European Natural Gas and JKM

Stuart Jones
Head of Gas
Tradition London
About Tradition

- Tradition is one of the world’s largest Wholesale Brokers
- Present in 28 countries
- Around $1.0 billion turnover
- Employs 2,200 people globally
- A broad product range
- Listed on the Swiss Stock Exchange (CFT)
Global Presence

Brussels, Copenhagen, Dubai, Frankfurt, Hong Kong, Johannesburg, Kuala Lumpur, Lausanne, Lisbon, London, Los Angeles, Luxembourg, Makati City, Mexico City, Milan, Moscow, Mumbai, Munich, New York, Paris, São Paulo, Seoul, Shenzhen, Singapore, Stamford, Sydney, Tel Aviv, Tokyo
### Commodities product list

We cover virtually the complete range of products.

<table>
<thead>
<tr>
<th>Emissions</th>
<th>Iron Ore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil</td>
<td>LPG/NGL</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>LNG</td>
</tr>
<tr>
<td>Power Market</td>
<td>Middle Distillates</td>
</tr>
<tr>
<td>Fuel Oil</td>
<td>Softs/Agricultural</td>
</tr>
<tr>
<td>Gasoline</td>
<td>Pulp and Paper</td>
</tr>
<tr>
<td>Naphtha</td>
<td>Bio-fuels</td>
</tr>
<tr>
<td>Oil Options</td>
<td>Coal</td>
</tr>
<tr>
<td>Jet Fuel/Kerosene</td>
<td>Precious Metals</td>
</tr>
<tr>
<td></td>
<td>Gasoil</td>
</tr>
</tbody>
</table>
European Gas Desk

- Set up in 2010 to build on further European Gas Market deregulation
- Initial market coverage in Germany and The Netherlands, support from Continental power desk
- 2011 - Italian office opens to concentrate on PSV – Italian Gas
- 2014 - UK Gas desk set up: NBP/TTF spreads
- 2016 - JKM desk set up
- 2017 - Cross Commodity Options desk acquired
- 2018 - LNG Physical desk set up

- Team of 22
  - 13 brokers in London, 4 brokers in Rome + 2 marketers, 3 Brokers in Amsterdam
  - Physical Gas Markets covered: UK, Netherlands, Belgium, Denmark, Germany, Poland, Austria, Czech Republic, Slovakia, Italy, France, Spain
  - Hungary, Greece, Ukraine potential future developing markets
Volumes

- TTF and NBP account for a bulk of trading activity with a majority of continental gas linked via hub spreads to TTF
- Volumes trending in different directions as TTF becomes much bigger as NBP loses ground
  - LNG access/pricing, cross border capacity, long term contract renegotiations
Prices

- Focussing on TTF, prices have been in decline following the glut of LNG availability since early 2018 and mild NW European Winters
European Gas – Market Access

• Historically, European hubs have been traded bi-laterally under EFET
• More recently, partly due to BREXIT uncertainty and legal workload, new players are finding it tough to enter the market via traditional means
• So entry comes via
  • Exchange and exchange cleared
    • ICE, CME/NYMEX, EEX
  • Direct Market Access (DMA)
    • DMA is the use of an existing market incumbents credit/legal facility
    • 50 DMA’s in place (though some are duplicates), big business
    • Service offered by Banks, Utilities and Merchants
• Exchange traded volumes up significantly in the last 6 months
  • Ease of access for new European based players
  • Raft of US players using ICE, market volatility/cross netting
• TTF and NBP only for exchanges, 99% of other European hubs trade OTC only
LNG – Japan Korea Marker (JKM)

- JKM is the financial instrument used by predominantly LNG players to hedge physical risk
- Market has grown exponentially over the last 4 years
LNG – Japan Korea Marker (JKM)

• With the advent of US supply, more dynamic trading strategies are in play boosting JKM volumes and also seeing the development of a nascent derivatives market
• New supply coming on line with greater flexibility, so spot pricing will increase requiring more hedging through JKM, TTF and FFA
• Tradition is at the forefront of flat price and derivative JKM trading through our Singapore, London and Amsterdam offices
• As well as traditional LNG players, the market now includes CTA’s, Banks, Trading Houses
• Not seeing too much interest still from the US
  • JKM ‘rival’ not really taken off – GCM contract
• Broker market is 100% exchange cleared
  • 80% ICE, 20% CME
  • European Energy Exchange (EEX) also has an offering
• Small volumes trade Asian hours, majority of volume trades London hours
LNG – Forward Freight Agreement (FFA)

- Forward Freight Agreement (FFA)
  - First FFA traded in November 2019, around 100 contracts have traded
  - Allows full cargo hedging along established routes
  - Currently with traditional shipping brokers
    - Battle lines drawn between gas brokers to get the shipping and shipping brokers to get JKM
  - CME the only clearer to post trades, ICE will come
What’s ahead

- Market embroiled in a unit war
  - LNG players attempting to establish a TTF and NBP market in $/mmBtu to harmonise global gas pricing
  - Resistance from non LNG incumbent market participants
  - Inevitability of a 2 tier market but $ denominated surely will win out
    - 2 -5 year horizon
- Further JKM growth inevitable with the shift to spot oriented pricing
- Further development of derivatives markets
- FFA market will expand rapidly
- Structured pricing, JKM/FFA/TTF whole package deals the holy grail for the broker
- Increase in algorithmic trading on TTF as liquidity deepens
- Continuous TTF trading on the horizon
The Daily Nerd™ is my take on European Gas prices and trends using my swing and gap analysis as the basis for future price development.

- ‘Light touch’ report for front month, season and cal on TTF
- Front month and season for NBP
- Front season JKM
- Spot Crude
- Spot EUR/GBP
- Carbon EUA’s

Usually published daily by 0800 and sent out to over 300 market players, globally.

“A rip-snorter of a read........”  - Ralph Renner
“5 stars”  - Ralph Renner
“Edge of the seat stuff”  - Ralph Renner
“The second best way to spend 5 minutes in the toilet”  - Duncan MacIntyre

stuart.jones@tradition.com