

# BP European Gas and Power – market update

## November 2019

### EGP business insights



Trans Adriatic Pipeline (TAP) project remains on track. Latest updates on the project suggest 82% of the construction is complete and is on track for 2020 delivery of gas into Europe. Once complete, TAP will transport natural gas from the giant Shah Deniz II field in Azerbaijan to Southern Italy, allowing transport of Caspian natural gas into some of the largest European markets and further diversifying supply sources into the region.

The Merger of PEG Nord and TRS hubs was completed on 1st November. France's major gas exchange Powernext confirmed that the merger had gone smoothly, while the French energy regulator CRE has said that the suppression of the spread between the two hubs would drive a more competitive and liquid French market.



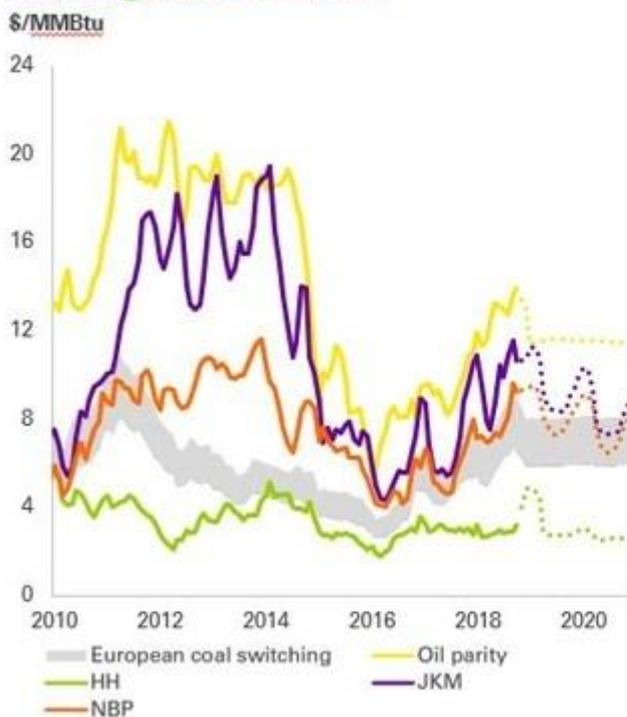
Solar projects were awarded full capacity in France's first mixed auction. The entire 200 MW of capacity awarded in the auction went to 16 solar PV projects, with an average price of €54.94/MWh, while onshore wind missed out on a continuing theme of rising costs in the industry. Solar capacity in France has been lagging behind others in Europe but has seen a recent growth in capacity following a number of similar auctions held throughout 2018.

Latest Ofgem price cap puts pressure on UK REPs. A new price cap to be implemented from January 2019 has put further pressure on a number of UK retail energy providers. This comes as news that a number of Renewable Obligation Certificates (ROC) payments were still outstanding, while at the same time household energy debt is increasing and wholesale costs have risen significantly.

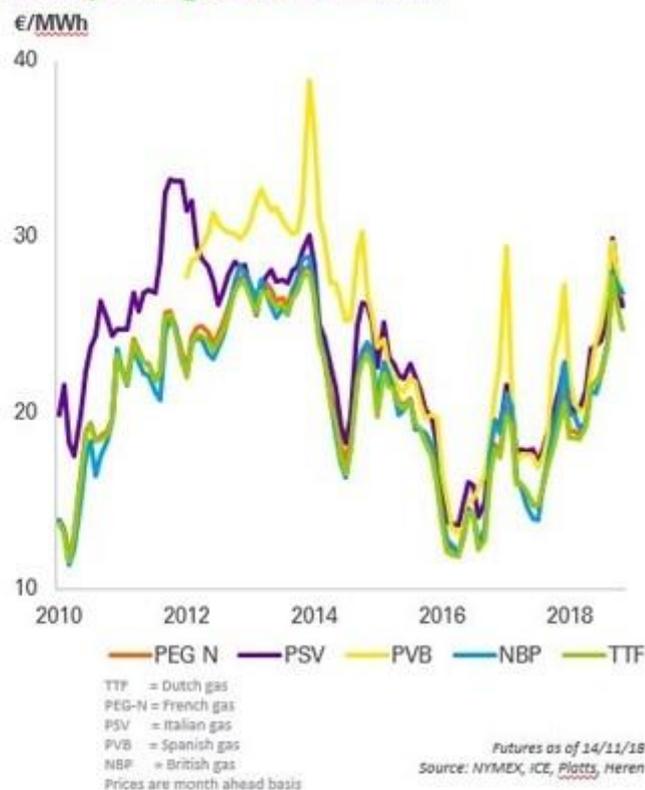
### Commodities soften

Brent sold off sharply from its high of \$86/bbl on 3rd October, to a low of \$65/bbl on 13th November. The downtrend was felt across the wider commodity complex, with weaker sentiment in the prompt pushing JKM down to ~\$10.40/MMBtu, whilst TTF has come down 10% since September to ~€25/MWh.

## Global gas benchmarks



## European gas benchmarks

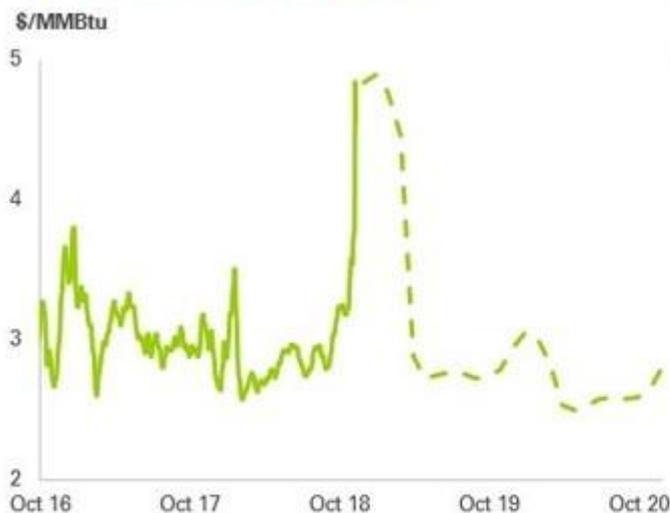


## US Gas supported by low inventories

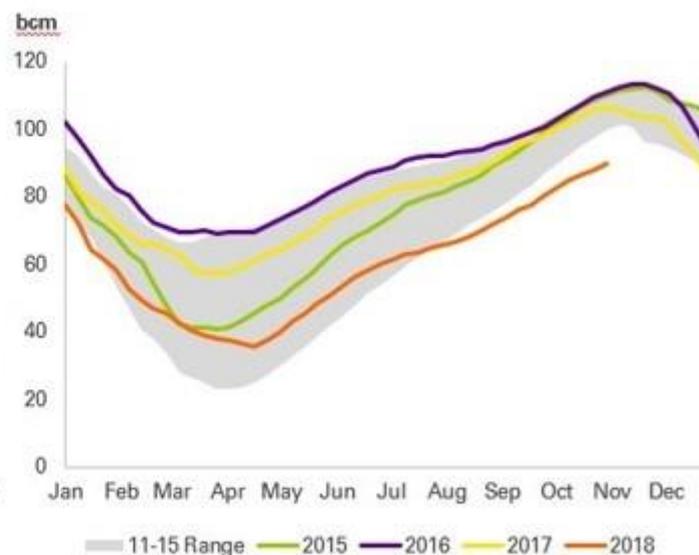
Henry Hub found strength however, as the US enters winter with stocks below the 5-year average.

The US market is typically accustomed to prices around \$3/MMBtu, but these have recently risen sharply to a 4-year high of \$4.80/MMBtu, reflecting the risk that the market could be exposed to potential weather shocks this winter.

### Front Month Henry Hub



### US DOE storage

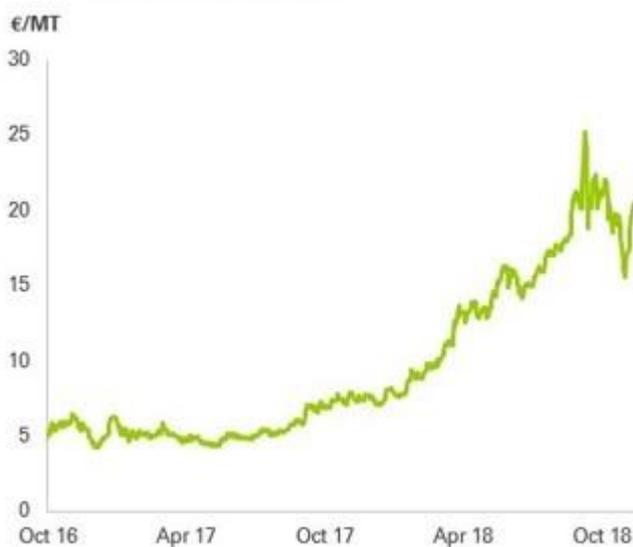


Source: NYMEX, EIA

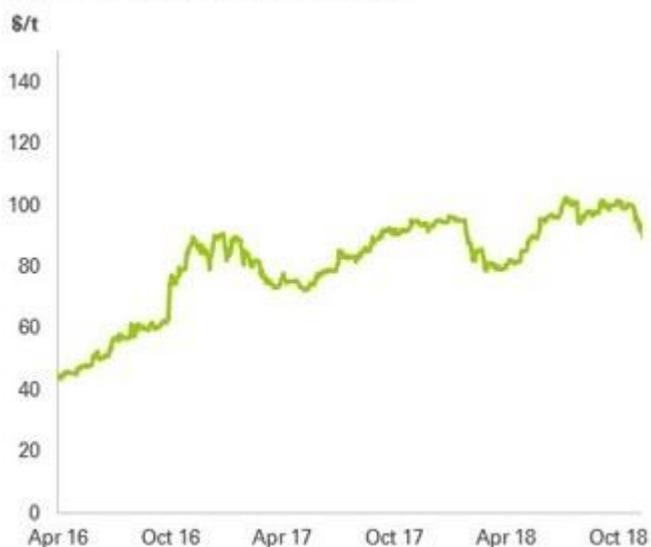
### Emissions volatility

After falling almost 28% throughout October, EUA carbon futures have since recovered towards the €20/MT mark. Coal has also seen some weakness, recently falling towards \$90/t however October prices were still on average 10% higher than last year.

### EUA carbon futures



### ICE Rotterdam Coal Prices

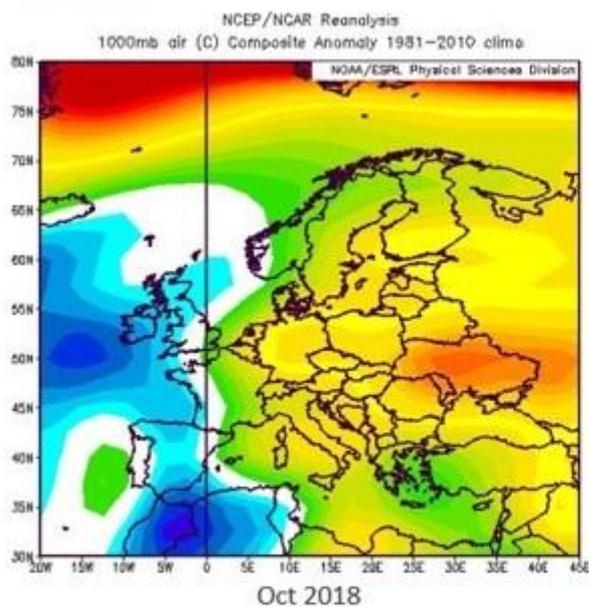


Source: ICE

### Mild temperatures continue

October temperatures remained broadly in range with the seasonal average, with a slight skew towards the warmer side. This is reflected in below average heating degree days for Belgium, Italy,

## Europe



## European demand in HDDs

	Belgium	Germany	UK	Spain	Italy	France	Netherlands
Nov	474	539	414	243	241	390	405
Syr avg	449	512	396	212	200	331	419
Dec	625	710	549	420	466	553	574
Syr avg	572	655	464	395	411	491	522
Jan	545	645	529	372	349	391	541
Syr avg	695	785	572	397	451	567	649
Feb	761	878	608	419	469	631	714
Syr avg	586	655	512	319	351	467	557
Mar	605	653	547	267	323	423	608
Syr avg	506	546	476	225	249	366	496
Apr	178	146	280	115	62	110	204
Syr avg	308	325	323	92	85	192	332
May	66	54	100	28	14	58	84
Syr avg	146	150	165	27	22	85	141
Jun	13	17	14	2	0	4	12
Syr avg	25	32	40	2	1	9	22
Jul	0	2	1	0	0	0	0
Syr avg	4	6	8	0	0	2	2
Aug	7	10	26	0	0	0	7
Syr avg	12	15	16	0	0	1	6
Sep	73	97	94	1	2	20	68
Syr avg	63	88	66	1	3	18	45
Oct	194	312	224	57	27	113	180
Syr avg	222	267	177	21	47	119	201

Key = hotter than avg. = colder than avg.

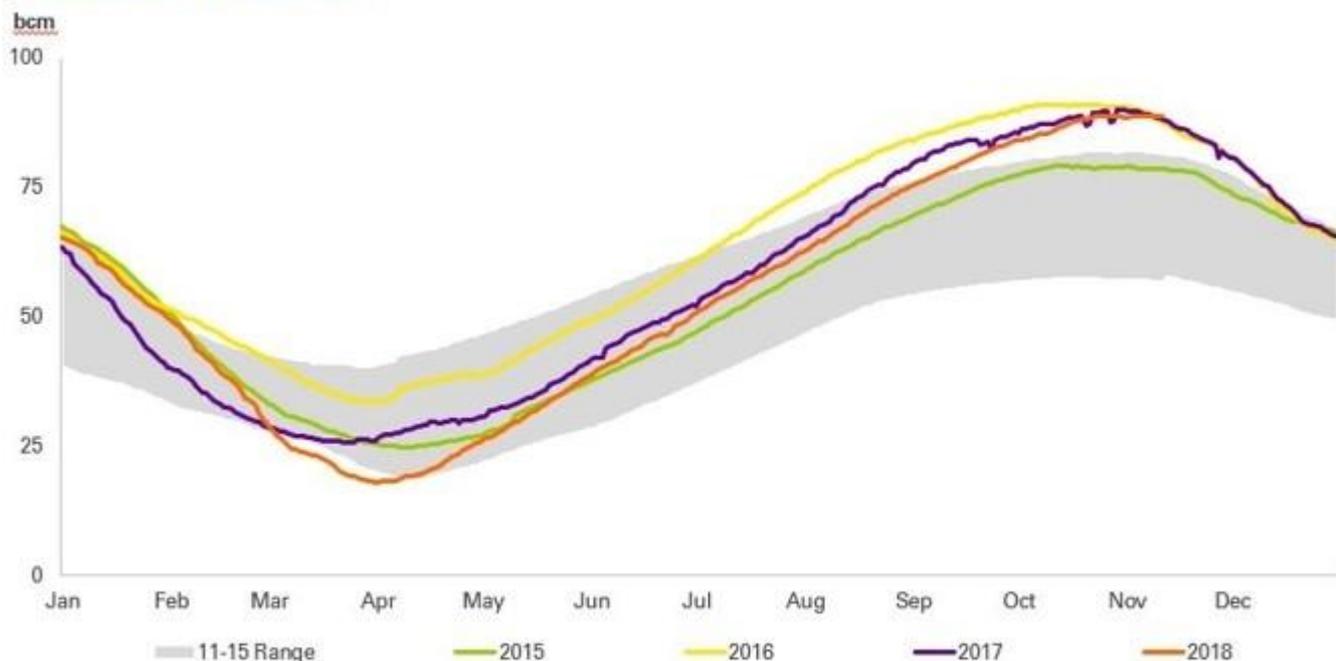
HDD source: BP Internal Data  
Data/image provided by the NOAA/GAR/ESRL PSD, Boulder, Colorado, USA, from their Web site at <http://www.esrl.noaa.gov/psd/>

France and the Netherlands. The ongoing shoulder season (Sep-Nov) has fed the weaker demand backdrop, as the market transitions between summer cooling and winter heating.

## European storage sees record build

Milder weather and ample supply from high LNG send-outs and Norwegian deliveries has enabled European storage to continue building into November. After significant draws earlier in the year, Europe has seen the strongest seasonal build in recent years, totalling 70 bcm since April, which is notably higher than the seasonal builds of 57 bcm in 2016 and 64 bcm in 2017.

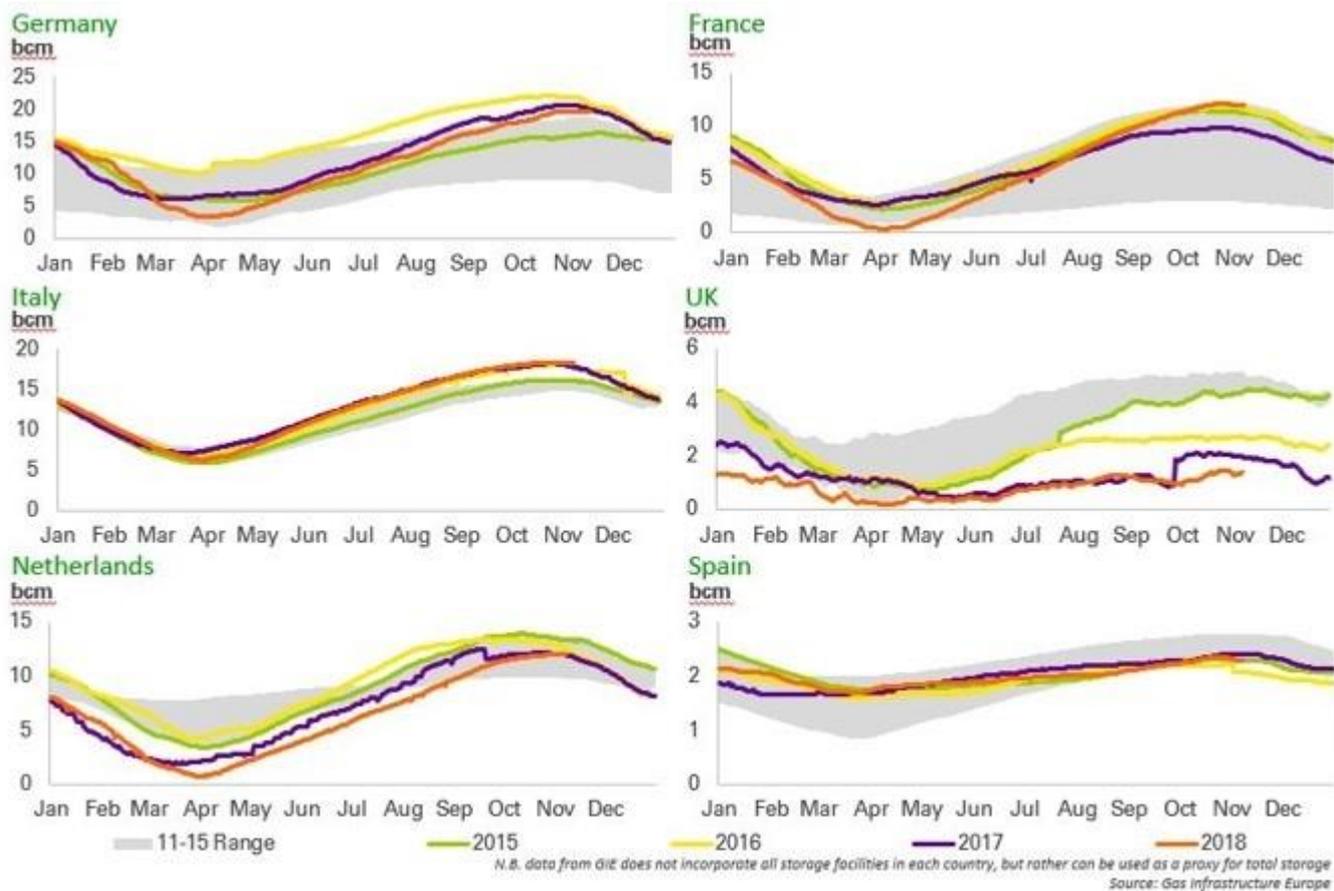
## European GIE storage



*N.B. data from GIE does not incorporate all storage facilities in each country, but rather can be used as a proxy for total storage*  
 Source: Gas Infrastructure Europe

## Injections hold strong across Europe

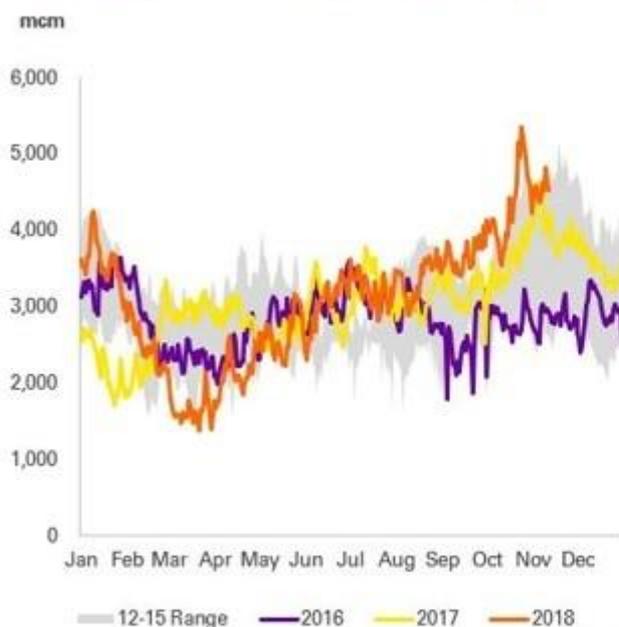
European storage injections built throughout October, ahead of the winter months when inventories typically draw. After significant builds throughout the summer, France has now levelled off at the top of the 5-year range, whilst UK stocks are nearing full capacity.



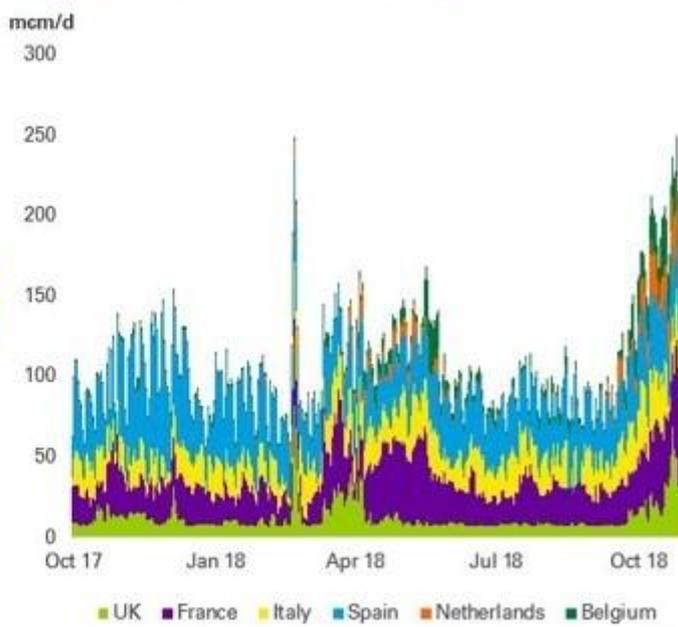
## LNG send-outs soar as stocks hit recent highs

Favourable economics has directed LNG flows into Europe, which has resulted in high stock levels and a surge of send-outs. UK send-outs peaked at 68 mcm/d at the end of the October, significantly above the May to September average of 8 mcm/d.

### European LNG inventories (NWE)



### Daily LNG send-outs in Europe

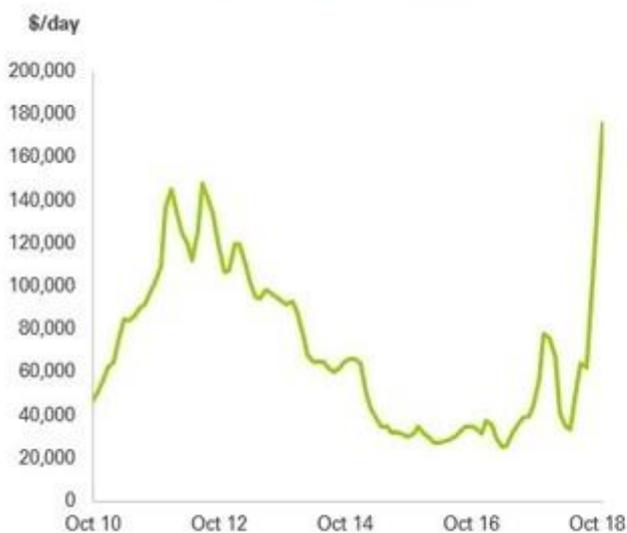


*N.B. data does not incorporate all regasification facilities in Europe, but rather can be used as a proxy for LNG send-outs*  
*Source: BP Internal*

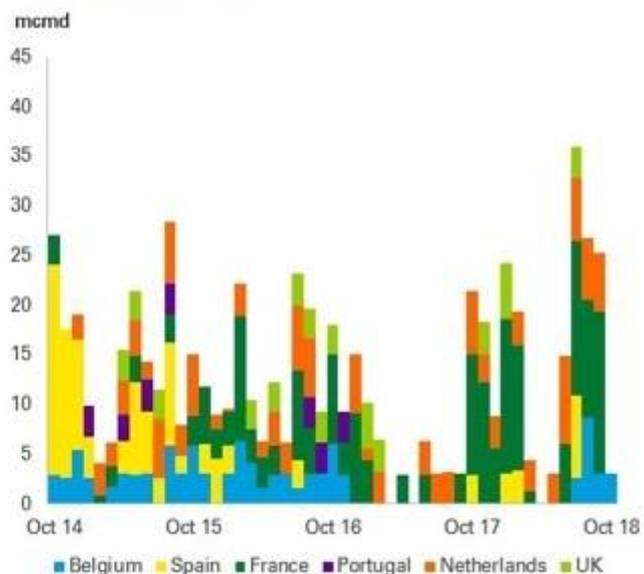
### Strong freight is keeping LNG within Europe

Strong demand in Asia and the requirement for floating storage has caused a significant increase in shipping demand, which has sent charter rates climbing to record highs. These higher shipping costs make re-exporting LNG to Asia unattractive, hence October saw a drop in European reloads.

### LNG Asia Pacific charter rates



### European LNG Reloads



*Source: Platts, BP Internal*

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