



Deutsche Bank Now Modeling German Households Chopping Wood To Keep Warm This Winter

Description

GERMANY: Yesterday we reported that just in case the world didn't have enough things to worry about, it is now also petrified about Europe's potential "doomsday" on July 22 when Putin will decide the fate of the continent: if he resumes gas flows along the Nord Stream 1 pipeline which is currently undergoing ten-day maintenance, things will be back to normal(ish). If not, this is the scenario contemplated by Wall Street strategists: "European stocks plunging 20%. Junk credit spreads widening past 2020 crisis levels. The euro sinking to just 90 cents, before a full-blown recession slams the world's 2nd biggest economy."

Then overnight, in a note from Deutsche Bank senior economist Eric Heymann, the largest German lender laid out the three most likely scenarios for what the post-maintenance period could look like. As Heymann writes, "*we developed three scenarios on how Russian gas supplies to Germany via Nord Stream 1 as well as the transition point Waidhaus might evolve over the next few months.*"

- **Scenario 1:** Status quo ante. Here, DB assumes that Russian gas deliveries return to the level we had seen in the weeks before the current maintenance period of Nord Stream 1, i.e. 60% below the level at the end of May.
- **Scenario 2:** Balanced on a knife-edge. Here, the bank assumes another halving of Russian gas supplies via both pipelines. **That would correspond to only 20% of Russian gas supplies seen until May 2022** (this scenario was validated today as described in "[Gazprom Casts Doubt On Reopening Nord Stream Even As Canada Grants Sanctions Waiver For Stranded Turbines](#)").
- **Scenario 3:** This is the downside case: welcome to a winter of gas rationing. **In a third scenario DB assumes that Russia completely turns off the gas taps to Germany after the maintenance period.** That also includes supplies via Waidhaus over the next few months. This is quite a large number in historical comparison even though it is below the recent peak of roughly 3,000 GWh per day. The Netherlands and Norway have already increased their exports to Germany since late May by roughly 20% (with significant volatility).

So far so good, and there is much more in the full note available to pro subs – which we strongly recommend that anyone living in Europe and naively believing the local energy propaganda, must read

now. But what we find most remarkable is DB's assessment not of supply but demand, i.e., the bank's projection of German gas consumption.

Here, as Heymann writes, demand will remain some 10% below the respective level one year ago over the next few months: "This reduction is driven by savings of private households, industry, and the services sectors, incentivized by very high gas prices."

It gets worse: according to DB, the overall weaker economic development – because as a reminder, Europe will very soon be in a deep recession – will dampen gas demand in the manufacturing industry.

But the punchline is when DB contemplates possible "**substitution for gas**" by other energy sources – the bank lists hard coal and lignite in the power sector, as for private households, it predicts that "**wood will be used for heating purposes where possible,**" while industries will switch to oil derivatives, all of which contributes to lower gas demand.

You read that right: **the largest European bank now predicts that a growing number of German households will be using firewood for heating!** Maybe allowing a petulant Scandinavian teenager to set the country's energy policy was not the brightest idea after all.

Finally, DB notes that both savings and substitution have already led to a reduction in German gas consumption by more than 14% yoy in the first five months of 2022. However, as the bank notes, *"large shares of these savings are driven by the mild winter 2021/22 which is why we assume a reduction by another 10% "only".*

Of course, chopping kindling and using it for firewood – a return to the glory days of 19th century Bismarck Germany if only in terms of heating – will be an option for a very small number of German households; the sad truth is that should Europe suffer a cold winter, there will be tens of thousands of casualties if not more. But at least Germany will have taught Putin a lesson (what lesson that is, we are not quite sure).

by Tyler Durden

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