Paul Elorduy
11.10.2022

Energy Crisis : Winter Fortunes

The gas market is broken and there are those who benefit from it. Large oil and natural gas multinationals, investment banking and electricity companies have earned extraordinary income. But price volatility carries a risk: the collapse of energy companies and with it, the collapse of the European economy.

In the spiral of rising gas prices there are millions of losers and a handful of winners. The situation is not only serious, it is extremely complex and, in those circumstances, the financialization of the economy contributes decisively to the confusion. Among the winners, the clearest are the gas companies. The fortunes of the big commodity tycoons —

oil and gas — have been the only ones, according to Bloomberg, that have grown in relative terms compared to 2019.

Although to a large extent the figures of its performance are still unknown, groups such as the American Glencore –convicted in the past for market manipulation–, the Saudi Aramco, Adani Group, Guvnor, Trafigura Group, Mercuria Energy, the Spanish Repsol, Total Energies. Shell or Qatargas, the world's leading marketer of liquefied natural gas, are among the main beneficiaries of a market that has broken down, extremely volatile, and that is endangering classic market operators and European states themselves.

A trader with 30 years of experience, who for reasons of confidentiality cannot participate with his name in the report, points out that the other big winners of the market are investment banks such as Goldman Sachs itself, Citi and Macquarie. "A scrambled river, broker profit," he summarizes. Investment banking acts as an intermediary advisor for large fortunes and the largest investment funds, which are committed to rising prices and, as has been shown in previous crises, can also do so because of their collapse.

The third group of beneficiaries is made up of the big electric companies, the great beneficiaries of the marginalist system, the center of criticism since the price of electricity has gone from being a flat stage to having the mountainous profile of the queen stage of a race that leaves empty the pockets, and stomachs, of the European population. Acciona or Iberdrola have seen how the design of the system, which equates the cost of generating the most expensive energy – from fossil fuels – with that of the most affordable production – wind, hydro or solar – has generated the famous "benefits fallen from the sky". In August, when the price of the megawatt hour (MW/ h) reached peaks of 400 euros, the electricity companies obtained that extra cost for energy produced by just 30 euros per MW / h.

Three winners

The big beneficiaries of the crisis have been the energy multinationals.

*Aramco. The world's largest oil company, Saudi Arabia's Aramco announced in August that in the second quarter of 2022 it has gained 90% than in the same period of 2021.

*Torbjorn Tornqvist. This Norwegian gas player has seen his personal fortune double since 2021. Today it has $3.7 billion. He is the CEO of Gunvor, an amsterdam-based energy giant.

*Repsol. Among the Spanish companies, by turnover, the main winner is Repsol, which has obtained a profit of 100% compared to 2021. Its CEO expressed in El País his rejection of the proposal of the extraordinary profits tax advanced by the Government.

José María Yusta, an expert in electricity markets and professor at the University of Zaragoza, says that the situation of chaos also affects energy companies. There is a lot of money, but also the possibility of losing it quickly: on September 15, the US Nymex index reported a rise in natural gas of 10%; on the 16th, the price fell by 9%. The fluctuations are so beastly but, as Yusta warns, the scenario has already settled at a level of vertigo, unfeasible for European societies, "we must not lose sight of the fact that the price we have today of the Spanish gas market is six times the price we had a year ago". Something is wrong, it is so wrong that market operators accept that it is necessary to change the rules of the game.

Forecasts that, due to the negotiating power of Goldman, the first financial *lobby* on the planet, are considered budding regulatory guidelines, indicate that the largest German gas importer, Uniper, will not be the only energy company that will require strong injections of public capital.

While Glencore has increased its profits by 90% in just one year, Uniper has gone from presenting a profit of 731 million euros in 2021 – 12% more than in 2020 – to being rescued for a figure of around 30,000 million by the Government of Olaf Scholz. Uniper was rescued because it could not cover gas sold before the Ukrainian war. Unable to access the gas distributed by Russia's Gazprom, the company did not have enough liquidity to go to the market — not at current prices — and risked reneging on its supply contracts, sparking panic among customers and creditors and the breakdown of the system.

In addition, for both gas and electricity marketers, the price influences in another way: having long ago sold financial futures on gas and electricity at a price well below the current one (to ensure the sale price of part of their production, before the Ukrainian war broke out), the more the price rises, futures chambers require a larger deposit. The stock market system requires oil and gas companies to provide the additional funds necessary to cover *margin call*, that is, the security mechanisms of regulatory institutions are translated into guarantees on the contracted operations, in the form of cash deposits. And those deposits are increasingly exorbitant, to the point that they are 1,000% higher than last year.

On September 22, the Federal Minister of Economy, Robert Habeck, admitted that the State will spend this year 60,000 million euros and one hundred billion in 2023 on the purchase of energy from sources other than the current ones
The demands of these deposits are absorbing the liquidity of large natural gas companies, trading companies and electricity companies, the economic portal Zero Hedge published in September. Equinor, Europe's leading gas marketer, has estimated that the energy sector will need at least €1.5 trillion to cover those margins. To put the figure in perspective, the GDP of the euro zone is 16.4 trillion. Part of that hole is already being covered by the banks, but the rescue of Uniper – comparable to that of Bankia that took place in 2012 in Spain – will not be the last and the demands will not stop in the European States, but with high probability will be addressed to the European Central Bank.

Byron Maher

The specialized press already speaks of the fear of a "Lehman moment", in memory of the cascade of bankruptcies that took place around subprime mortgages in 2008. In the worst-case scenario, the energy crisis may re-edit a debt crisis in which Germany, as the most affected country, cannot exercise the role it had in the 2011-2012 period. On September 22, the Federal Minister of Economy, Robert Habeck, admitted that the State will spend this year 60,000 million euros and one hundred billion in 2023 on the purchase of energy from sources other than the current ones.

Burnt gas

Nothing more graphic than the image of Russia burning 4.34 million cubic meters of gas a day – ten million dollars equivalent – off the coast of Finland to send a message to the EU. The definitive closure in September of Nord Stream 1, and its destruction by an unknown author a few weeks later, the main transport pipeline from Russia to Germany, has been the definitive blow of a new stage, characterized by uncertainty and the triumph of Liquefied Natural Gas (LNG), much more expensive than conventional field gas but "star" of the European market. As a Financial Times article this week explained: the recent increase in interest in LNG "represents an important change of course for a sector that two years ago was facing a crisis for environmental reasons and low demand." Never before has so much liquid gas been imported and forecasts for 2023 indicate that the trend will continue to increase. According to the consultancy Webber Research & Advisory, quoted by the Financial Times, US liquefied companies have signed contracts for about 47 million tons per year in sales agreements with several countries, the last one this week with Germany.

That LNG boom has created a number of winning states: the United States, the world's leading gas producer, increased its exports by 12% in the first half of the year; Qatar, up 15%, and other producing countries, such as Nigeria and Egypt. At the other extreme is Russia, which has seen how its pressure to increase the price of natural gas had consequences for its production, 16% lower than that of 2021, despite the fact that it keeps open pipelines with other eastern European countries and the Turkstream tube, which connects with Turkey, Bulgaria, Serbia and Hungary.

Tan importante como los avances y retrocesos en los campos de batalla del Donbass para explicar el comportamiento desquiciado de los precios del gas es la comprensión de los mercados de futuros y cómo estos pueden tensar un sector estratégico como el de la energía. José María Yusta explica que varios elementos han convergido en este incremento de precios, que ha hecho completamente ingobernable el mercado del gas. Hasta hace relativamente poco, el precio del gas natural estaba indexado —se calculaba en relación— al precio del petróleo, con un ajuste establecido en relación a los tipos de cambio. Hace 15 años, los mercados europeos apostaron por desvincular esa referencia. Fue entonces cuando cobró fuerza el mercado TTF iniciales de Title Transfer Facility, con base en los Países Bajos y creado por Exxon Mobil y Royal Dutch Shell. El TTF hoy funciona para fijar los precios en casi toda la Unión Europea, con la excepción de la península Ibérica, donde los precios se determinan en el MIBGAS.

Vuelve el déficit de tarifa

A principios de septiembre, Goldman Sachs publicó un informe, La crisis de la asequibilidad de la energía, en el que estimaba que las facturas energéticas de la mayoría de los consumidores "alcanzarán su punto máximo este invierno". Este banco de inversión calculó que la familia promedio europea factura de 500 euros/mes para la electricidad y el gas. El incremento acumulado en el interior de la UE sería de entre dos y tres billones de euros, según esta banca de inversión. Este tipo de advertencias guiaron a la Comisión Europea a intervenir en el mercado, rompiendo el dogma de su autorregulación. Pero el informe de la banca de inversión va más allá y lanza una propuesta: Goldman plantea que el sobrecoste actual del gas no será completamente limitado con los topes de precios y lanza la idea de repartir el aumento de la factura a lo largo de 10-20 años en lo que se conoce como "déficit de tarifa". Un pago en diferido que ya aplicó España en la década de los 2000 y que alcanzó su cénit en 2014, cuando el Estado adeudaba a las eléctricas 30.000 millones de euros.

En un comienzo, este mercado estaba ligado al gas que se extraía en Países Bajos, durante años el primer productor de la Unión Europea, pero las circunstancias han cambiado. Mil terremotos después, y después de haber obtenido 442.000 millones de dólares por el gas extraído, el Gobierno neerlandés decidió reducir la extracción de gas natural. Permaneció, sin embargo, la bolsa minorista TTF, que con el tiempo se abrió a actores ajenos al sector. Una vez se abren estos mercados, estandarizando el tipo de contratos y aumentando el tipo de productos derivados —que, por ejemplo, dejan de estar vinculados a las entregas físicas de gas y pasan a negociar las garantías de entrega, en lo que se conoce como *call* en la jerga financiera— crece el número de especuladores y se produce el efecto de sobrecalentamiento.

The level that prices reached in mid-August was the last trigger that the European Commission needed to break the dogma of the freedom of the markets. In her State of the Union address, President Ursula Von der Leyen made two announcements as important as, so far, inconcrete. In the first place, a collection effort – Von der Leyen avoided the word tax – with which 140,000 million will be channeled from companies with extraordinary profits, those in the oil and gas sector, to citizens, via bill reduction.

Another, of which details have emerged thanks to the leak of the drafts, deals with the reform of the markets: "Our gas market has changed radically: it has gone from relying mainly on gas pipeline to resorting to increasing amounts of LNG. However, the benchmark used in the gas market – the TTF – has not adapted," von der Leyen said.

Market players agree that the TTF is a strange element in the landscape and take the reform of the system for granted, although, as Goldman Sachs indicates, it is estimated that the new regulatory framework will still take one or two years to be operational. José María Yusta believes that the situation would not have been so serious, for example, if the gas reference had remained linked to the oil barrel. "One possibility would be to return to the historical reference of Brent and the exchange rate of the dollar, and that would automatically lower the price," says this professor. On the sectoral websites there is speculation that another possibility is to link the European reference to the price of gas in the main Asian market JKM, which works for South Korea and Japan.

A little respite

Von der Leyen's announcement achieved its first objective, to modify the "mood" of the markets and achieve a significant drop in the price of gas compared to the august highs. At the close of this edition, gas stood at 156 euros per MW / h, far from the 346 with which the TFF market closed on August 26, but also from the 28 to which it was paid in August 2021. But lasting solutions, those that avoid speculation in the medium term, go in other directions, as Von der Leyen and the leadership of the European Commission well know. And there are doubts as to the forcefulness regarding one of the most demanded: the gas cap. The analysis of the Ministry of Economy of Podemos recognizes that, although the decree of the coalition government has avoided a higher price increase – of 19% – the rise in the price and the increase in the use of natural gas in the energy mix of the summer months has continued to make the bill more expensive.

The movement to impose a cap has not advanced since that speech, although on October 6, Von der Leyen again assessed that possibility, which is claimed by 15 countries of the Union – among which are Spain, France or Italy but not Germany – that sent a joint letter to the EU Energy Commissioner, Kadri Simson, to point out the priority of a cap aimed at "mitigating inflationary pressure, (...) to provide a framework in the event of potential supply disruptions, and to limit the extraordinary benefits of the sector."

Byron Maher Sancho R. Somalo

Although the Iberian exception is a safeguard against the increase that consumers in Italy, France or Germany are experiencing – in Spain the price has become 70% lower than that of the European environment – the bills will not return in the short term to the levels of

2019 and, if the winter is hard, they could be in the worst scenario. José María Yusta believes that the measures announced by Von der Leyen are going in the right direction, although he clarifies that the fact that the system of caps on the price of gas introduced by Spain last June has not worked as intended may discourage the EU from following these steps.

The scenario differs in member countries. Germany, whose export industry is on the edge of the precipice because of its dependence on Russian gas, is the most exposed. Italy, in the process of changing government, sees its political instability linked to a situation in which it has little capacity to intervene, beyond discretionary measures such as the one already advanced by the Spanish Government to reduce the VAT on gas, which from October will fall from 21% to 5%, with the consequent reduction of revenues for the State.

The contraction of consumption is the way that Yusta sees as most effective, both that of households and that of companies. A destruction of demand caused by inflation that has a double edge: it can reduce inflation but implies an image that European governance fears, that of the stopped factories. Following the announcement of mandatory mobilization launched by Vladimir Putin, the possibility of a re-establishment of the previous conditions seems ruled out on the continent. No one wins from a contraction of the economy that is approaching at an accelerated pace a scenario of stagflation – high inflation and runaway unemployment – that is causing the Chinese and Indian economies to collapse. The signs launched by Xi Jinping and Narendra Modi, which are increasingly marking distances with the Kremlin, indicate that the scenario of a global crisis is dangerous for all the actors at stake. Only some investors who bet from the financial centers of Wall Street, London or Chicago to squeeze the energy problem in the short term make their fortune in the economic winter of the European Union.

Paul Elorduy

Edited by María Piedad Ossaba

Source: El Salto, October 9, 2022

La Pluma. net 09.10.2022