

Energy Market Drivers:

OPEC+ meeting, tight HSFO market and nervous gas market

November 29, 2024

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Author

Chief Analyst, Head of Research

Arne Lohmann Rasmussen

Phone +45 2146 2951

Arne@global-riskmanagement.com

www.global-riskmanagement.com/market-insights/

Twitter: @arnelohmann @GrmResearch.

Bluesky: @arnelohmann

LinkedIn

GRM sales contact: Hedging@global-riskmanagement.com

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Oil Market view: Geopolitical easing in the Middle East and OPEC+

Last week, we discussed escalating geopolitical tensions affecting global oil and gas markets, particularly focusing on Russia. Regrettably, the situation has deteriorated. Russia has intensified attacks on Ukraine's energy infrastructure, launching nearly 200 missiles and drones in a single day, resulting in significant power outages for over a million households.

We previously noted that the US had sanctioned several Russian banks, including Gazprombank, with measures set to take effect on December 20. These sanctions are expected to complicate transactions for countries continuing to purchase Russian gas via pipeline or LNG. Despite this, capacity bookings at Baumgarten—the cross-border point between Slovakia and Austria—remain fully booked, indicating that gas from Russia through Ukraine is expected to flow throughout December. However, we maintain our view that this transit will cease by December 31.

In the Middle East, there has been a notable development. On November 26, a 60-day ceasefire agreement between Hezbollah and Israel was announced, brokered by France and the United States. This agreement aims to de-escalate the conflict and prevent broader regional involvement, particularly from Iran. However, the ceasefire is fragile; reports indicate that Israeli forces have already fired warning shots at suspected infiltrators in southern Lebanon, suggesting potential violations.

Regarding Iran, the Trump administration is anticipated to implement stricter sanctions. Recently, Iran informed the UN nuclear watchdog, IAEA, of plans to install over 6,000 new centrifuges capable of enriching uranium to weapons-grade levels. The specifics of the forthcoming US sanctions remain unclear, but experts suggest that stringent measures could remove approximately 1 million barrels per day of Iranian crude oil exports from the global market, potentially impacting global oil supply and prices. Most of the Iranian exports go to China.

Trump will add tariffs on Canadian and Mexican exports, including energy

President-elect Donald Trump announced plans on Monday to impose immediate tariffs upon assuming office: a 25% tariff on imports from Canada and Mexico, including energy products, and an additional 10% tariff on goods from China. He stated that these measures aim to penalise these countries for failing to curb drug smuggling—mainly fentanyl—and illegal immigration into the United States.

Financial markets had anticipated a more moderate approach to tariffs following Scott Bessent's appointment as Treasury Secretary. However, most political analysts view these plans as a strategy to pressure Canada and Mexico to address US concerns.

These tariffs could significantly impact the oil and oil product markets if implemented. Canada and Mexico are substantial exporters of crude oil to the United States, with daily exports of approximately 4 million barrels and 0.75 million barrels, respectively.

Counter-seasonal tightness in the HSFO market

US refineries, particularly in the Midwest, are configured to process heavy sour Canadian oil. If these refineries seek alternative suppliers due to tariffs, residual oil in the market could be reduced.

Canada may face challenges rerouting all its oil to non-US refineries. This scenario could result in a tighter high-sulfur fuel oil (HSFO) market.

In November, we observed a tightening of the HSFO market (unrelated to the discussion above) in both the Amsterdam-Rotterdam-Antwerp (ARA) region and Singapore, evidenced by less negative crack spreads and a lower HI-5 (scrubber spread).

This tightening is unexpected for this time of year, as demand from sectors like Middle Eastern power generation typically weakens in November.

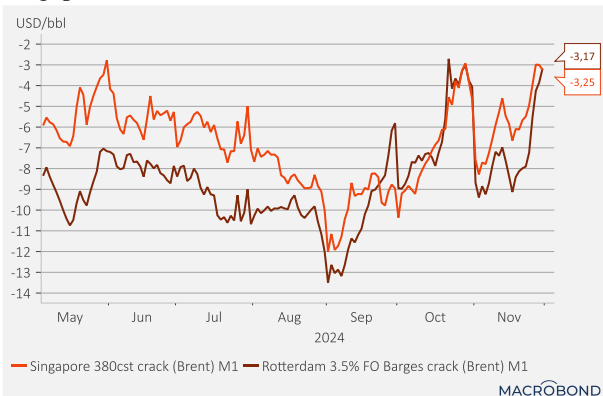
The current market conditions are likely due to reduced refinery supply and unexpectedly strong demand from the maritime sector. Factors such as vessels opting for longer routes around the Cape of Good Hope and increased scrubber installations may have contributed to this demand.

While we believe that the less negative HSFO cracks are temporary, the tightness in the fuel oil market could persist. The introduction of more efficient refineries producing less residual oil, elevated gas prices, and a structural rise in HSFO demand in the maritime sector suggest a sustained tight balance in the residual oils market.

Additionally, inventories are notably low in key regions. Singapore, Fujairah, and the US have reported lower stock levels, and although ARA inventories have declined over the past five months, they remain above the five-year average.

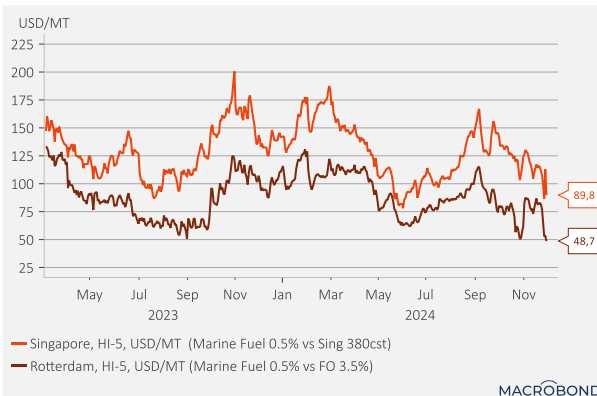
The geopolitical impact on crude oil flows next year, like reduced Iranian exports, no extra OPEC+ oil on the market, and perhaps even tariffs on Canadian and Mexican oil exports to the US, could intensify the tightness in the market for residual oil.

Stronger cracks (less negative) for HSFO in ARA and Singapore, USD/bbl



Source: Bloomberg, GRM, Macrobond

It has resulted in a lower HI-5/scrubber spread (HSFO vs VLSFO). USD/MT (1M)



Source: Bloomberg, GRM, Macrobond

OPEC+ delays meeting to Friday, December 5

OPEC+ has postponed its planned meeting from Sunday, December 1, to Friday, December 5, citing scheduling conflicts with a Gulf Cooperation Council summit in Kuwait City, which several OPEC+ ministers are attending.

However, this postponement may also reflect internal disagreements regarding the group's production strategy for 2025. Two primary issues appear to be at play:

Debate Over Production Increases: OPEC+ members are divided on whether to proceed with the scheduled production increase on January 1, 2025. Implementing the increase could be seen as a move to defend market share—a volume strategy—that might push oil prices toward the mid-\$60s per barrel.

Potential Delay or Cancellation of Production Plans: The group is considering delaying the planned production hike by at least three months or possibly abandoning it altogether. A three-month delay aligns with the consensus view.

We anticipate that OPEC+ will opt for the second option and delay for at least another three months or fully cancel the plans, which should support Brent crude prices, potentially pushing them a few dollars higher. Additionally, discussions are expected to address quota compliance and the allocation of larger quotas to the UAE in 2025. The oil market will closely monitor media reports and statements from OPEC sources or anonymous delegates for insights into the group's decisions.

Oil and FX price forecasts from GRM

Energy and FX price forecasts

Brent, ICE Gasoil and NWE Jet Fuel (GRM Forecast)

	Spot	Q1 2025	Q2 2025	Q3 2025	Q4 2025	avg. 2025
Brent, USD/bbl	73	74	75	76	76	75
ICE Gasoil, USD/MT	668	693	708	715	723	710
Jet CIF NWE cargo, USD/MT	705	743	758	765	773	762
Jet CIF NWE cargo, EUR/MT	668	714	743	758	773	744

Rotterdam Fuel Oil

HSFO (1M 3.5% Rotterdam Barge), USD/MT	434	432	432	432	432	432
VLSFO (1M 0.5% Rotterdam Barge), USD/MT	487	495	495	502	502	498

Singapore Fuel Oil

FO 380 CST 3.5% FOB Spore Cargo 1M (GRM Forecast)	441	444	444	444	444	444
Sing Marine Fuel 0.5% FOB Swap, USD/MT (GRM Forecast)	533	579	574	574	574	575

		Spot	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/USD	Consensus		1,07	1,06	1,05	1,06	1,06
	GRM	1,06	1,04	1,04	1,02	1,01	1
GBP/USD	Consensus		1,28	1,28	1,28	1,28	1,28
	GRM	1,27	1,26	1,26	1,24	1,23	1,24
EUR/GBP	Consensus		0,83	0,83	0,83	0,83	0,83
	GRM	0,83	0,83	0,83	0,83	0,82	0,81
USD/DKK	Consensus		6,96	7,03	7,10	7,06	7,03
	GRM	7,06	7,16	7,16	7,30	7,38	7,45

Source: GRM, Bloomberg(Consensus)

Market view TTF gas: Tactical view vs risk management

In the latest [Energy Market Drivers](#) report, we indicated a shift toward our upside scenario, anticipating that natural gas prices will remain elevated throughout 2025, surpassing current forward curve.

We assign a 55% probability to this scenario for 2025 gas prices.

Recent milder weather conditions have provided short-term relief, as observed this week. The front-month price peaked slightly above €49/MWh last week and is currently at €46.6/MWh.

Several factors contribute to this recent price decline:

- **Warmer Weather:** Following a "Dunkelflaute" (a period of low wind and solar power generation) in early November and subsequent cold weather in Northern Europe, temperatures have moderated.
- **Continued Russian Gas Deliveries:** Capacity bookings indicate that Gazprom will maintain gas deliveries through December at the Baumgarten cross-border point between Slovakia and Austria, which remains fully booked.
- **Middle East Ceasefire:** The ceasefire between Israel and Hezbollah has reduced geopolitical risk premiums, alleviating concerns about disruptions in Israeli gas production and the Strait of Hormuz.
- **Profit-Taking:** Speculative long positions in TTF gas futures may have led to profit-taking, exerting downward pressure on prices.

Considering these developments, the question arises: Is this an opportune moment to purchase European gas?

From a **risk management perspective**, we recommend that consumers hedge their Q1 and Q2 2025 positions.

- **Potential Supply Disruptions:** We anticipate a cessation of gas transit through Ukraine in 2025, which, combined with low LNG inflows and increased demand compared to 2023, could strain inventories.
- **Inventory Levels:** EU gas inventories are currently 10 percentage points below 2023 levels.
- **Seasonal Risks:** Q1 2025 faces weather-related risks and potential disruptions in Ukrainian transit, while Q2 2025 presents challenges in replenishing inventories.

Tactically, the recent sell-off may continue in the coming days due to:

- **Mild Weather Forecasts:** North-West Europe is expected to experience normal or above-normal temperatures over the next seven days, though wind production is forecasted to be below normal.
- **Stable Russian Gas Supplies:** Ongoing bookings through Baumgarten may alleviate immediate supply concerns for December.

- **Continued Profit-Taking:** Speculative accounts may persist in profit-taking activities.

Hence, to sum up. From a risk management standpoint, we advise utilising the recent price decline to hedge Q1 2025 (addressing weather risks and potential cessation of Ukrainian transit) and Q2 2025 (mitigating inventory replenishment risks).

Tactically, slightly better prices may emerge in the next few days, with a potential test of €44/MWh for the 1-month TTF contract (current price: €46.1/MWh).

Below, we present our three scenarios for TTF gas prices, with an increased likelihood of the upside scenario. Probabilities are our subjective assessments.

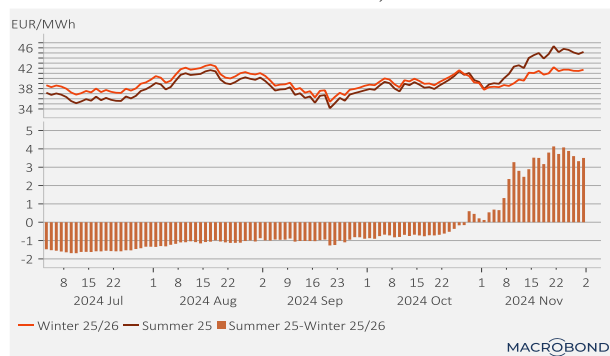
GRM now sees an above 50% probability of an "upside" scenario for gas prices, EUR/MWh

Scenario	Scenarios and probabilities	Assumptions	Price Outlook
Demand remains weak and supply fears overdone (downside)	Downside (15%)	Full EU inventories. Norwegian supplies remain in place. Ukraine accepts 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.
Strong Asian demand and supply issues (GRM baseline)	Muddling Through (30%)	Normal winter to cold winter. Global demand boosted by Asian demand and no gas through Ukraine starting January 1st.	Gas moves above EUR 45 in November and trades in the mid til higher 40s in the rest of Q4 2024 and Q1 2025 until the winter is over. Price pressure eases in Q2.
Global economy recovers and severe supply issues (upside)	Upside (55%)	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 enter an industrial	Gas moves above EUR 50 in December. Price at EUR 55 in Q1 and EUR 50 in Q2 025 as inventories critically low and high refilling needs. Prices drops to EUR 48 in Q3 and Q4 2025.

Scenario	DEC-24	Q1 2025	Q2 2025	Q3 2025	Q4 2025	2025	2026	2027
Downside	30,0	27,0	24,0	28,0	32,0	29,0		
Muddling through	42,0	43,0	38,0	39,0	42,0	41,0		
Upside	50,0	55,0	50,0	48,0	48,0	48,0		
Market pricing	46,3	46,2	44,8	43,9	42,3	45,1	35,9	29,2

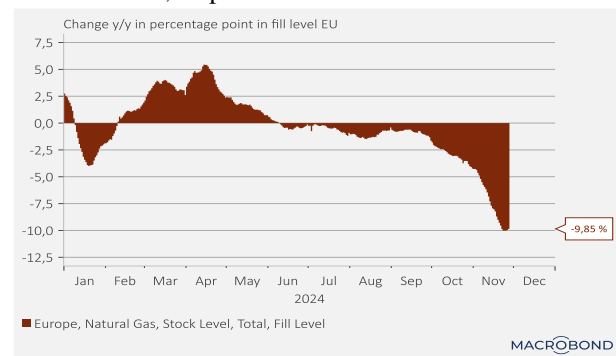
Source: GRM

Large spread between the summer-25 TTF gas contract and the winter TTF 25-26 contract, EUR/MWh



Source: Bloomberg, GRM, Macrobond

EU gas inventories are now ten percentage points below the 2023 level, %-points



Source: Bloomberg, GRM, Macrobond

Hedging views: Winter risk in gas, power and EUAs

Oil and oil products: Buy when Brent is below USD 72

Add to consumer hedges when Brent trades in the USD 68-72 range (previously USD 70-74). Despite demand concerns and Trump's election, we recommend adding to hedges in this range.

Consumers should strongly consider a high hedge ratio for the rest of the year and Q1 2025, as we might see violent price spikes given the risk of a Middle East and/or Russia escalation. If we are correct that OPEC+ will further delay the plans for more oil, it also adds some upside.

Distillate cracks remain depressed, implying that flat prices for diesel, gasoil, and jet fuel remain attractive. We have recently seen a spike in HSFO cracks and a tendency to higher distillate cracks. The market expects the HSFO oil market to normalise.

EUA and TTF gas: Winter and refilling risks next year are growing. Buy on dips

Buy EUA spot or forward when DEC-24 is below EUR 68MT (previously EUR 66) and TTF gas when 1M below EUR 44 MWH.

There is a growing risk on the upside for gas prices during the winter as inventories are now 10 percentage points below 2023 levels and as the gas flows through Ukraine might halt at the end of December. **Hence, we strongly recommend hedging the next three winter months. The EU inventory refilling risk next summer is also growing.**

EUA prices are above our target level, but as discussed [last week](#), the trend of higher prices could accelerate.

FX: Hedge USD risks if exposed

We expect the broad-based USD strength to continue and that EUR/USD will drop to parity in 2025.

Hence, we recommend that clients with base currency in EUR, DKK, GBP, NOK, SEK or PLN with USD exposure have a high USD FX hedge ratio.

For more information on our US dollar view, see [Election Special: Impact of the US election on oil prices and the US dollar](#)

See oil, oil products, and FX forecast table on page 4.

Price overview

Price overview

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	29 Nov 2024	Change 1D,%	Change 5D,%	Change 1M,%	Change 1Y,%	Change YTD,%
Brent 1.pos., USD/bbl	72,7	-0,8	-3,4	2,2	-14,3	-6,0
ICE Gasoil 1.pos., USD/MT	668,3	-0,1	-4,4	4,8	-22,8	-12,3
Jet Fuel NWE CIF 1M, USD/MT	704,8	-0,7	-4,3	1,5	-25,5	-7,8
Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT	676,2	-0,8	-4,1	4,9	-23,1	-5,4
Marine Fuel 0.5% FOB Barge Swap Rotterdam M1, USD/MT	486,6	-6,4	-3,8	1,1	-13,0	2,3
Fuel Oil 3.5% FOB Rotterdam Barge 1M, USD/MT	434,2	-0,6	2,5	1,0	-3,1	13,5
Biodiesel, RME FOB Barge 1M, USD/MT	1256	1,2	-6,4	-2,5	7,3	-2,7
Biodiesel, UCOME FOB Barge 1M, USD/MT	1411	2,4	3,5	1,9	8,5	5,5
Biodiesel, FAME-0 FOB Barge 1M, USD/MT	1191	0,9	-2,9	-0,5	8,9	-5,6
EUA spot, EUR/MT	67,1	-0,6	-3,0	0,3	-5,6	-15,1
EUA Dec-24, EUR/MT	67,6	0,0	-2,4	0,5	-10,0	-18,8
TTF Gas 1M, EUR/Mwh	46,5	-0,4	-1,1	7,8	13,2	30,4
TTF Gas Cal-25, EUR/Mwh	44,3	-1,1	-1,5	6,2	8,0	18,2
API 2 coal 1M forward, USD/MT	118,4	-1,2	-6,0	-3,1	3,1	18,5
API 2 coal Cal-25, USD/MT	122,4	-0,4	-3,8	-3,7	11,4	21,6
Power Baseload Germany 1M forward, EUR/Mwh	99,0	-2,4	-5,3	0,1	7,7	-20,5
Power Baseload Germany 2025, EUR/Mwh	96,0	-0,5	-4,5	5,5	-5,7	0,7

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

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