Gazprom: positive signs for the European gas market

- Russian gas export to Europe so far in January averaged 246 mn cu m/d, down 31% YoY (data as of January 26). However, there are indirect signs that Gazprom might be looking to increase supplies in the coming months.

- According to Interfax[1], at a meeting with analysts Gazprom management pointed to high prices under long-term contracts as one of the reasons for a sharp drop in Russian gas supplies to Europe. Prices for around 50% of export deliveries are linked to month-ahead futures price. In December the average price for January deliveries was over $1,390 per 1,000 cubic meters. So far in January, the average next-day spot price was around $1,000 per mcm, according to our calculations.

- Russian gas export to Europe could recover in February-Mach on more favourable pricing, according to the Interfax report.

- Separately Gazprom might be placing Eurobond as soon as February if the geopolitical situation improves. This could reopen credit markets for Russian bond issuers, Interfax said[2]. Gazprom has just released an updated Eurobond prospectus. This usually indicates an approaching Eurobond placement. The company might want to raise money to refinance $1.3bn bond due on March 7. At the same time, Gazprom has a substantial cash pile to pay the debt if required.

- A bond placement is usually accompanied by a roadshow and meetings between Gazprom top management and bondholders. This could be good news for the market if the company clarifies its strategy in Europe and provides more detail of production and export targets for the year. Bond investors might want to hear confirmation that Gazprom might restore export flows to Europe to meet its operating and financial targets for the year. It would be also hard to expect a successful bond placement by Gazprom unless sanction and other risks are much reduced in the near future.

- See our report ***Gazprom plans for 2022: what the numbers tell us*** for more detail on Gazprom targets.

- In another piece of news on 26 January Nord Stream-2 AG announced that it had set up a subsidiary to operate the 54-km section of the NS-2 pipeline which runs in the German territorial waters. The founding of a subsidiary was the requirement of the German Federal Network Agency. This might reopen certification of the NS-2 pipeline which was suspended in November 2021.

- We believe that the announcement could be a sign that the NS-2 certification process is alive. We also note that opposition of the Ukrainian officials to the project appears to have shifted from a complete rejection of the pipeline on security grounds to more technical issues, such as a requirement to certify the entire pipeline rather than just the 54-km section in Germany. At the same time, it has been made clear to Russia that NS-2 pipeline would be mothballed if Russia makes a military move into Ukraine.

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[1] Европа в январе полагается на запасы в ПХГ, СПГ и спот, переживая последствия шока декабрьских цен на газ, Ifax, 27 January 2022

[2] Газпром в феврале может выйти с новыми евробондами, если геополитика даст шанс – источник. Ifax, 28 January 2022

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