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CENTRAL EASTERN EUROPEAN
GAS EXCHANGE

Global & Regional Market Analysis

NATURAL GAS, July 2023

16/08/2023

STORIES OF THE MONTH

JULY 2023

- **Norwegian infrastructure maintenances** continued in July. Works will restart by the end of August and last until the end of September.

- **Heatwaves in South-Europe** boosted cooling demand and disrupted the availability of some nuclear plants.
- Demand also grew in **East Asia due to extreme hot weather**. By the end of July the Asian premium over European gas prices widened.

- The second round of tenders via the **AggregateEU platform** took place on 7 July. 16bcm was requested by 49 companies for delivery between August 2023-March 2025 and 12 bcm was matched with offers of 25 suppliers.

- ESMA's investigation found that **intraday circuit breakers are useful tools** to mitigate volatility.
- On 25 July the EU adopted **new energy efficiency targets** to cut energy consumption (electricity, gas and other) by 12% by 2030 including demand from households, industry, public administration, services, agriculture and fisheries, transport and others.

- **Record high volumes** of 2023 arrived to Europe **via the TurkStream** pipeline in July, but supplies from Russia on overall remained historically low.

- **Hungary and Azerbaijan continued negotiations** of a long-term contract to deliver 2bcm gas annually.

- **Yearly capacity auctions** were completed in the first week of July for Hungary's interconnection points.
- The Hungarian government warned **state and local governments** to secure natural gas and electricity supply contracts in July.

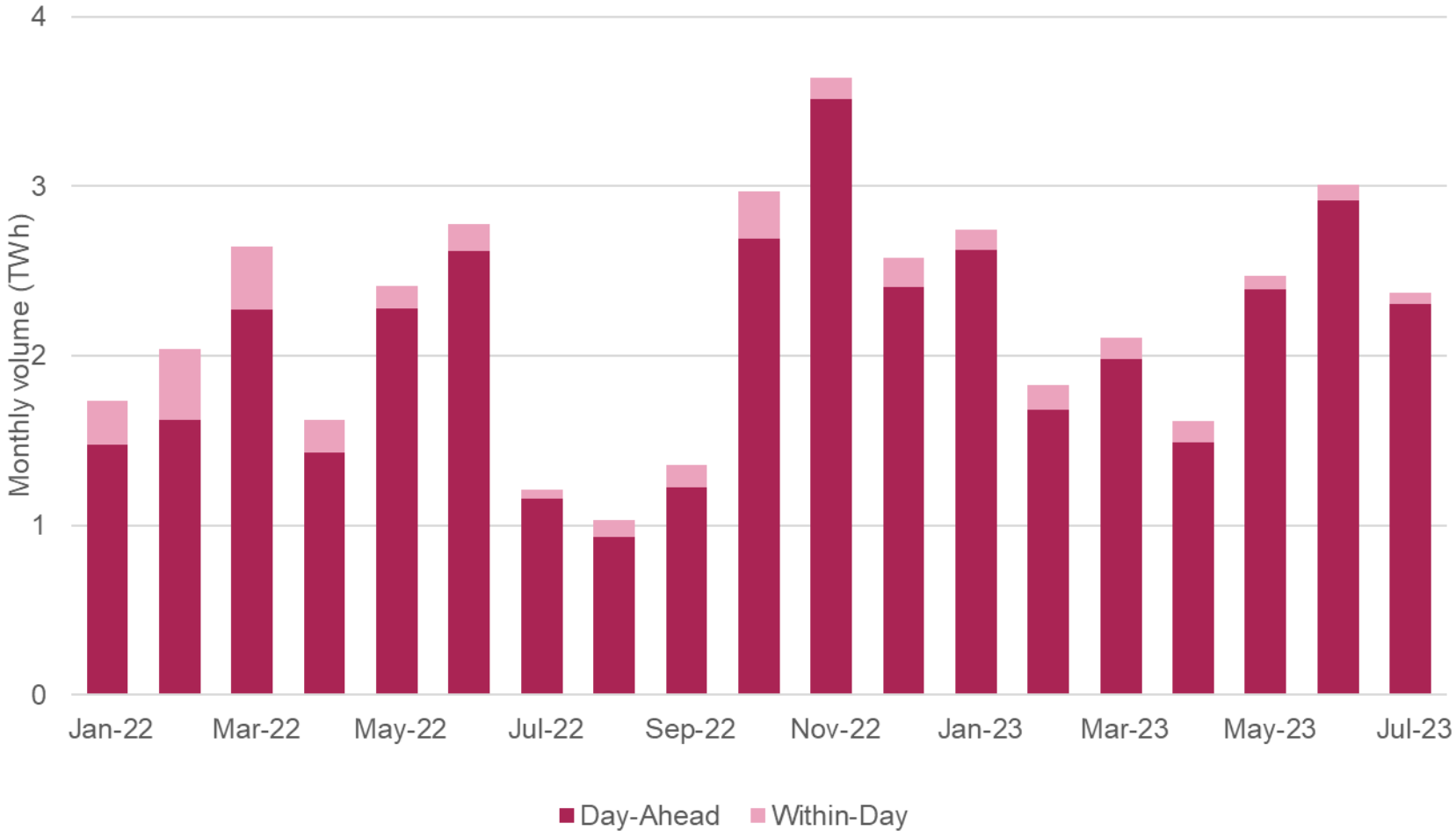
- Croatian **PPD was fined by MEKH** for manipulative bidding behavior in capacity auctions for 2022 February at the Mosonmagyarovar IP. The 500 m HUF fine is the biggest imposed by the Hungarian Regulator to date. PPD has submitted an appeal against the decision.

Sources: Argus, Bloomberg, ICIS, IEA, Euractiv, EC, Financial Times, G7, Montel, NRGreport, Portfolio, Platts, Reuters

TRADED VOLUMES

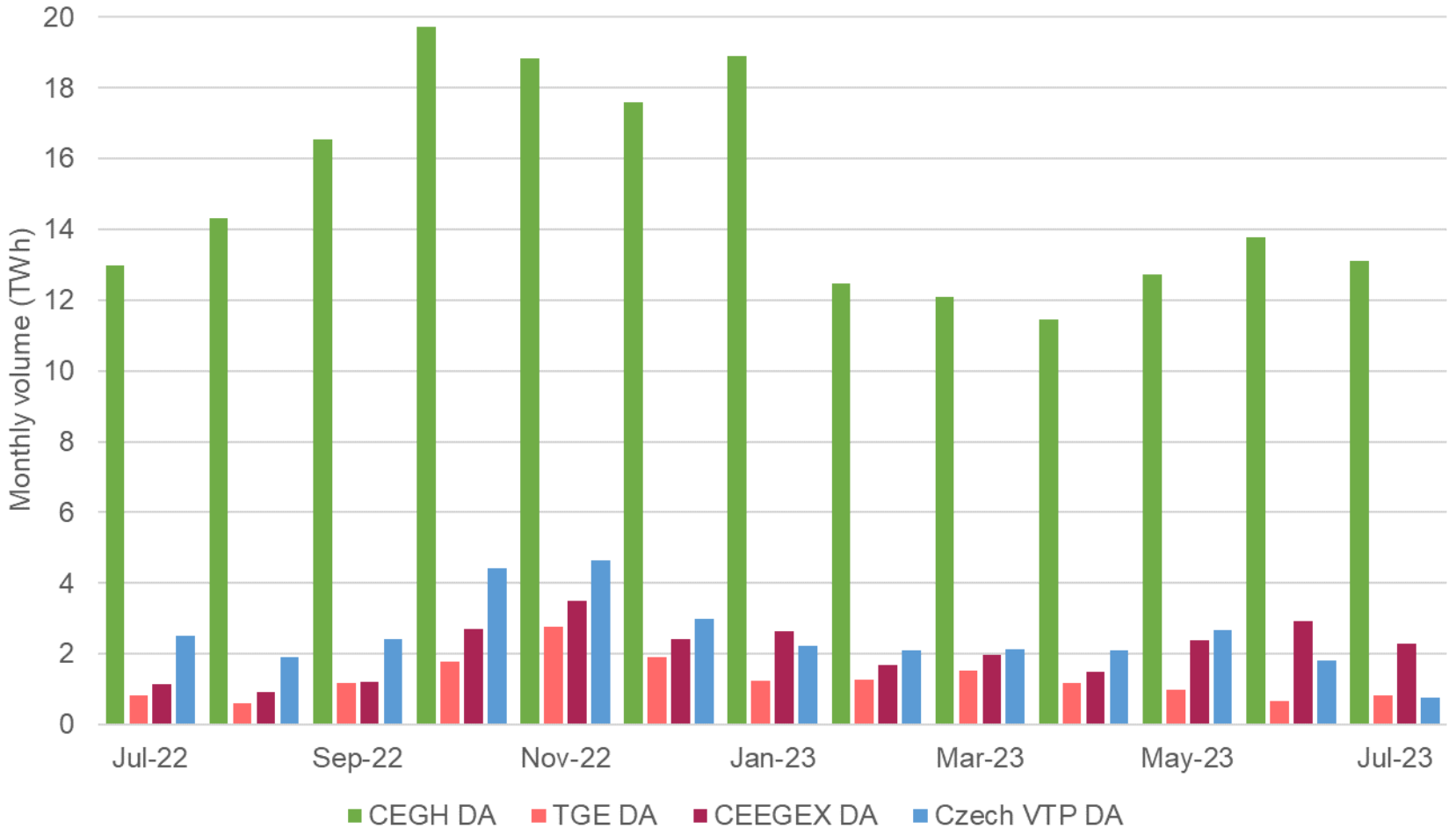
EXPERT OPINION:

- CEEGEX DA traded volumes decreased in July, but were significantly higher than in 2022.
- The TTF FM-spot spread remained around 0, so there was no real incentive to use the volumes of the long-term contracts instead of buying on spot markets.
- WD volumes are expected to remain on similar level to previous months.
- Imports to Hungary reached this year's highest levels, while domestic consumption further weakened, the rate of injections and exports to UA ramped up. **This suggests that volumes were rather stored in HU or UA storages than sold on the spot market.**



Sources: CEEGEX

REGIONAL SCOPE DA MARKETS



EXPERT OPINION:

- Similarly, traded volumes on other regional benchmarks decreased in July.
- LNG imports to Europe lowered, while most EU countries had reached their interim storage target levels earlier and injections to Ukrainian storages have also ramped up this summer.
- The **TTF Winter-Summer** spread had significantly widened since April 2023 **incentivizing storage injections and discourage spot trading**.

Sources: CEEGEX, Refinitiv

REGIONAL PRICES AND SPREADS

EXPERT OPINION:

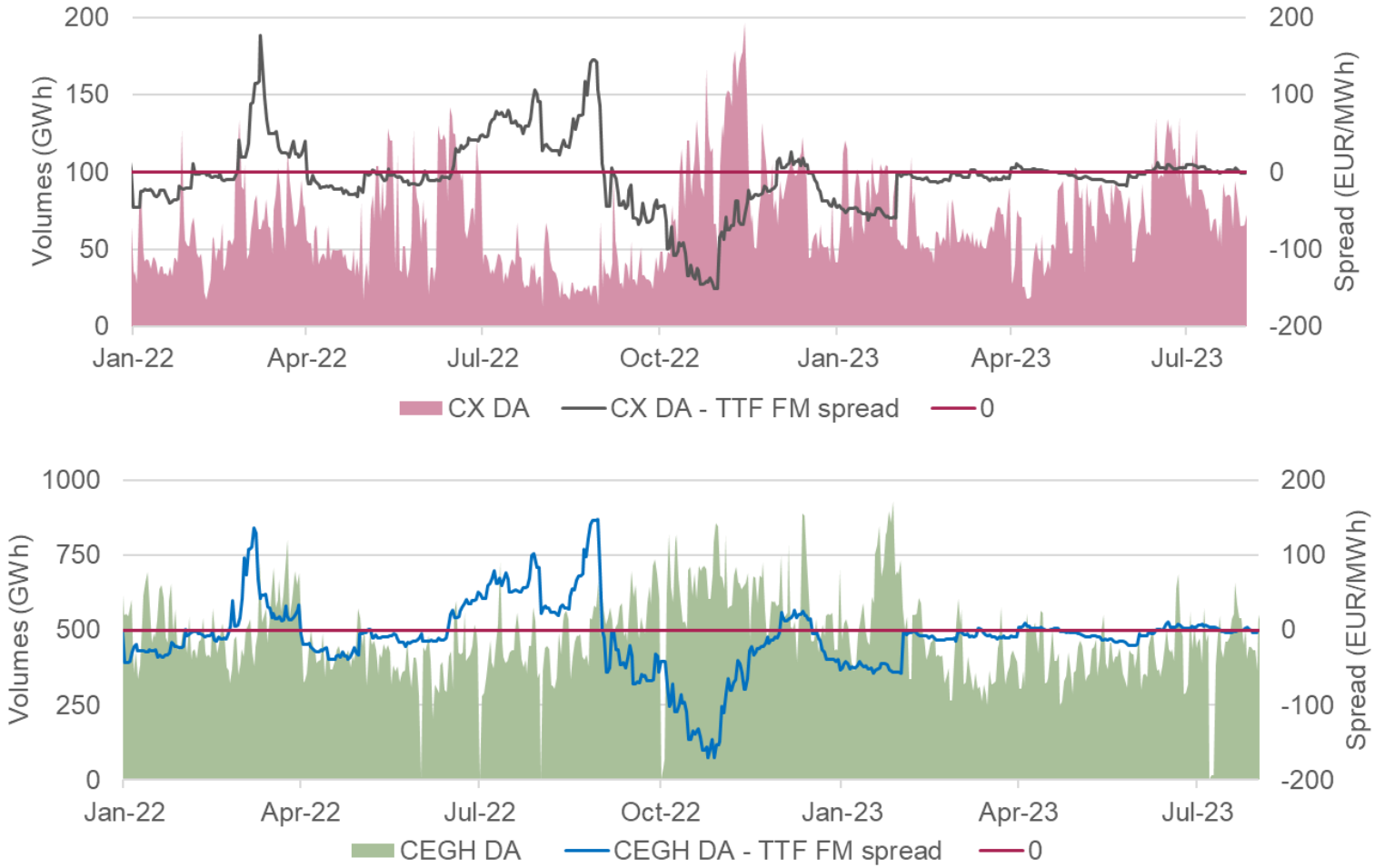
- **The CX-CEGH and CX-TTF spreads widened in July** in comparison to previous June.
- The correlation with CEGH and TTF continued to be strong.
- The CX-CEGH spread has remained in the positive territory since January, resulting in the profitability of gas imports from AT to HU.
- Hungary's high dependence on Russian pipeline deliveries is associated with higher risk premium in comparison to NW Europe. Therefore CX's premium is expected to remain in 2023.

Sources: CEEGEX, EEX

TTF FM-SPOT SPREADS

EXPERT OPINION:

- Between February and April, the TTF FM-spot spread remained close to 0, which meant there was no real incentive to trade spot volumes.
- By mid-May both spreads spread slipped below 0, which materialized in slightly higher DA trades on CEEGEX and CEGH.
- **Since June the spreads have remained around 0.**



Sources: CEEGEX, EEX

JAPANESE CANDLES

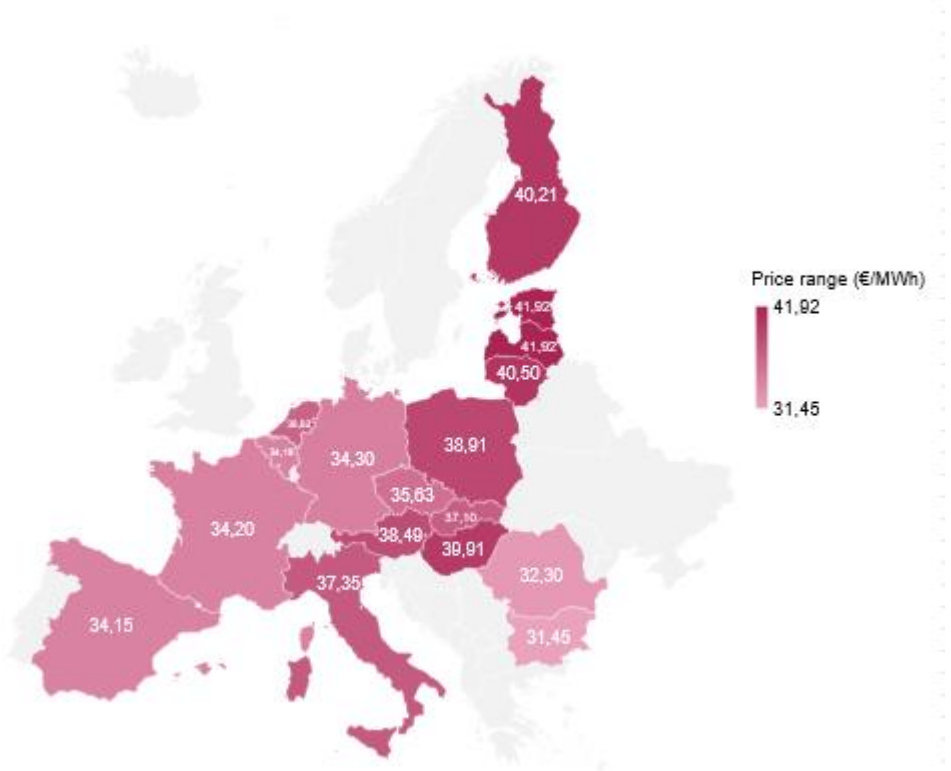
EXPERT OPINION:

- In June prices surged amid Norwegian export infrastructure maintenances. The volatility increased and approached 2022 levels.
- **In July volatility moderated with the end of Norwegian ouatges**.
- Heatwaves and low water levels during summer might support price increases, but it's safe to say that this year they won't even get close to 300 EUR/MWh.
- In 2022 the main reasons of rapidly increasing volatility and extremely high prices were the supply shortages, low storage levels and constant uncertainty.
- In 2023 most of these issues have been resolved. **There is a possibility of suddenly increasing volatility** due to maintenances, strikes or other unexpected events, **but it is expected to be short-lived.**

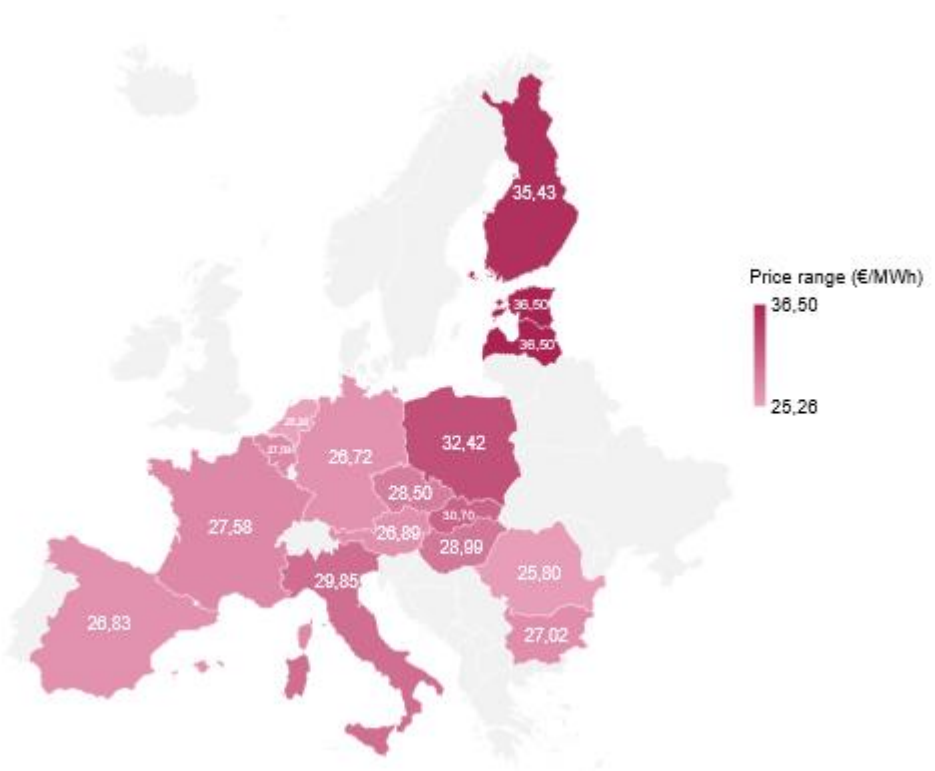
Sources: CEEGEX, ICIS, Refinitiv

NATURAL GAS PRICES SNAPSHOT

03/07/2023



31/07/2023

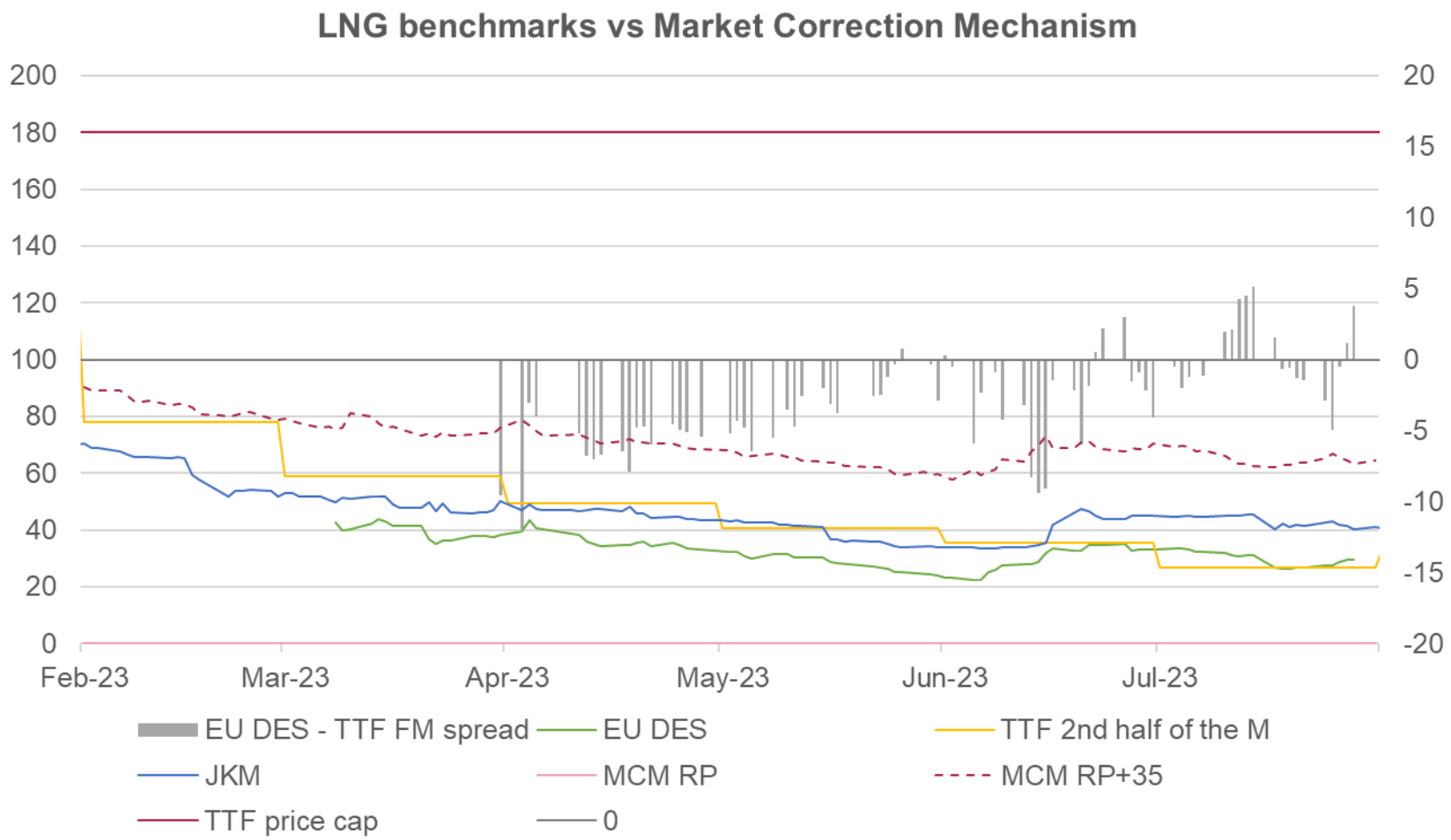


Sources: CEEGEX, ICIS, Refinitiv

LNG BENCHMARKS VS MCM

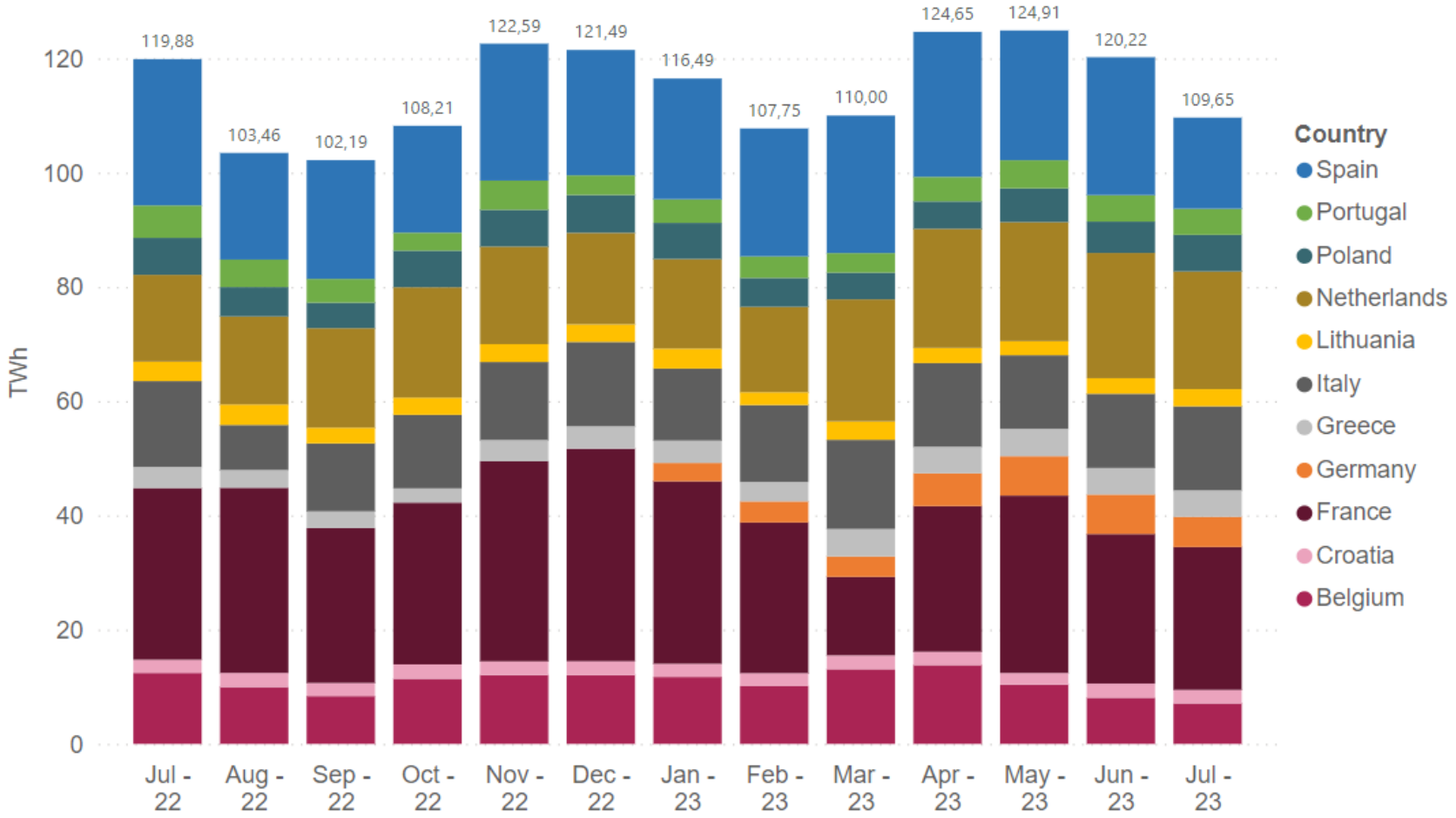
EXPERT OPINION:

- ACER started publishing a set of new benchmarks in 2023:
  - EU DES = LNG price benchmark for EU (NWE & SE) based on data reported by market participants
  - MCM RP = benchmark price based on EU DES, JKM, HH. This is the first basis of the „price cap" activation.
  - EU DES – TTF FM spread = This is the second basis of the „price cap" activation.
- Still both conditions are far from the activation level.
- **The spread between TTF FM and EU DES have increased.**
- **By the end of July the Asian premium over European gas prices widened.**



Sources: CEEGEX, EEX

RECORD LNG SEND-OUTS BY EUROPEAN COUNTRIES*



EXPERT OPINION:

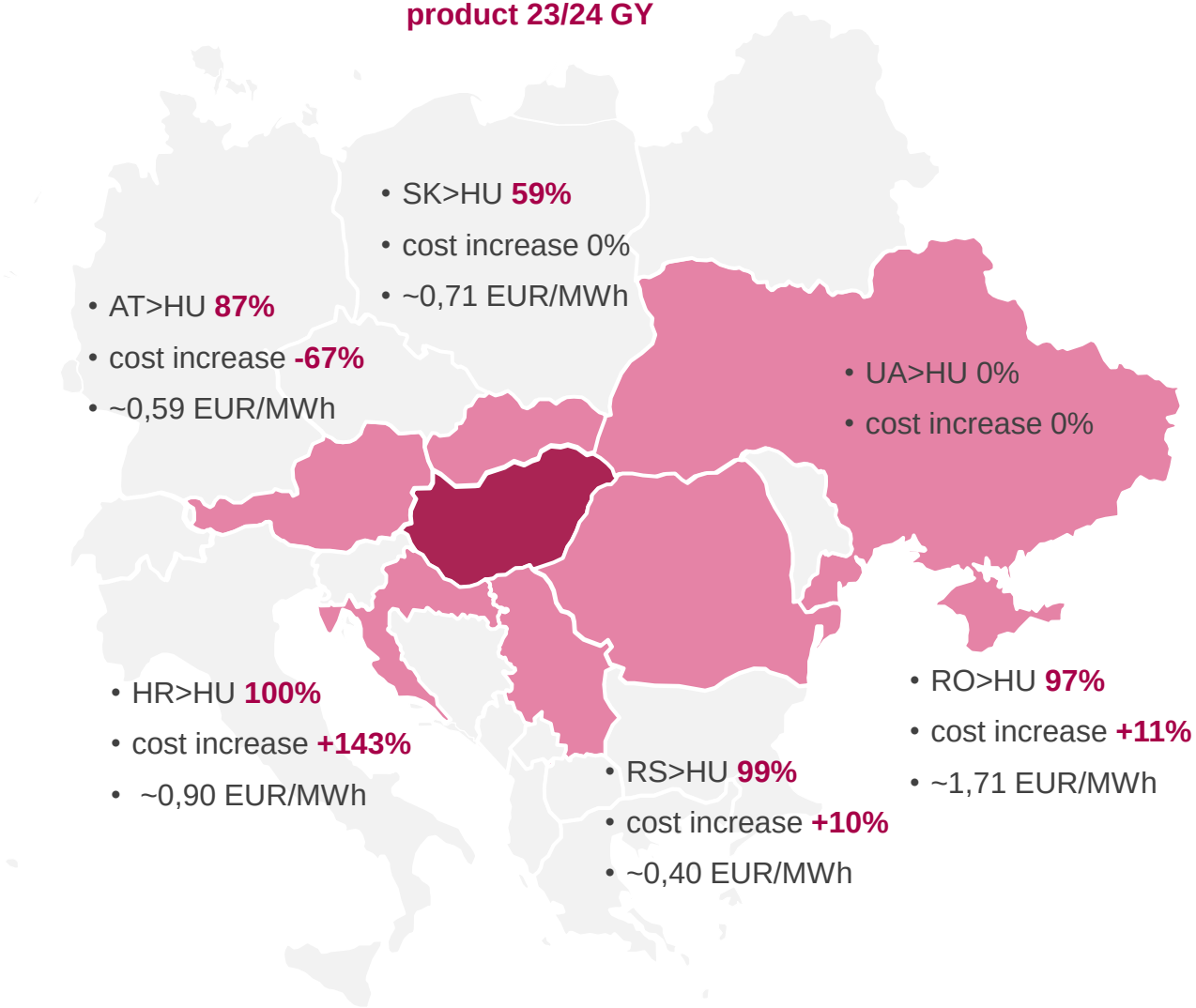
- **The chart shows a decrease of 10 TWh between July last year and July this year.**
- This was caused mostly beacuse of YoY Spanish demand has decreased significantly.
- Spanish gas consumption fell 16% in July amid a drop in gas-fired power generation.
- Regasification in Belgium and the UK also slowed down.
- **Demand grew in East Asia due to extreme hot weather.**
- Lower prices encouraged Asian buyers to return to the spot market, but the overall Asian demand remained relatively low.

- Excluding UK, Finland (data not available)

Source: Alsi, Reuters

YEARLY IP CAPACITY AUCTIONS IN JULY

Yearly Firm Bundled Capacity product 23/24 GY



Yearly Firm Bundled Capacity product 22/23 GY

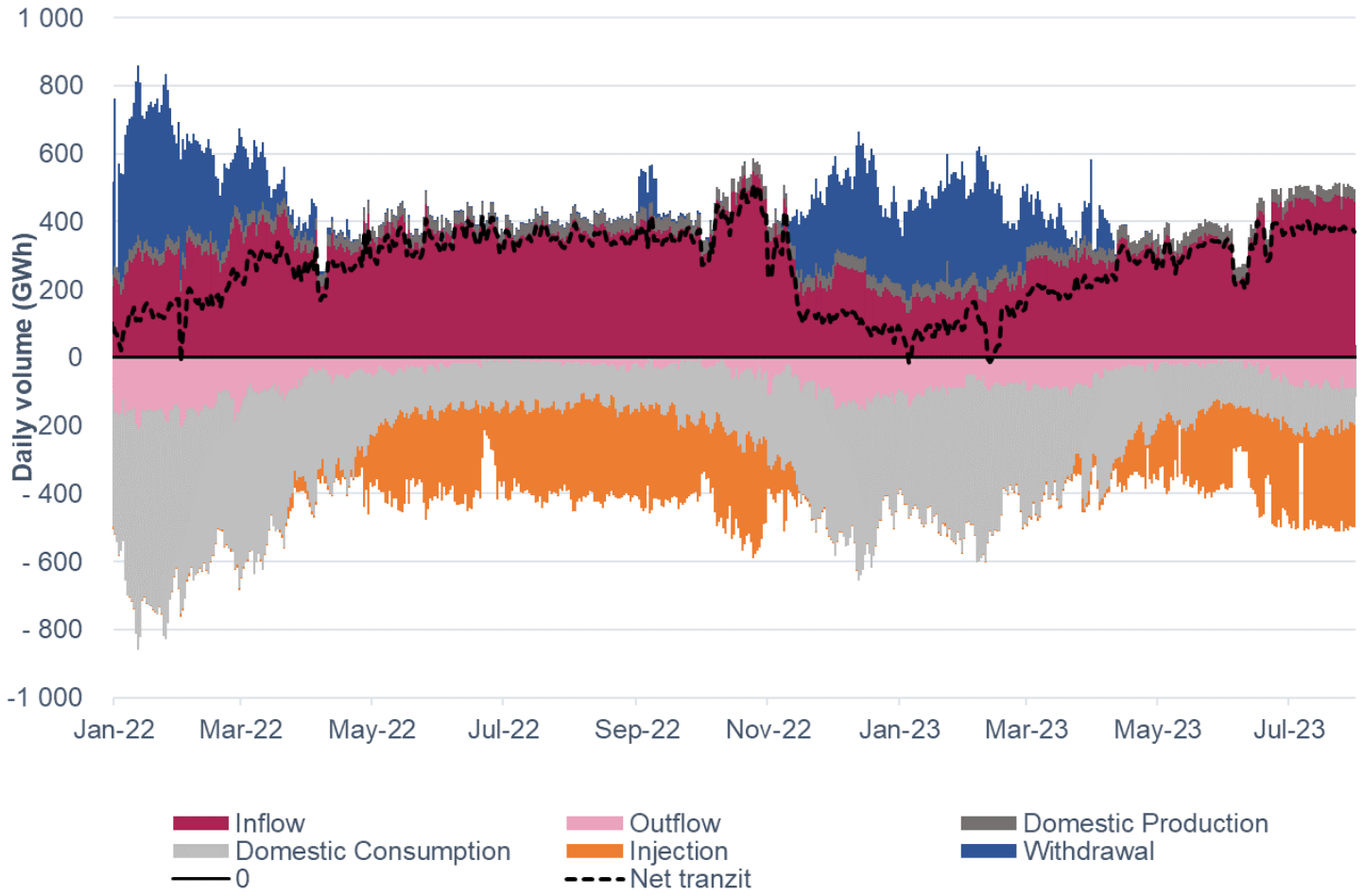
- SK>HU 0%
  cost increase 0%
- UA>HU 0%
  cost increase 0%
- AT>HU **100%**
  cost increase +262%
- RO>HU **100%**
  cost increase +94%
- HR>HU **46%**
  cost increase 0%
- RS>HU **72%**
  cost increase 0%

EXPERT OPINION:

- AT>HU: As last year, there was an overbooking for the capacity, but there were fewer participants and auction rounds which meant a lower auction premium.
- RO>HU: This year, more market participants took part in the auction, the premium increased. The allocated volume was three times higher than last year.
- HR>HU: Two companies took part in the auction, bidding for the same volume as last year.
- SK>HU: It was the first time when someone booked annual capacity for this interconnection point. The auction ended in the first round with no auction premium.
- RS>HU: There was only one participant, but the capacity allocated was 30% higher, than last year.
- UA>HU: No one attended the auction.

Sources: RBP

HUNGARIAN GAS MARKET BALANCE

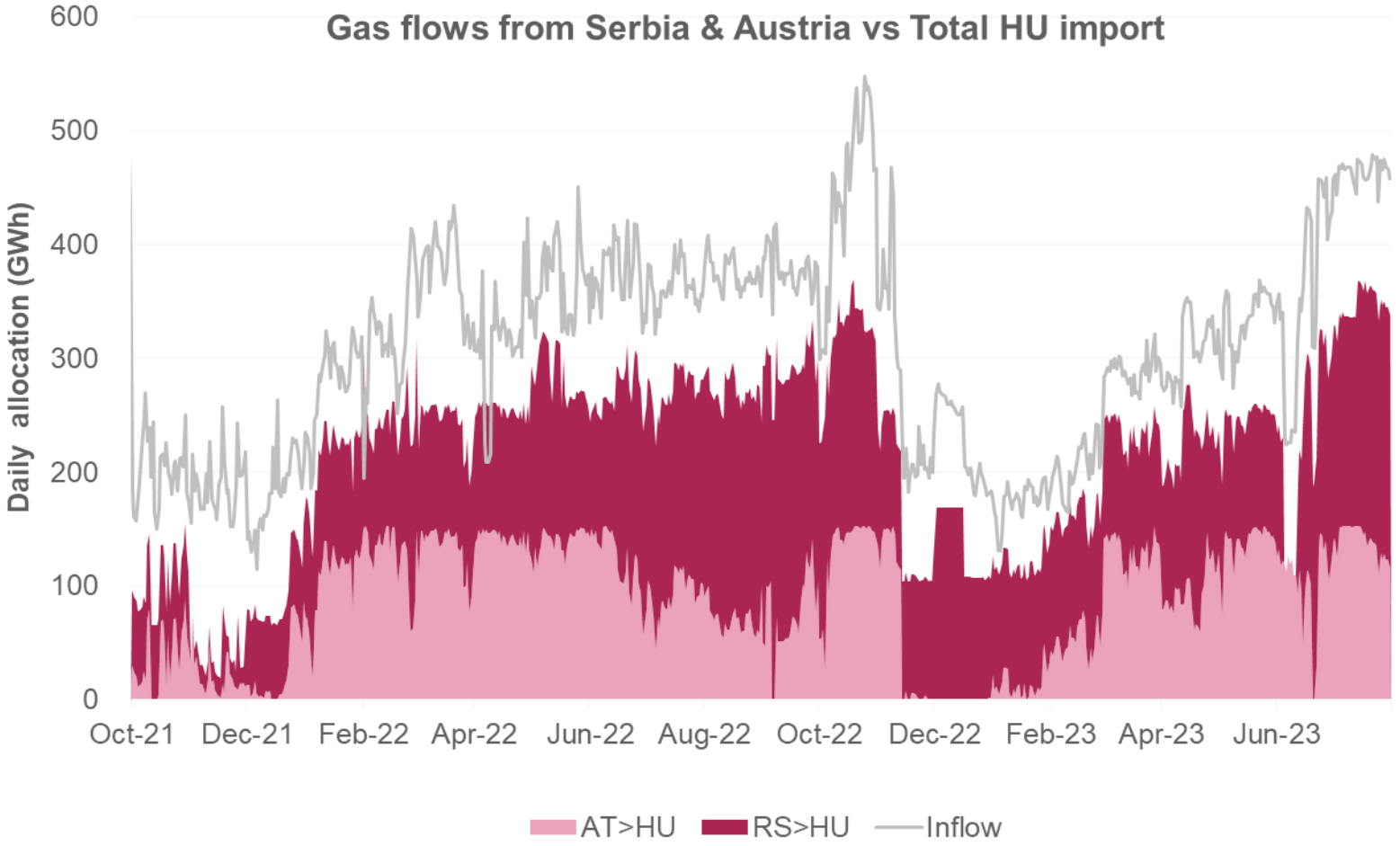


EXPERT OPINION:

- Gas consumption further decreased in July.
- The **pace of injections speeded up in July** in comparison to previous months.
- **Imports increased** mostly due to higher flows from RS, AT, RO and HR.
- Since June **export volumes have ramped up**, especially in the direction of UA and SK.

Sources: ENTSO-G, FGSZ

HIGH GAS FLOWS VIA TURKSTREAM IN JULY



EXPERT OPINION:

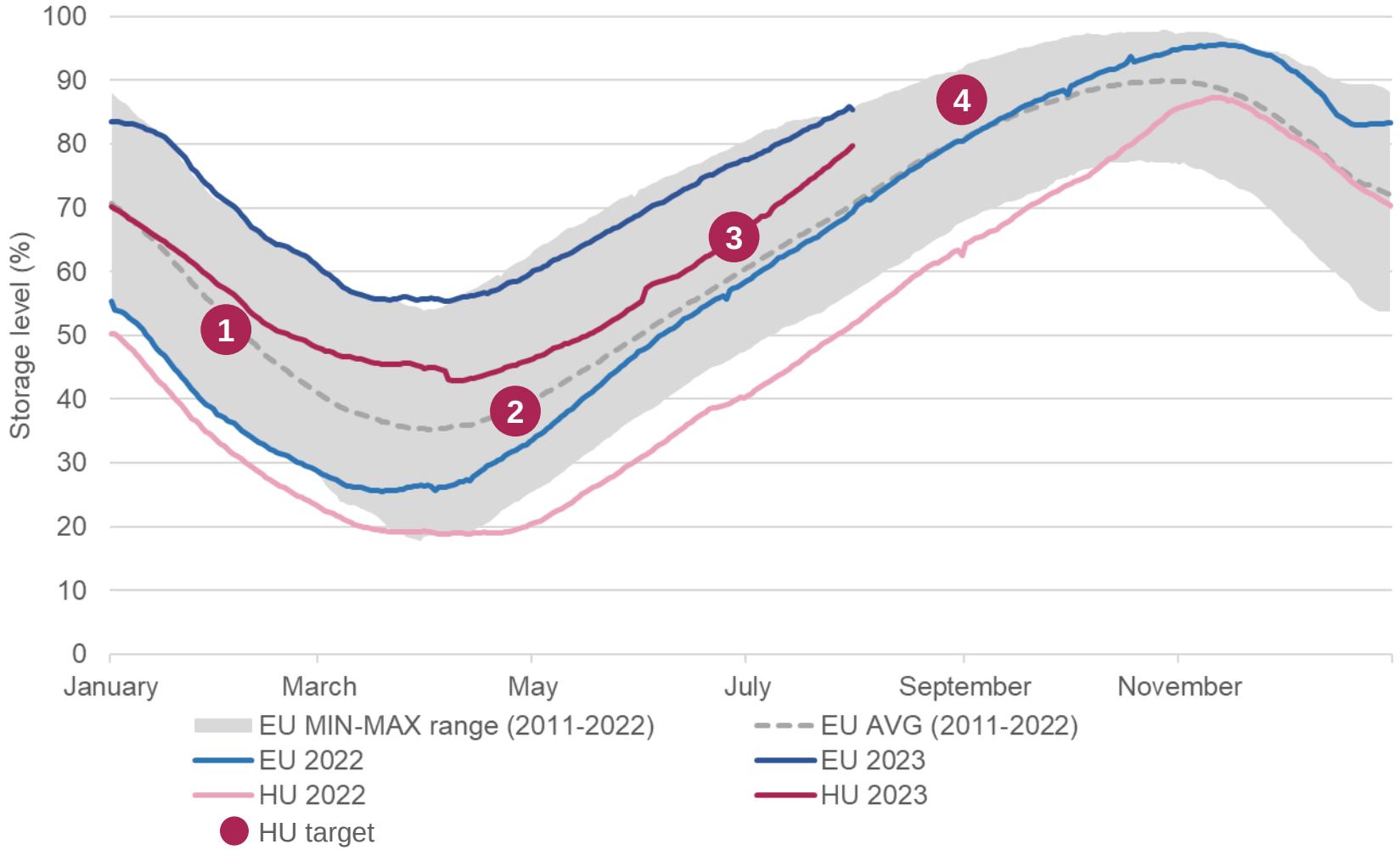
- Russian gas flows to Europe reached **this year's highest values** in July due to higher volumes via **TurkStream**. These volumes arrived at Serbia and Hungary.
- In February 2022 Hungary and Serbia agreed to **store 500 mcm for Serbia** during the injection period.
- In April 2022 Hungary and Russia reached new gas, oil and nuclear agreements. **Gazprom would maintain an option to supply additional gas to Hungary** this year on top of the shipments agreed under a long-term deal via the TurkStream pipeline.
- In June 2022 Hungary and Azerbaijan agreed that **Hungary would import from the Caucasus** 100 mcm in Q4 2023.
- Most probably these additional volumes are being delivered.

Sources: ENTSO-G, ICIS, Montel

GAS STORAGE LEVEL IN EU AND HU

EXPERT OPINION:

- Aggregated EU storages were at **86% on 31 July.**
- Hungary surpassed the July target already at the beginning of the month.
- **HU intermediate targets:**
  1. Feb 1: 51%
  2. May 1: 37%
  3. Jul 1: 65%
  4. Sept 1: 86%
- **EU final target by Nov: 90%**
- (see separate story)

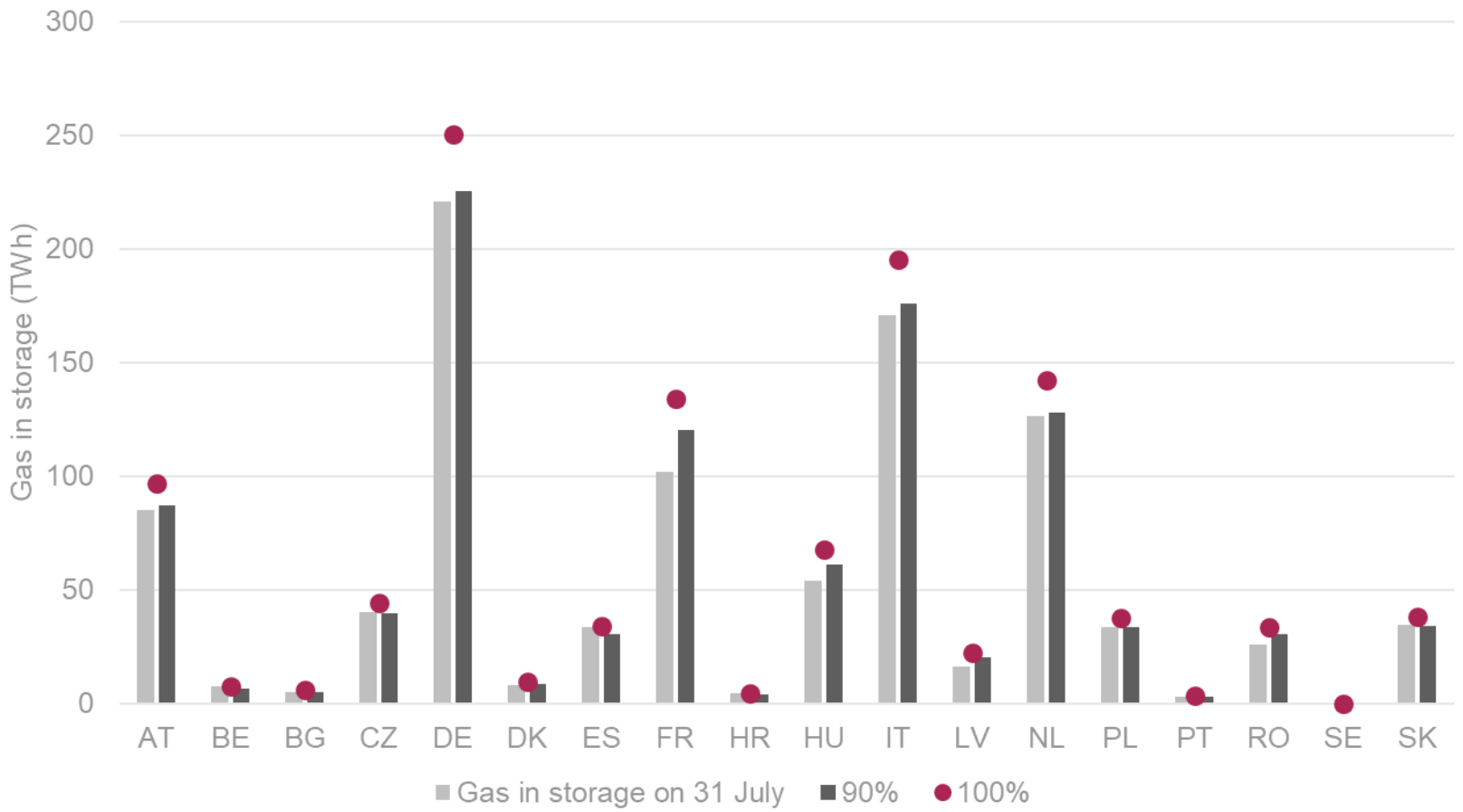


Sources: CEEGEX, FGSZ, AGSI, EUR-Lex, ICIS

EU GAS STORAGES TO REACH 90% BEFORE 1 NOV

EXPERT OPINION:

- **All EU countries reached the July targets by 1 July** and almost all countries reached the September target by the end of July (except for FR, HU, RO).
- **Some countries had already reached on 31 July the 90% target** (BE, CZ, ES, HR, SE, SK) and will most probably reach 100% soon.
- BE reached 100% on 5 Aug.
- If the July trend continues, EU overall storages would reach 90% by mid August.
- However, **the linear extrapolation of the overall rate of injections in July is oversimplistic** and does not take into consideration several aspects influencing the speed of injections (see next topic).



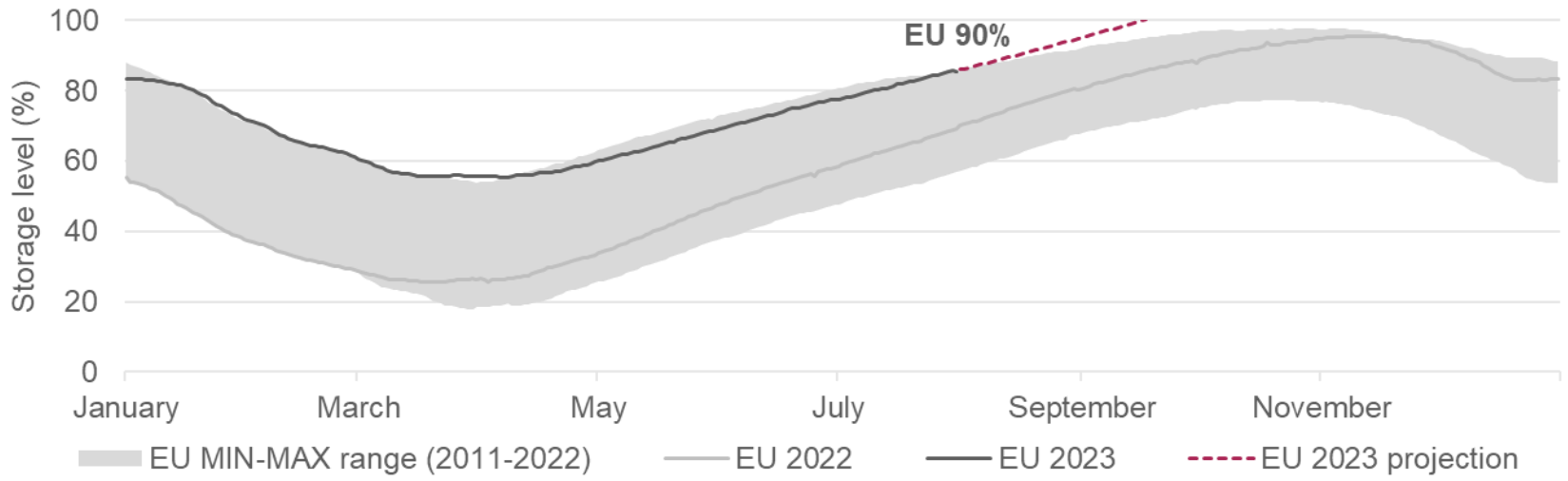
Sources: AGSI, EUR-LEX, ICIS

RATE OF INJECTIONS IS EXPECTED TO SLOW DOWN

EXPERT OPINION:

- The linear extrapolation of July injection rates shows that EU overall storages would reach 90% by mid-August.
- **A more accurate analysis could be prepared on the level of separate storage sites within each country** taking into consideration the following aspects:
  - some storages would reach 100% early August
  - pressure increases as more gas is stored
  - flexibility depending on the type of storage or compressor
  - booked and available capacities
  - W-S spread
  - profitability of injections into UA storages
- Nonetheless, it could be already assumed that **the pace of injections will gradually slow down** in the upcoming weeks despite the favourable W-S spread due to **physical, technical** and **commercial** constraints**. It will rather follow the curve of the 10-year maximum range.**

Country	AT	BG	DE	DK	FR	HU	IT	LV	NL	PL	PT	RO
Missing to 90% (TWh)	2,05	0,13	4,52	0,76	18,29	6,98	4,68	4,27	1,85	0,35	0,12	4,36
Technical injection capacity (TWh/d)	0,85	0,04	4,27	0,09	1,16	0,46	1,70	0,13	1,37	0,35	0,02	0,26
July average injection rate (TWh/d)	0,18	0,00	0,66	0,03	0,72	0,27	0,27	0,07	0,48	0,23	0,01	0,11
Days to 90% on July average injection rate	11	100+	7	22	25	26	17	62	4	1	17	42



Sources: AGSI, EUR-LEX, ICIS