

# Heren European Gas **Hub**Report

Painting a realistic picture of Europe's gas trading points

Q2 2012 Update

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### Contributors

James Allpress, Kirsty Ayakwah, Davide Barbuscia, Louise Boddy, James Enright, Maria Haensch, Seth Freedman, Tom Marzec-Manser, Silvia Molteni, Johanna Rueschoff, Aura Sabadus, Robert Songer, Elizabeth Stonor, Katya Zapletnyuk

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# Introduction

**Most continental hubs** had steady year-on-year growth in over-the-counter (OTC) traded volumes in Q2, and there was little change in the Tradability Indices. The exceptions were: the British NBP, where the index remained stable, but volumes fell; and France's PEG Nord, where both volume and the Tradability Score fell sharply.

There was generally less liquidity by both measures across all markets than there had been in Q1, when trade was stimulated by a clearly bullish trend. Q1 had been a period of high demand, occasional price spikes and a generally improving macroeconomic outlook, with receding fears of collapse and default among counterparties. All these factors that had stimulated trade were reversed in Q2.

Macroeconomic uncertainty and the increased fears of eurozone implosion were the main causes of the drop in traded volume at the NBP. This hub is the primary home for speculative gas trade in Europe. As such, it is more susceptible during times that have no clear price trend. Traders without the need to hedge or optimise also cited looming regulatory requirements as another disincentive. Deterrents to far-curve trade in particular, provided by Basel III regulations and the Markets in Financial Instruments Directive (MiFID) II draft, were masked in Q1 by the clear price trend and perception of lower risk.

British OTC volumes were down significantly by 11% year on year. But on the Dutch TTF hub, volumes were up by 34%. The reversal of fortunes meant that the TTF grew in size relative to the NBP and peaked at around 79% of British OTC volume in June. Futures trade was still much more significant in Britain than on the TTF, but the relative growth and shrinkage trends were also played out on the exchange platforms.

While the TTF does attract some speculative trade, this sector accounts for a lower proportion of overall volumes than on the NBP. The TTF also benefited from the June Interconnector pipeline shutdown, which stimulated buying interest. These two hubs still accounted for the vast majority of European OTC trade in Q2. The next-biggest hub by volume and index score, Germany's NCG, was still only 10% of the size of the NBP by volume over the quarter. Exchange trade has so far failed to gain traction in Germany, but confidence in the liquidity and growth of the Day-ahead and Month-ahead OTC markets remains high.

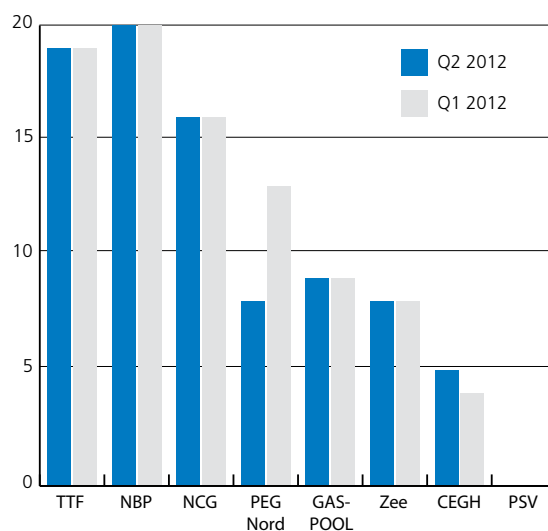
The Tradability Score for France's PEG Nord hub dropped dramatically to eight, from 13 in Q1. The French index has been the most volatile of all the hubs since the series began in 2007. In general, there has been an underlying growth trend, but gas trade in France is not underpinned by a substantial combined cycle gas turbine (CCGT) sector as it is in the Netherlands and the UK. Instead, it comes and goes with fluctuations in power sector and industrial demand and cross-border arbitrage opportunities. Consumption of gas by French CCGT plants more than halved year on year to only 2.95TWh in Q2.

Belgium's new market design started to firm up in Q2. It seems likely that the market will continue to be quiet over the summer, before launch in October this year. Traders are understandably unwilling to commit to large curve positions on the existing hub while it is likely that the new virtual trading point could start taking some of that already low liquidity pool in future. The new market design is likely to improve the longer-term prospects for trade growth on the Belgian market, especially as it will trade in euros, rather than sterling. But some of the trade is likely to stay at the ZeeBeach point, as it will remain linked to Interconnector flows from the UK. The question of whether there will be enough appetite outside this pipeline-centred trade to make for a second useful curve market is still unanswered.

There was little major development on the three future hubs, which are still largely paralysed by respective governments and regulators. Potential remains, but uncertainties over market design were mounting, rather than diminishing.

On the existing hubs of Italy and Austria, the auction of cross-border capacity dictated both prices and trade volumes. Active brokering in the Italian market helped stimulate trade and improve price transparency. Unfortunately, there was another example of the unpredictable, unilateral action that has plagued Italy's traded market, and this killed Day-ahead trade for several days in May.

Tradability Index Q2 2012 vs Q1 2012



Source: ICIS