Energy Market Drivers:

Oil, gas and EUA prices moved higher in December. Buy on dips

January 3, 2025

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GRM will take the opportunity to wish all our readers a Happy New Year.

In this first issue of Energy Market Drivers in 2025, we take a closer look at the latest rally in oil, gas, and EUA prices.

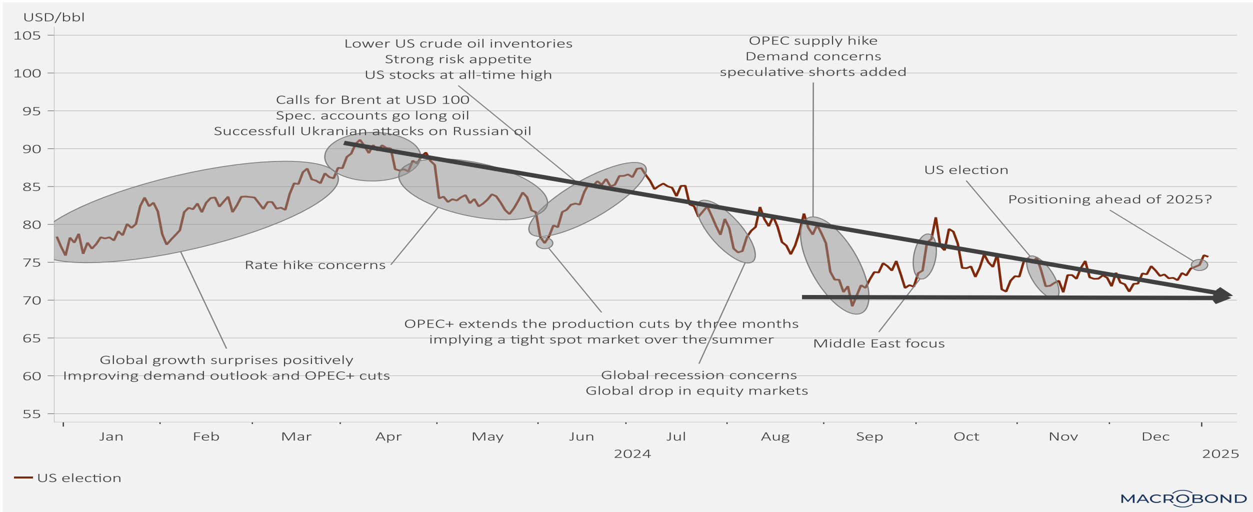
As always, feel free to contact us with questions or comments or to learn more about Global Risk Management's business offerings.

Oil view: Sentiment change In Brent? Yes, to a certain extent

Brent has risen more than three US dollars since Christmas and is trading just above USD 76, the highest level since October last year. However, one should always be careful during the Christmas and New Year trading days. The market is illiquid and prone to erratic moves.

However, the last and first trading days of a year also provide valuable information about investor sentiment. Positions are closed before the new year, and new positions are opened in the year's first days. Hence, it seems that investors have decided to close some of the many short oil positions in the market and may even have entered new long positions—a very different picture compared to most of 2024. Following the weekly CFTC positioning data in the coming weeks will be essential. The data are published on Fridays after the US closes.

Has the Brent price finally broken out of the falling volatility sentiment seen in H2 2024?



Source: GRM, Bloomberg(Consensus)

But it is still early days, and as mentioned above, price moves should be taken with a pinch of salt. Still, we would point to these price drivers to watch going into 2025.

1. OPEC+ Will Not Increase Oil Production in 2025

OPEC+ has postponed plans to increase oil production three times in 2024, and additional delays are possible. There is a limited capacity for additional oil from the cartel in 2025 if it aims to maintain stable or higher prices. OPEC+ is currently following a "price strategy." If it decides to produce more oil, the market might interpret this as a shift toward a "volume strategy" or "market share strategy," potentially reducing prices to around USD 60 per barrel. This situation may lead OPEC+ to accept further reductions in market share in 2025.

2. Geopolitics and Sanctions: Maximum-Pressure Strategy on Iran

Mike Waltz, Trump's national security adviser, has stated that the US must revert to a "maximum pressure" policy on Iran, mirroring the approach taken during the final two years of Trump's first term.

Stricter sanctions on Iran are expected to reduce Iranian crude oil exports by between 0.5 and 1.0 mb/d, currently at around 1.75 mb/d.

Additionally, the surrender of the Houthis could become a notable development, as they will no longer receive the same military support from Russia and Iran. The reopening of the Red Sea could be a positive surprise in 2025.

3. Drill, Baby, Drill

Trump has championed the slogan "Drill, baby, drill." He may aim to remove regulations, streamline permits, improve infrastructure, and offer tax incentives for fossil fuel development, all of which would make capital more accessible.

However, a significant increase in U.S. oil production in 2025 may be unlikely. High interest rates and investors focusing on dividends could hinder any growth.

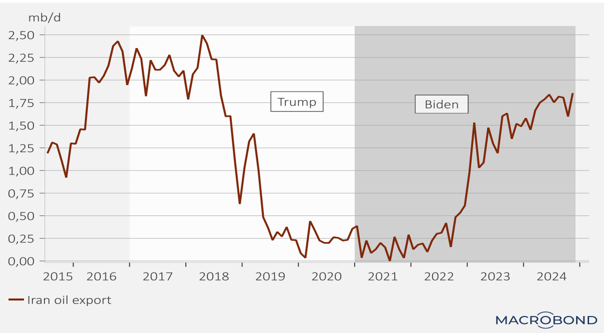
4. China – Stronger Cyclically, Weaker Structurally

China could be the positive surprise of 2025 as its stimulative measures begin to take effect. However, the structural outlook is quite different. China's oil demand growth will remain modest with the continued adoption of electric vehicles and LNG-powered trucks. Once again, North America and the rest of Asia, particularly India, will drive global oil demand in 2025.

The Market Might Underestimate Price Risks

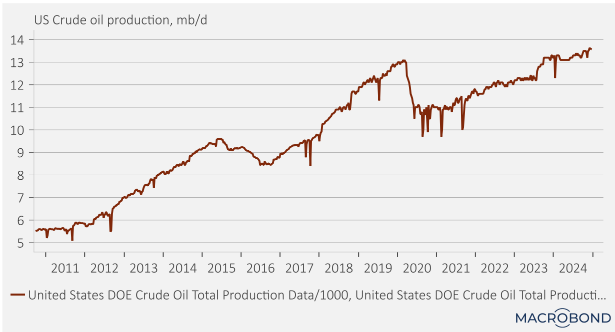
We expect Brent oil to trade within a tight USD 68-82 range in 2025. It's easy to argue for a bear market for oil in 2025. However, with relatively low global oil inventories, OPEC+ eager to push prices higher, and new sanctions on Iran, there is a risk that the market might be surprised on the upside. From a positioning perspective, this could catch the market off guard.

Iranian oil export at risk if Trump introduces "maximum pressure" strategy after the recovery under Biden, mb/d



Source: Bloomberg, GRM, Macrobond

Will Trump be able to accelerate US Oil Production in 2025? We are not sure. Maybe more of a 2026 story



Source: Bloomberg, GRM, Macrobond

Oil and FX price forecasts from GRM

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

	Spot	Q1 2025	Q2 2025	Q3 2025	Q4 2025	avg. 2025
Brent, USD/bbl	76	74	73	74	75	74
ICE Gasoil, USD/MT	703	693	693	700	715	700
Jet CIF NWE cargo, USD/MT	732	743	743	750	765	756
Jet CIF NWE cargo, EUR/MT	711	728	735	750	781	748

Rotterdam Fuel Oil

HSFO (1M 3.5% Rotterdam Barge), USD/MT	429	432	419	419	425	424
VLSFO (1M 0.5% Rotterdam Barge), USD/MT	**506**	**495**	**483**	**489**	**495**	**491**

Singapore Fuel Oil

FO 380 CST 3.5% FOB Spore Cargo 1M (GRM Forecast)	440	444	431	431	437	436
Sing Marine Fuel 0.5% FOB Swap, USD/MT (GRM Forecast)	**542**	**564**	**556**	**561**	**567**	**562**

		Spot	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR/USD	Consensus		1,04	1,04	1,05	1,05
	GRM	**1,03**	**1,02**	**1,01**	**1,00**	**0,98**
GBP/USD	Consensus		1,26	1,26	1,27	1,28
	GRM	**1,24**	**1,24**	**1,22**	**1,22**	**1,22**
EUR/GBP	Consensus		0,82	0,82	0,82	0,82
	GRM	**0,83**	**0,83**	**0,83**	**0,82**	**0,81**
USD/DKK	Consensus		7,16	7,16	7,13	7,10
	GRM	**7,25**	**7,30**	**7,38**	**7,45**	**7,60**

Source: GRM, Bloomberg(Consensus)

TTF gas view: Many factors have contributed to higher TTF gas prices in Q4 2024

January 1st at 7:00 AM local time, the flow of Russian gas through Ukraine stopped. This occurred with the expiration of the five-year transit agreement between Russia and Ukraine, which Ukraine – despite the Russian invasion – chose to honour for the last three years.

The anticipation of a halt in gas deliveries had already caused nervousness in the gas market, with the TTF gas price exceeding EUR 50/MWh for the first time in over a year.

However, it is essential to understand that this decision does not come as a significant surprise to the market. It has been the most likely outcome for several months and has been our expectation throughout 2024.

We assess that the 25% increase in TTF gas prices during the fourth quarter is due to various factors and not solely the fear that the gas transit through Ukraine would halt.

Contributing Factors to the Price Increase in Q4:

- EU gas storage fell significantly during the fourth quarter and is now nearly 15 percentage points lower than at the same time last year.
- High gas demand in Q4, partly due to Dunkelflaute (a period with low wind and solar energy production).
- Reduced LNG imports to the EU: Imports to northwestern Europe in Q4 were 22% and 29% lower than in 2023 and 2022, respectively.
- The competition for global LNG has intensified, especially from Asia. For much of 2024, it has been more profitable for US LNG producers to ship LNG to Asia than Europe. Chinese LNG imports, for example, were 10% and 22% higher in 2024 compared to 2023 and 2022.
- Speculative positions: Speculators have taken long positions in TTF gas, which may have contributed to higher prices.

Russian gas through Ukraine accounted for approximately 5% of the EU's gas imports in 2024. The EU also imports Russian gas via the TurkStream pipeline and as Russian LNG, each accounting for about 5% in 2024.

In other words, only a modest share of the total imports is affected. The consequences are likely felt most in "Russian-friendly' countries like Slovakia and Hungary. However, both nations have had nearly three years to find alternatives.

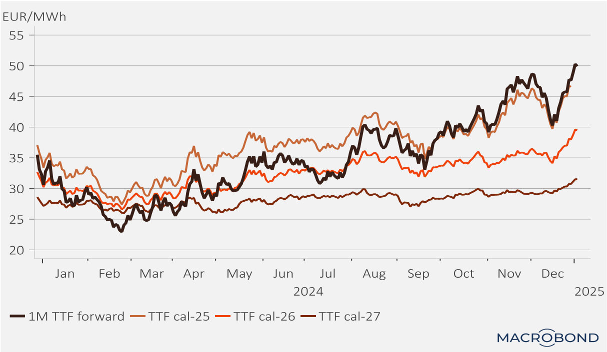
Looking Ahead: Refilling Risks are High

We expect the market will soon shift its focus to other drivers, such as weather conditions. The latest long-term forecasts suggest a cold January in northwestern and central Europe, which could increase gas demand.

We will also monitor whether Europe begins to ramp up LNG imports. There is an increasing risk that the EU will exit the winter with low gas storage levels, making it expensive to replenish them in 2025. However, it is essential to emphasise that the primary causes are stronger international and EU demand and reduced EU LNG imports in 2024.

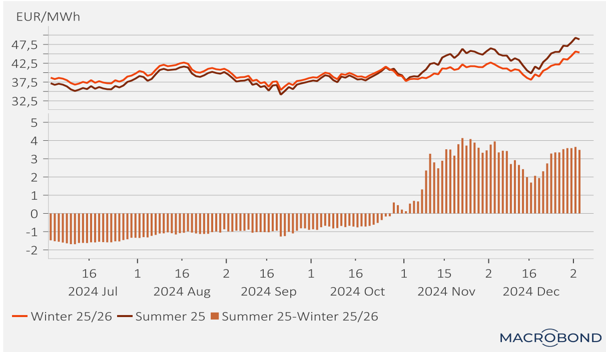
We still recommend hedging 2025 TTF exposure even after the latest price setback.

TTF gas prices up 25% in Q4 2024, EUR/MWh



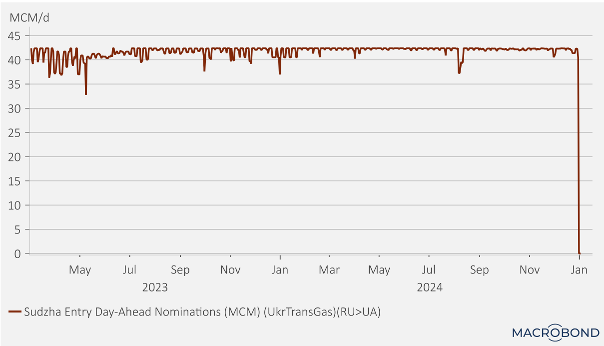
Source: Bloomberg, GRM, Macrobond

Spread between the summer-25 gas contract and the winter TTF 25-26 contract has widened, EUR/MWh



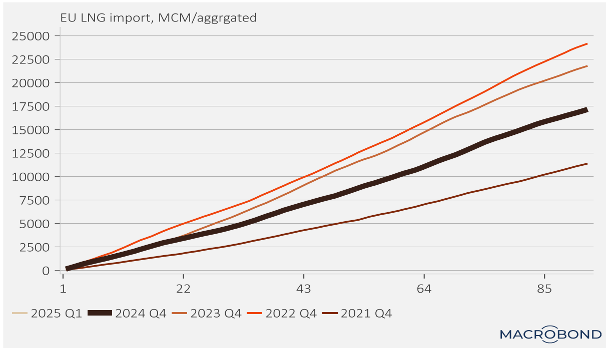
Source: Bloomberg, GRM, Macrobond

Sudzha gas nominations into Ukraine at zero



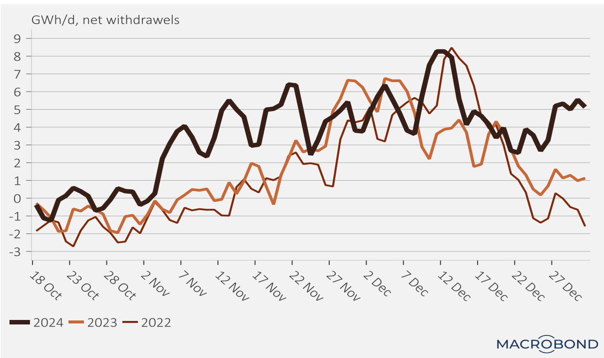
Source: Bloomberg, GRM, Macrobond

Significantly weaker EU (NWE) LNG import in Q4 2024, aggregated over Q4, MCM aggrgegated



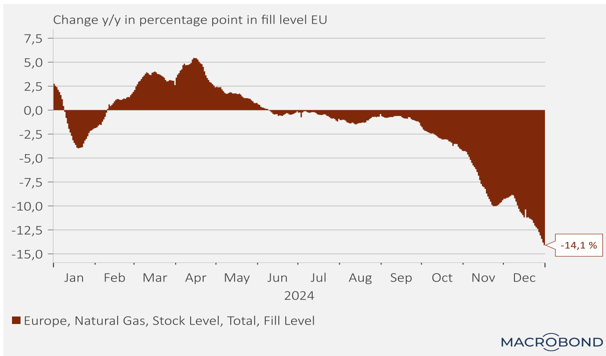
Source: Bloomberg, GRM, Macrobond

Large net withdrawals from Gas inventories in November and December, GWH/day



Source: Bloomberg, GRM, Macrobond

EU gas inventories are now 14 percentage points below the 2023 level, %-points

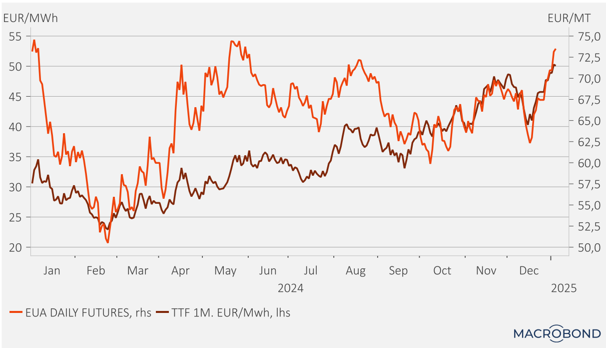


Source: Bloomberg, GRM, Macrobond

EUA view: TTF gas prices push EUAs higher and tighter market balance to dominate in 2025

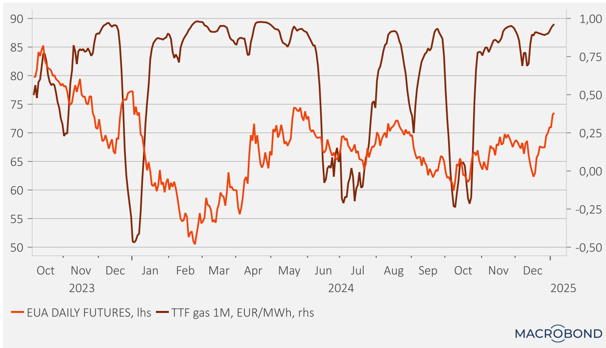
Since our last update in mid-December, the EUA market has closely followed the fluctuations in gas prices. This trend is anticipated to continue in the coming months. Therefore, given the potential increase in gas prices, we also foresee an upward trend in EUA prices. Do notice that the correlation has been relatively high in the last two months.

TTF gas price spike has pushed EUA prices higher



Source: Bloomberg. Macrobond

Strong correlation between gas and EUAs the last two months, 21-observation rolling correlation



Source: Bloomberg. Macrobond

In this edition we have decided to republish the text from our December 13 issue. We think a key-driver for EUA prices in 2025 will be that the market increasingly will shift its attention to the balance of supply and demand for allowances in 2026 and 2027.

We discussed the following factors that will impact the market balance for EUAs in the coming years.

2025:Still frontloading to fund RePower EUA

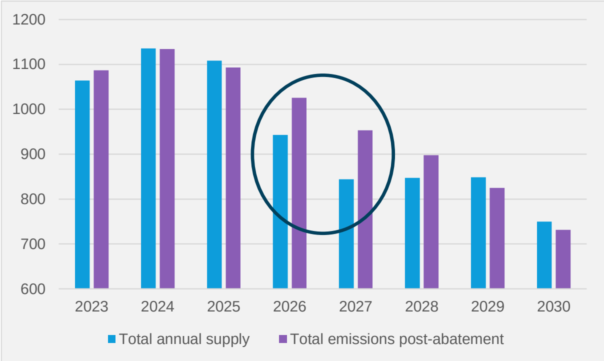
The market is expected to experience a small surplus of EUAs. The EU Commission will continue selling "frontloaded" EUAs to fund the REPowerEU support programme. At the same time, the maritime sector will only need to surrender 70% of the EUAs allocated to the market on January 1, 2024. Additionally, industrial demand is likely to remain subdued.

2026-27: Deficit kicks in

In contrast, the market will likely face a deficit in 2026 and 2027. The REPowerEU frontloading will conclude by August 2026; the maritime sector will be required to surrender 100% of allowances, the remaining free allowances for the airline sector will be phased out, and the gradual elimination of free allowances related to the CBAM will begin in 2027. Add to that the linear reduction factor of 4.3%.

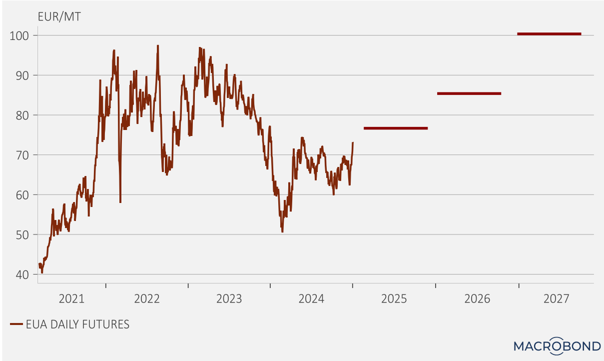
Bloomberg aggregates forecasts from various sources, including banks and research providers. The median forecast (consensus) for EUA spot prices is EUR 77.5, 86.0, and 100.5 per MT for 2025, 2026, and 2027, respectively. This suggests that professional forecasters expect EUA prices to rise in the coming years, including next year, despite the market balance indicating a small surplus in the near term.

EUA market balance by GRM based on Bnef data, million MT



Source: Bnef, GRM, own calculations

Consensus expects higher EUA prices, EUR/MT



Source: Bloomberg Consensus

Market impact: Price risks are to the upside in 2025

This tightening market may prompt emitters to hedge their 2026-2027 EUA exposure next year, despite the surplus projected for 2025, thereby adding upward pressure on prices.

The ECB's expected rate cuts, which could bring the policy rate toward 1% next year, will also make it less expensive to hold the non-interest-bearing EUAs. As interest rates drop, the forward curve is likely to continue flattening (less contango). The EUA forward curve reflects the EUR money market curve, as EUAs essentially function like a money market product.

The EUA market is a financial market, meaning that if everyone agrees prices will rise in the future, prices will increase today. Otherwise, "arbitrage" opportunities would emerge. The current price reflects the discounted value of the expected future price. Of course, in reality, it is not this simple. Economic conditions could deteriorate, reducing demand, while the green transition toward renewables in the power sector might accelerate further. Additionally, the EU ETS is a "political system." Political interference in the market could occur if prices rise too quickly or too early. For instance, policymakers could again decide to borrow EUAs from the future, as with the RePowerEU funding initiative.

Hedging recommendation: High hedge ratio for EUA exposure

Overall, we see a growing risk that the market will begin pricing in higher EUA prices for 2026-2027 as early as next year.

Therefore, we recommend a high hedge ratio for EUA exposure and taking advantage of price dips to buy.

Hedging views: Buy oil, EUAs and gas on dips

Oil and oil products: Neutral on oil after price spike the last two weeks

Add to consumer hedges when Brent trades in the USD 70-74 range. Despite demand concerns and Trump's promise to step up production, we recommend adding hedges in this range, notably after OPEC+ delayed its plan to add more oil to the market.

Hence, we take a neutral approach after Brent traded up close to USD 3 in the last two weeks to above USD 76. We would buy on dips.

Distillate cracks remain depressed, implying that flat prices for diesel, gasoil, and jet fuel remain attractive. In the last few months, we have 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: Hedge consumer despite prices above-preferred level

Buy EUA spot or forward when DEC-25 is below EUR 70MT and TTF gas when 1M is below EUR 47 MWH. Hence, from a consumer hedging perspective, we see current EUAs and TTF gas levels as slightly too high.

However, there is a growing risk on the upside for gas prices during the next two quarters, as inventories are now 14 percentage points below 2023 levels and gas flows through Ukraine have stopped. **Hence, we recommend hedging the next two quarters despite current levels. The EU inventory refilling risk next summer is growing.**

FX: Hedge USD risks if exposed

We expect the broad-based USD strength to continue and that EUR/USD will drop below 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

03/01/2025 14.22

	3 Jan 2025	Change 1D,%	Change 5D,%	Change 1M,%	Change 1Y,%	Change YTD,%
Brent 1.pos., USD/bbl	75,6	-0,4	3,1	2,6	-3,5	1,3
ICE Gasoil 1.pos., USD/MT	702,8	-1,1	4,5	3,8	-10,0	1,1
Jet Fuel NWE CIF 1M, USD/MT	730,7	-1,0	2,2	2,0	-13,3	0,7
Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT	707,0	-0,7	3,4	3,9	-8,8	1,0
Marine Fuel 0.5% FOB Barge Swap Rotterdam M1, USD/MT	505,9	0,2	-0,6	2,9	-4,8	1,8
Fuel Oil 3.5% FOB Rotterdam Barge 1M, USD/MT	428,9	-0,3	-0,1	0,2	-0,2	0,3
Biodiesel, RME FOB Barge 1M, USD/MT	1214	-5,8	-8,7	-17,5	8,2	-3,3
Biodiesel, UCOME FOB Barge 1M, USD/MT	1384	-0,4	-3,6	-8,0	11,8	3,1
Biodiesel, FAME-0 FOB Barge 1M, USD/MT	1134	-5,4	-8,8	-18,7	10,5	-6,9
EUA spot, EUR/MT	73,8	0,8	5,7	7,3	-1,1	5,1
EUA Dec-25, EUR/MT	75,8	0,7	8,3	6,8	-5,2	3,6
TTF Gas 1M, EUR/Mwh	49,9	-0,7	8,4	2,7	34,3	2,0
TTF Gas Cal-25, EUR/Mwh	48,4	0,0	4,2	4,9	28,7	1,0
API 2 coal 1M forward, USD/MT	113,7	-0,2	4,8	-2,2	9,7	0,8
API 2 coal Cal-25, USD/MT	114,3	0,4	3,5	-5,0	17,0	1,1
Power Baseload Germany 1M forward, EUR/Mwh	113,3	-0,2	8,2	-3,0	17,5	0,4
Power Baseload Germany 2025, EUR/Mwh	97,9	1,2	0,2	-0,7	4,7	-0,7

Source: Bloomberg, GRM. Indicative mid-prices (non-tradeable)

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

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