1 2025 as inventories are full and winter stays mild. TTF bottoms out at EUR 20 like in 2024
(2) Strong Asian demand and supply issues (GRM baseline)	Normal winter , but demand boosted by Asian demand and no gas through Ukraine starting January 1st	* Gas moves above EUR 40 in October and trade in 40ties in Q4 2024 and in Q1 2025 until the winter is over * Price pressure eases in Q2
(3) Global economy recovers and severe supply issues (upside)	Colder than normal winter and demand boosted by strong Asian demand as Chinese easing kickstart China. Europe surprises positively as China, the rest of Asia and the US enters an industrial recovery. Supply through Ukraine is cut off. The market is pricing this in October. The War in the Middle East spread to Iran, and the Strait of Hormuz is shut for several weeks and LNG from Qatar is landlocked.	* Gas moves above EUR 50 in October and hit EUR 70 as Iran closes Strait of Hormuz. Price at EUR 55 in Q1 2025 and drop to EUR 45 for the rest of 2025

Scenario	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	2025	
1	33	25	29	30	32	29	
2	41	43	38	39	42	41	GRM forecast
3	59	55	45	45	45	48	

Source: GRM

Price overview

01/11/2024 14.35

	1 Nov 2024	Change 1D,%	Change 5D,%	Change 1M,%	Change 1Y,%	Change YTD,%
Brent 1.pos., USD/bbl	74,2	1,8	-2,6	0,8	-14,1	-3,9
ICE Gasoil 1.pos., USD/MT	679,8	1,6	0,5	0,2	-31,4	-10,4
Jet Fuel NWE CIF 1M, USD/MT	729,9	-0,1	-1,0	2,8	-24,6	-4,1
Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT	684,2	-0,1	0,2	0,7	-25,0	-4,2
Marine Fuel 0.5% FOB Barge Swap Rotterdam M1, USD/MT	496,7	-0,5	-1,2	1,7	-10,9	4,3
Fuel Oil 3.5% FOB Rotterdam Barge 1M, USD/MT	416,0	-0,7	-3,6	1,9	-5,3	9,7
Biodiesel, RME FOB Barge 1M, USD/MT	1328	1,0	4,6	10,0	-4,3	9,7
Biodiesel, UCOME FOB Barge 1M, USD/MT	1408	-0,7	-0,2	5,3	-2,3	6,7
Biodiesel, FAME-0 FOB Barge 1M, USD/MT	1213	-1,1	2,0	16,2	-0,6	2,0
EUA spot, EUR/MT	64,3	-1,4	-3,1	-1,2	-22,3	-20,2
EUA Dec-24, EUR/MT	64,5	-0,2	-3,9	1,3	-27,9	-24,7
TTF Gas 1M, EUR/Mwh	39,5	-2,9	-10,3	0,4	-21,1	18,0
TTF Gas Cal-25, EUR/Mwh	38,7	-1,9	-8,7	0,0	-14,5	6,4
API 2 coal 1M forward, USD/MT	120,1	-0,5	-0,8	2,4	0,5	19,7
API 2 coal Cal-25, USD/MT	123,1	1,3	-2,0	-1,0	2,8	22,0
Power Baseload Germany 1M forward, EUR/Mwh	86,5	-0,8	-5,4	-1,8	-13,3	-37,9
Power Baseload Germany 2025, EUR/Mwh	85,4	-2,1	-8,1	-1,8	-30,1	-11,7

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

Hedging views:

Table 1 on the next page summarises our market views and hedging recommendations in our different markets. See also our Budget Outlook 2025, which targets corporate clients with energy exposure preparing the budget for 2025.

Oil and oil products:

Add to consumer hedges when Brent trades in the USD 70-74 range. Despite the recent demand concerns, we recommend adding to hedges in this range. Consumers should strongly consider a high hedge ratio for Q4 and, presumably, Q1 2025, as we might see violent price spikes given the risk of a Middle East escalation.

Distillate cracks are depressed, implying that flat prices for diesel, gas oil, and jet fuel remain attractive. We have recently seen a spike in HSFO cracks and jet fuel diffs. The market expects the HSFO oil market to normalise. We see a risk that the tight HSFO market will extend into the next three months.

EUA and TTF gas:

Buy EUAs below EUR 64MT and TTF gas below EUR 36 MWH

As solar power productions remain high, power, gas, and EUA prices might see a setback in the coming months, creating more attractive entry levels for new consumer hedges. EUA prices are again above this level, and we recommend a cautious approach when adding to the hedge ratio for EUA exposure.

The market is likely prepared for weaker European fundamentals, and the geopolitical situation adds to the upside risk. Hence, expect any price setback to be short-lived, notably in gas and power. Risks on the upside for gas prices remain high over the winter due to the situation in Russia and global competition for LNG. For TTF gas, we see any dip below EUR 36 MWh for the front contract as a very attractive entry level for new consumer hedges.

Table 1: GRM market and hedging views – updated October 25, 2024

	Market view next month	Market view from one month and beyond	Hedging implications
Brent oil	Brent remain under pressure, as focus turns to Q4 fundamentals and as OPEC+ is planning to add more oil in December. Geopolitics are clear upside risks.	OPEC+ voluntary production cuts to be phased out in 2025. Range : USD 70-85 that is expected to last throughout 2024 and in 2025. Downside risks depend on non-OPEC supply growth and OPEC+ compliance/phase-out. We see small OPEC+ phase-in of oil.	We recommend that consumers have a hedge ratio above their individual company benchmark. The 2024/25 curve remain in backwardation. We see prices above the forward curve in 2024 and 2025. Add to hedge ratio when Brent in USD 70-74 range. We may see a new temporary move below USD 70.
ICE Gasoil (Diesel/Jet fuel,MGO)	ARA well supplied with gasoil/diesel/jet fuel adds downside. Weak industrial demand. Jet fuel demand has peaked. However, cracks are now "low".	To follow Brent. Lack of Russian supplies (Ukranian attacks) is an upside risk. Weak demand and robust ARA inventories might continue adding downside.	We recommend that consumers have a hedge ratio above the individual company benchmark after the crack has fallen. The ICE Gasoil curve isin backwardation in the front and very flat in 2025. We forecast prices above the forward curve. Add to hedge when Brent trades USD 70 - 74. Suppliers (inventory hedging): Consider rolling hedges early (if possible), as the current front-end backwardation might be more pronounced if flat prices move higher.
VLSFO	The VLSFO market is currently surprisingly tight. However, we expect supplies to return as refineries step-up production and return from maintenance.	To follow Brent. VLSFO is expected to be weak again vs Brent (smaller premium) as supply from Al-zour and Dengote refineries return.	We recommend that consumers have a hedge ratio at the individual company benchmark. Flat price to follow Brent higher. Consider awaiting better entry-level.
3.5% HSFO	3.5% HSFO have seen short term support (less negative crack vs Brent). However, as summer peak demand season is coming to an end (Middle East power consumption and bitumen demand) the risk is for a more negative crack. The HSFO tightness might extend for more months.	3.5% HSFO is expected to stay relative weaak over the winter. We see prices above the forward curve due to our Brent forecast.	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. Might see a better entry level later in the year.
Natural Gas TTF	EU gas inventories are rising and will again be full early this year. The market is sensitive to an early halt to russian gas supplies through Ukraine. Growing Asian demand. Market speculative long TTF gas. Downside risk to prices short-term. Norwegian maintanaince in focus.	Even though the inventories might be filled earlier than last year, we expect a nervous market ahead of next winter.	We recommend that consumers hedge especially the 2024/25 winter as the risk of a new price spike is still evindent. Consider hedging the 2024/2025 winter season and calendar-25 on price set-backs (front-month below EUR 34/Mwh).
EUA	The weak German economy and high use of renewables in power production weighs on demand. Downside risk short-term. Close correlation with gas has broken down.	Range EUR 60-75 MT for the rest of 2024. Sensitive to gas prices and weather.	Better entry levels might be seen if gas prices drop. But market is preparred for summer/autumn weakness. Buy DEC-24 is below EUR 64. 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.

Source: GRM

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