# Energy Market Drivers:

Waiting for OPEC+, low scrubber-spread and risk scenario playing out in gas

May 31, 2024

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## Market view oil: Weak sentiment ahead of OPEC+ announcement

The sentiment in the oil market remains weak overall, though we have seen a short-term test of USD 85 in the past week. We are currently trading at USD 82.05. It seems that USD 80 provides a solid floor on the downside. We repeat from last week that we believe that this physiologically important USD 80 level will hold and continue to see support from OPEC+ rolling over the production cuts into Q3 at the June 2nd meeting.

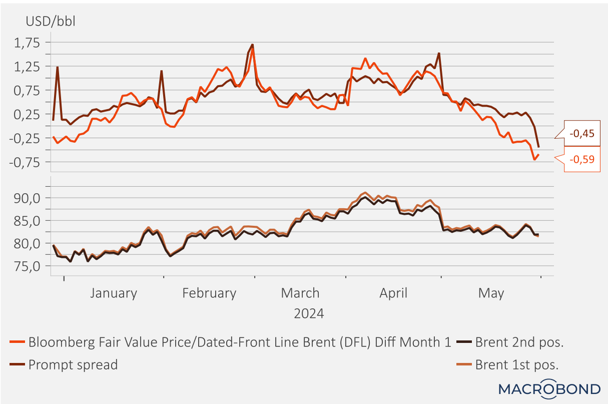
We still see Brent at the current level as a buying opportunity given the the expected OPEC+ roll-over and the expected seasonally pick-up in demand in Q3. We see Brent moving towards USD 90 in Q3.

In the latest issue of [Energy Market Drivers](), we wrote about the negative and positive drivers of oil prices.

We will not repeat these factors but highlight that we have seen that US crude oil inventories fell by 4.5 million barrels this week, which is supportive. On the other hand, we saw that gasoline inventories rose, pointing to a weak start to the US driving season.

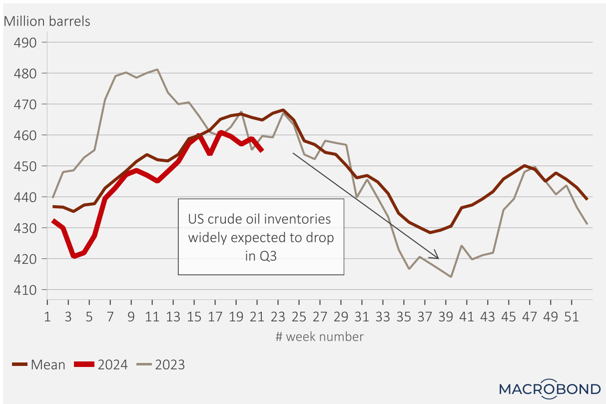
We have also seen that the Brent prompt-spread (1st vs 2nd Brent position), like the DFL-spread (Dated Brent vs 1. position) has turned negative, typically considered a bearish market signal.

DFL and prompt-spread (1st vs 2nd) position in Brent are trading in contango. A bearish signal, USD/bbl.




Source: GRM, Macrobond, Bloomberg

Drop in US crude oil inventories has started, Million barrels




Source: Macrobond, GRM

Despite the bearish market signal from the front-end of the curve, we still argue that sentiment will turn around in Q3 and that a test of USD 90 is likely. We repeat from last week's Energy Market Drivers:

- The OPEC+ roll-over is widely expected to be announced at the online OPEC+ meeting on June 2nd. To the best of our knowledge, it will be able to tighten the market balance in Q3. It might surprise the market that seems to have priced out the risk of a tighter market.
- Q3 is seasonally the strongest quarter. It is also in Q3 that we usually see that US crude inventories start to move lower, supported by driving season.

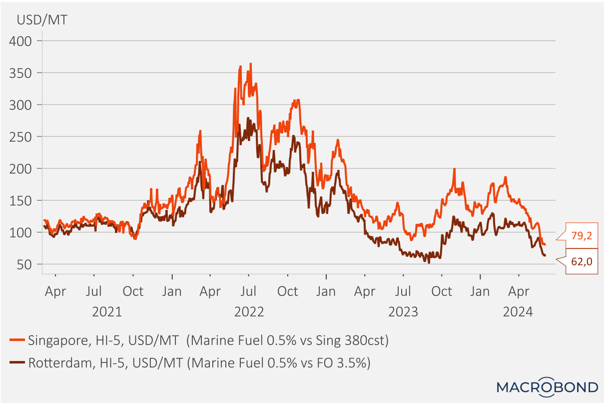
Hence, we maintain that oil prices will be higher in Q3. Hence, consumers should utilise the current price level to hedge, notably Q3 and Q4 exposure.

## Large move in the Hi-5/scrubber-spread

We have seen a significant decrease in the HI-5 spread during May. The HI-5 is the difference between the VLSFO (0.5%) and the HSFO (3.5%) price. The spread is also known as the scrubber-spread.

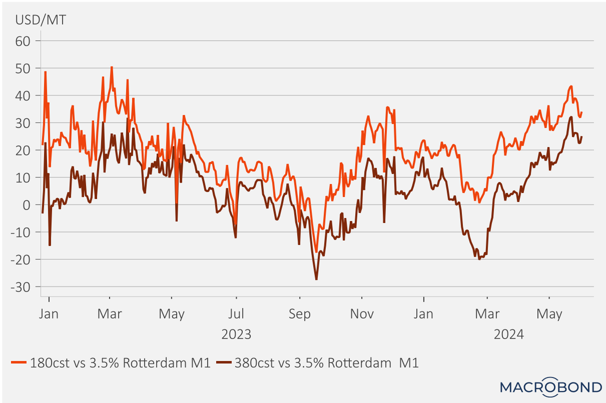
The chart below shows the front-month spread in ARA and Singapore; notably, the HI-5 Singapore spread has moved lower. Consequently, we have seen a notable increase in the HSFO East-West spread, as illustrated below to the right.

The HI-5 spreads (scrubber-spreads) have decreased in April and May, notably in Singapore, USD/MT




Source: GRM, Macrobond, Bloomberg

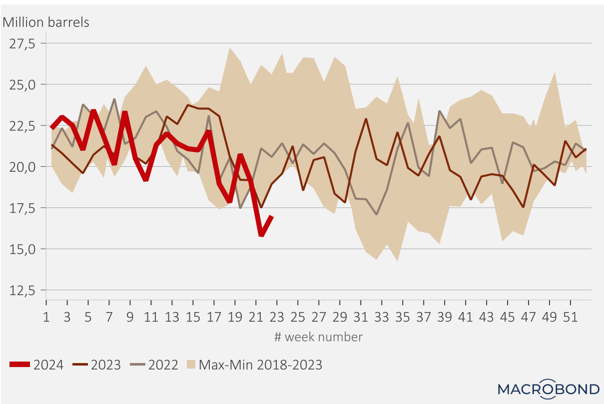
Singapore HI-5 spread under pressure from expensive HSFO and a wide HSFO East-West spread, USD/MT




Source: Macrobond, GRM

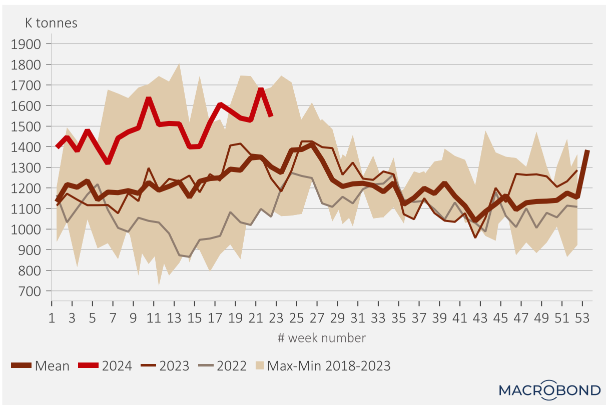
A tight HSFO Singapore market has driven the spread lower. The chart below to the left shows the Singapore residue inventories, including HSFO and LSFO. Industry sources have told us that the low inventory level is mainly due to low HSFO inventories. The chart to the right shows fuel oil inventories in ARA.

Low inventories of residues (HSFO, LSFO, LSWR, residues) in Singapore, million barrels




Source: GRM, Macrobond, Bloomberg

More abundant fuel oil inventories in ARA, k tonnes




Source: Macrobond, GRM

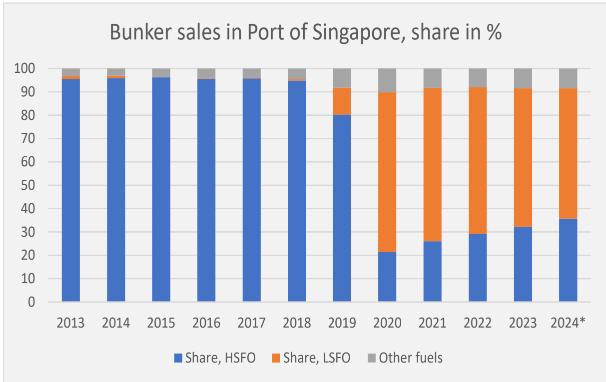
The pick-up in demand for HSFO is visible in port bunker sales in Singapore and Rotterdam. With the red-sea closure, vessels going south of the Cape, and more vessels equipped with scrubbers, the sale of HSFO has seen a boost in both ports.

The global heatwave hitting Asia has also boosted the demand for HSFO. The Middle East also consumes large amounts of HSFO during the peak summer demand period (air conditioning), though some ME countries have switched to VLSFO for power production.

Sales of HSFO have seen a boost in Rotterdam. Million tonnes


Source: Port of Rottredam, GRM

Same picture in Singapore, share in %




Source: Port of Singapore, GRM

**We will publish a research note next week where we look closer into the HI-5 spread and discuss the outlook.**

## Market view gas: Lower German gas storage levy a bullish factor for THE and TTF prices

Last week, we discussed two critical factors in the European gas market that could drive prices higher.

First of all, the risk of reduced gas flows to Austria after the Austrian-listed gas company OMV (OMGT) warned that the Russian gas entering Austria through Slovakia might soon come to a halt due to payment issues.

This week, Germany announced it will cancel the extraordinary German storage levy in 2025. The levy is a fee charged on gas exiting the German grid to fund the costs of building inventories in 2022, when prices were record high. It is set to rise from EUR 1.8/MWH to 2.50/MWh from July, but will now be cancelled for gas exiting Germany from the start of 2025.

The levy has been heavily criticised by Austria, the Czech Republic, Hungary, and Slovakia, who argue that the levy makes it very costly to move away from Russian gas. Hence, we see the cancellation as a "sweetener" for the CEE countries that will now incur less costs from buying gas that goes through Germany in case the Russian pipeline gas through Ukraine stops.

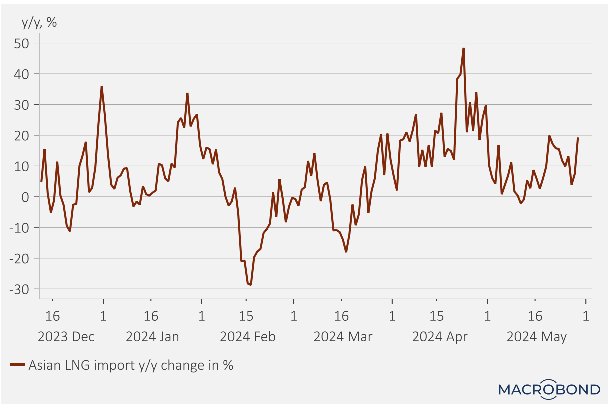
We see the German move as a clear indication that the EU will not pressure Ukraine to extend the gas deal with Russia that runs out at the end of the year. In other words, the market is now preparing for no Russian pipeline gas through Ukraine in 2025 or earlier, depending on the OMV issue. Russian gas through Ukraine accounts for one third of the Russian gas exports to the EU and 5% of the European gas import.

Removing the levy will lower gas prices in the CEE countries, but it wil add upside to German THE and Dutch TTF prices as demand from CEE countries and Italy is expected to pick up.

Secondly, we discussed the strong Asian demand for LNG.

This week, we saw a new pick-up in Asian LNG demand, as illustrated below. EU LNG demand remains muted.

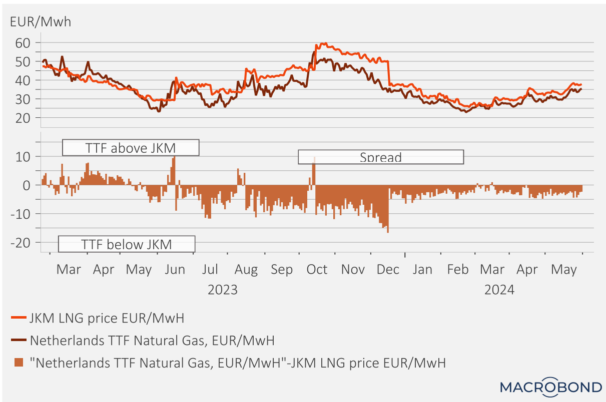
Asian* LNG import up 20% y/y (10d mva.)




Source: GRM, Macrobond, Bloomberg

* Japan, South Korea, China, Taiwan and Hong Kong

Asian JKM LNG prices trade above TTF prices to attract supplies, EUR/MWh




Source: GRM, Macrobond, Bloomberg

## Consumer hedging: Take advantage of better entry-level if we see a correction lower

Suppose we see a drop in TTF gas prices over the coming weeks based on the stretched positioning and profit-taking after the latets rally. In that case, we recommend that gas consumers utilise the lower prices to hedge winter 2024-25 or cal-25 exposure. We would see a move to EUR 29 - 32/MWh for the front contract as an attractive entry-level. Note that we should expect the move lower further out on the curve to be smaller than in the front. But still, we expect the whole curve to move lower on a price correction.

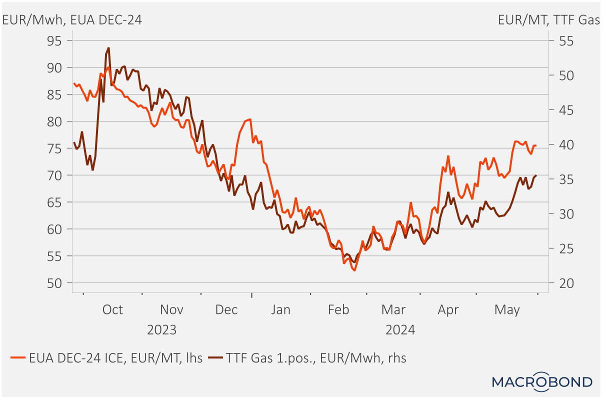
We highlight that any price corrections might be short-lived and, notably, if triggered by speculative selling, as discussed in this extra issue of Energy Market Drivers. The risk of a new move higher in the coming weeks should not be underestimated as the OMV case could mean a sudden end to Russian piepeline gas to Austria.

## Market view EUA: High correlation makes EUAs sensitive to the gas price

The EUA DEC-24 price is trading at EUR 75.44 MWh after trading briefly above EUR 78 last week. Gas prices remain the short-term driver.

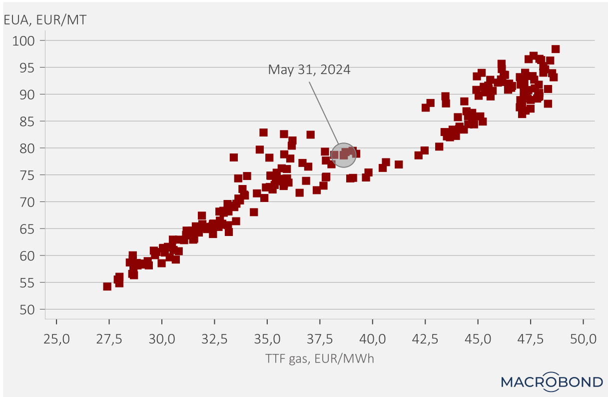
EUA prices still seem to run slightly ahead of the gas price in May, as the correlation between gas, EUAs, power and coal remains very high.

The EUA price still ahead of the TTF gas price, EUR/MWh and EUR/MT




Source: Macrobond, Bloomberg, GRM

EUA vs Gas scatter-chart, cal-25 prices (observation since August 2023)




Source: Macrobond, Bloomberg, GRM

If we see a short-term correction lower in gas prices as we discussed in the previous section, we expect EUA prices to follow suit.

Since March, we have seen the DEC-24 contract trading in a narrow upward-trending channel, as illustrated in the chart on the next page.

We are currently in the lower range of that channel, and if we close below the range, the risk of a correction lower is growing.

Short-term market view: Any price correction likely to be short-lived

The EUA market might have run ahead of itself relative to the gas price. However, as we argued three weeks ago in Energy Market Drivers, the EUA price continues to see medium to long-term support from an expected tighter market in the future. Higher gas prices later in the year will also be supportive.

In the coming week, the EUA market will focus on the publication of the annual surplus indicator (total number of allowances in circulation or TNAC) for the Market Stability Reserve under the EU ETS. The European Commission will publish the TNAC on June 1st 10.00 cet.

The TNAC plays a vital role in the functioning of the Market Stability Reserve (MSR). It determines whether allowances are withdrawn to or released from the MSR.

We recommend scaling into long EUA positions, especially if we break out of the abovementioned channel on the downside. As for gas, we would expect any price setback to be short-lived.

The EUA DEC-24 contract has been trending higher in a tight channel since late February. Close to breaking out on the downside.


Source: GRM, ICE

## Market Drivers next week: OPEC+ decision and tnac-indictor on Sunday. ECB meeting and non-farm payrolls report next week

The market will spend the first couple of days evaluating the OPEC+ decision on Sunday. As we wrote on page 2, we expect a rollover of the extraordinary production cuts. Risk is tilted towards a six-month extension.

Geopolitics attract less and less attention. The main focus is on Ukraine and the drone attacks on the Russian refineries, though abundant distillate inventories in ARA dampen the impact on cracks. Ukraine has been allowed to attack the Russian military on Russian soil using Western weapons. However, it does not include Russian oil facilities. The focus on the Middle East is more or less gone. The market has concluded that the conflict will not spread to Iran.

Inventory data remain essential, and Wednesday's usual DOE data can potentially move oil markets again, as has been the case for the last couple of weeks. We increasinly focus on indicators for US gasoline demand, so the gasoline inventories are important.

We will follow the speculative oil data published after tonight's US market closes. In the last four weeks, speculators have closed net-long positions, contributing to the drop in oil pries in April and May.

Notably, for the EUA market, the focus remains on the almost daily EEX auctions and the cover ratio that we see as an indicator of underlying EUA demand. Gas remains the main driver for EUA, power and coal prices. Tomorrow, June 1st at 10.00 cet we will have the important tnac indicator from the EU for the EUA market.

The broader financial market focuses on the June 6th ECB meeting. The ECB has been very vocal that interest rates will be cut by 25bp. Hence, all focus on any forward guidance that potentially can impact EUR/USD and, thereby, commodity prices.

We have the ISM indicator and the non-farm payrolls report in the US.

Price overview

24/05/2024 15.13

| | 24 May 2024 | Change 1D,% | Change 5D,% | Change 1M,% | Change 1Y,% | Change YTD,% |
|---|---|---|---|---|---|---|
| Brent 1.pos., USD/bbl | 81,6 | 0,3 | -2,9 | -7,9 | 4,0 | 5,6 |
| ICE Gasoil 1.pos., USD/MT | 739,8 | -0,8 | -3,1 | -5,6 | 5,6 | -1,5 |
| Jet Fuel NWE CIF 1M, USD/MT | 801,3 | -0,5 | -3,2 | -4,0 | 7,6 | 3,0 |
| Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT | 753,5 | -0,1 | -3,1 | -5,2 | 6,0 | 3,3 |
| Marine Fuel 0.5% FOB Barge Swap Rotterdam M1, USD/MT | 527,6 | 0,3 | -4,8 | -9,9 | 4,5 | 5,6 |
| Fuel Oil 3.5% FOB Rotterdam Barge 1M, USD/MT | 455,8 | 0,5 | -1,9 | -6,3 | 8,3 | 12,3 |
| Biodiesel, RME FOB Barge 1M, USD/MT | 1171 | -6,1 | -0,8 | 0,8 | 3,5 | -0,4 |
| Biodiesel, UCOME FOB Barge 1M, USD/MT | 1276 | -3,9 | 0,9 | -0,8 | -0,2 | -0,7 |
| Biodiesel, FAME-0 FOB Barge 1M, USD/MT | 1141 | -6,5 | -2,5 | -0,8 | 3,2 | -0,6 |
| EUA spot, EUR/MT | 72,6 | -1,8 | 5,0 | 10,9 | -14,4 | -6,4 |
| EUA Dec-24, EUR/MT | 74,4 | -1,9 | 4,9 | 10,6 | -20,2 | -8,1 |
| TTF Gas 1M, EUR/Mwh | 33,9 | -4,0 | 9,2 | 14,4 | 18,0 | 4,5 |
| TTF Gas Cal-25, EUR/Mwh | 37,8 | -3,6 | 4,8 | 13,0 | -20,3 | 4,0 |
| API 2 coal 1M forward, USD/MT | 112,8 | -2,2 | 1,3 | 0,6 | 11,8 | 15,0 |
| API 2 coal Cal-25, USD/MT | 121,5 | -0,2 | 5,7 | 3,8 | 16,0 | 21,2 |
| Power Baseload Germany 1M forward, EUR/Mwh | 74,5 | -4,0 | 11,5 | 17,4 | -10,7 | -14,8 |
| Power Baseload Germany 2025, EUR/Mwh | 83,0 | -17,7 | -12,9 | -5,1 | -44,6 | -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 when we trade below USD 83.5

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

For the last month, we have argued that Brent prices below USD 83.5/bbl would offer an attractive entry level for new consumer hedges ahead of Q3 where we see a risk on the upside for oil and oil products. We still recommend that consumers have a hedging ratio above their **company benchmark**.

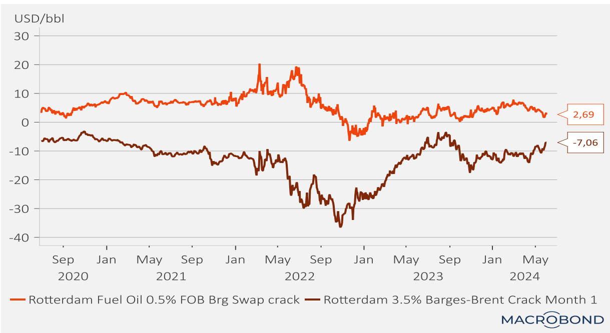
The contango in the ICE gas oil curve gives some attractive opportunities for inventory hedgers.

EUA, gas and power: Neutral on hedge ratio

As solar power returns, power, gas, and EUA prices might see a setback over the summer as many speculative net-long positions, creating more attractive entry levels for new consumer hedges.

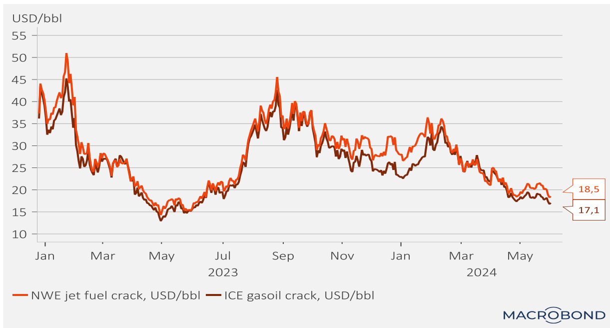
However, the market is likely prepared for this situation, which might indicate that the higher prices will continue in the coming months or that any price setback will be short-lived. This week, we, like last week, take a neutral stance on the gas, power and EUAs hedge ratios, notably after the latest rally. See the Gas and EUA sections for more comments.

VLSFO crack (vs Brent) under pressure, USD/bbl




Source: Bloomberg, GRM and Macorbond

ICE Gasoil/jet fuel cracks lower again, USD/bbl




Source: GRM and Macrobond

Brent and ICE Gasoil forecasts GRM

| | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Brent GRM Forecast avg., USD/bbl | 87 | 93 | 102 | 102 | 103 |
| Brent forward avg., USD/bbl | 81 | 78 | 74 | 72 | 70 |

| | Spot | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | avg. 2024 |
|---|---|---|---|---|---|---|---|
| Brent GRM Forecast avg., USD/bbl | **81,8** | **82** | **87** | **92** | **90** | **88** | **88** |
| Brent forward avg., USD/bbl | | | | 82 | 81 | 79 | |
| Brent Consensus forecast (Bloomberg) | | | 85 | 85 | 85 | 83 | 85 |
| WTI GRM Forecast, USD/bbl | **77,9** | 78 | 83 | 85 | 86 | 86 | 83 |

| | Spot | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | avg. 2024 |
|---|---|---|---|---|---|---|---|
| ICE Gasoil crack avg., USD/bbl (GRM Forecast) | 17 | 28 | 20 | 22 | 22 | 23 | 23 |
| ICE Gasoil avg., USD/MT (GRM Forecast) | **736** | **820** | **795** | **849** | **834** | **827** | **825** |
| ICE Gasoil Forward, avg., USD/MT | | | | 746 | 740 | 736 | |

Source: GRM, Bloomberg * indicative forward prices

Table 1: GRM market and hedging views – updated May 17, 2024

| | Market view next month | Market view from one month and beyond | Hedging implications |
|---|---|---|---|
| Brent oil | We expect Brent to stay in a USD 80-90 range. The OPEC+ announcement June 1st on cut extension into Q3 is a an upside risk. Less geopolitical premium, hawkish Fed, stronger USD and weaker risk sentiment downside risks. | Focus on on seasonal demand pick up in Q3 and high "call on OPEC". OPEC+ production cuts to be extended throughout 2024 to support prices. Range : USD 80-95 that is expected to last throughout 2024. Downside risks depend on non-OPEC supply growth and OPEC compliance. | 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 trades below USD83.5. |
| ICE Gasoil (Diesel/Jet fuel,MGO) | A much less tight physical situation in ARA for Gasoil/diesel (rising inventories). Red Sea closure and Ukraine attacks on Russian refineries are supportive though risk premium is being priced out. If we see a reopening of the Red Sea downside risks are present. High inventories and weak demand also downside risks. | To follow Brent. Red Sea reopening a clear downside risk. Lack of Russian supplies (Ukranian attacks) is an upside risk. Weak demand might continue. | We recommend that consumers have a hedge ratio above the individual company benchmark after the crack has fallen. ICE Gasoil is in backwardation from six months and out. We see prices above the forward curve. Add to hedge when Brent trades below USD87.<br><br>Suppliers (inventory hedging): Strongly consider rolling hedges early (if possible) as curve now in contango that may only be temporary. |
| VLSFO | The market to become better supplied with VLSFO as the Al-zour refinery in Kuwait have stepped up export. Strong gasoline crack supportive and add risk to the upside. | To follow Brent. VLSFO is expected to stay weak vs Brent (small premium) 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 crack might fall further. Flat price to follow Brent higher. |
| 3.5% HSFO | 3.5% HSFO to stay strong short term (less negative crack vs Brent) as summer peak demand season is near. However. High ARA fuel oil inventories a downside risk strong Asian demand an upside. Less heavy oil from Iran, OPEC and Venezuela an upside risk. | 3.5% HSFO is expected to strengthen vs Brent (lower discount). Shipping demand has picked up 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. New sanctions on heavy sour crude from Venezuela. | 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 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, possible new sanctions on Russian gas exports and not least China demand pick up. | 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 at EUR 29-32/Mwh). |
| EUA | The weak German economy and high use of renewables in power production weighs on demand. 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 annoucement June 1. | Better entry levels might be seenif gas prices drop. But market is preparred for q2 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. |

Source: GRM

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