

Wholesale Markets



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Analysis of wholesale markets

April 2021

Downward price driver



Upward price driver



Gas 16.4%



Power 16%



Short Term: Bullish

Like the last monthly report, far more bullish factors are driving the markets, than bearish ones. In the short term, it is hard to see prices go any other way but upwards.

Long Term: Slightly Bullish

We have seen strong price gains over the last few months. The rate of this pace should start to slow long term, but the trend could well persist upwards for the year on present outlook.

Bitesize Snapshot

- Wider fuels higher in price ↑
- Carbon EUA hit record highs ↑
- OPEC + Production cuts remain ↑
- Colder seasonal weather ↑
- UK restrictions easing ↑
- Depleting storage levels ↑
- Vaccine breakthroughs and roll out on track ↑
- Summer maintenance due to start ↑
- UK restrictions take stage two steps in easing ↑
- Improving LNG schedule ↓
- Coronavirus wave in India & new variant ↓

Price Change from other commodities

Commodity	Value 01/04	Value 30/04	
Brent Oil	\$64.86	\$67.25	+3.7%
EUA Carbon Dec 20	€42.47	€48.84	+15%
Coal 2020	\$72.50	\$76.10	+5%
Pound/Euro Cross rate	£1.17	£1.15	-1.7%

Monthly Review and outlook of the wholesale markets for Gas and Power

April 2021

Review of market movements over April

Wholesale prices have seen one of their strongest rises in a calendar month, with both gas & power markets gaining 16% or so in value. The result is the power market sits at a near all time high. The reasons for this strong momentum is outlined below:

Key Drivers

Carbon EUA continue to hit record highs in price

Featuring in last month's report, and likely to feature in many more is the continued rise in carbon permit values, Which has seen a further 15% rise in its value to end the month. The cost of these permits are now making up a considerable percentage of the total wholesale cost, and have shown no market indications of slowing down. It has been the primary driver over 2021 thus far in pushing prices higher.

Below seasonal temperatures for April and forecast into May

April was an unusually cold, dry month, with a number of air frosts and periods well below the seasonal normal temperatures. The result of this was gas demand being much higher than normal, with central heating often still in use throughout. April was in fact colder than March which was not anticipated, and rallied gas and power markets higher as a result.

Helping prices move further up, is a cold outlook for May in the main, meaning gas demand may not ease as quickly as it should for this time of year.

Injection season of gas storage paused due to demand

April normally signifies the start of injection season in the UK and mainland Europe, replenishing gas storage levels in readiness for the next winter months. While this did begin at the start of April, it was quickly paused as high demand levels meant there was no spare capacity to continue. In fact, storage levels were depleted further in April than replenished.

The result is, as we enter May, a month closer to next winter, gas storage levels even lower than before, and a packed summer maintenance schedule, the pressure is on to get levels back up to a healthy position. This element of risk is being priced into medium term prices.

UK restrictions continue to ease, but situation in India monitored closely.

April saw phase two of the four step plan to normality take place on schedule, with outdoor hospitality, outdoor rule of six, gyms and retail open back up. The fact we are on track with the timeline puts positive optimism into the markets that the 21st June target of little to no restrictions will be met, boosting the economic and energy recovery outlook.

A fly in the ointment to this positive outlook, is the fast developing situation in India on Covid-19 cases, with 300,000 + daily cases, and those are just the recorded ones. Brent crude prices are affected the most with these reports, with India being the 3rd largest oil importer, and has a times dropped in price with these reports. This is one to monitor next month should the situation in India develop further.

Monthly Graphs

Graph 1: Wholesale 12-month forward gas prices for 2021 to date



Graph 2: Wholesale 12-month forward power prices 2021 to date



Outlook

Prediction and key events for the month ahead

How high can Carbon go?

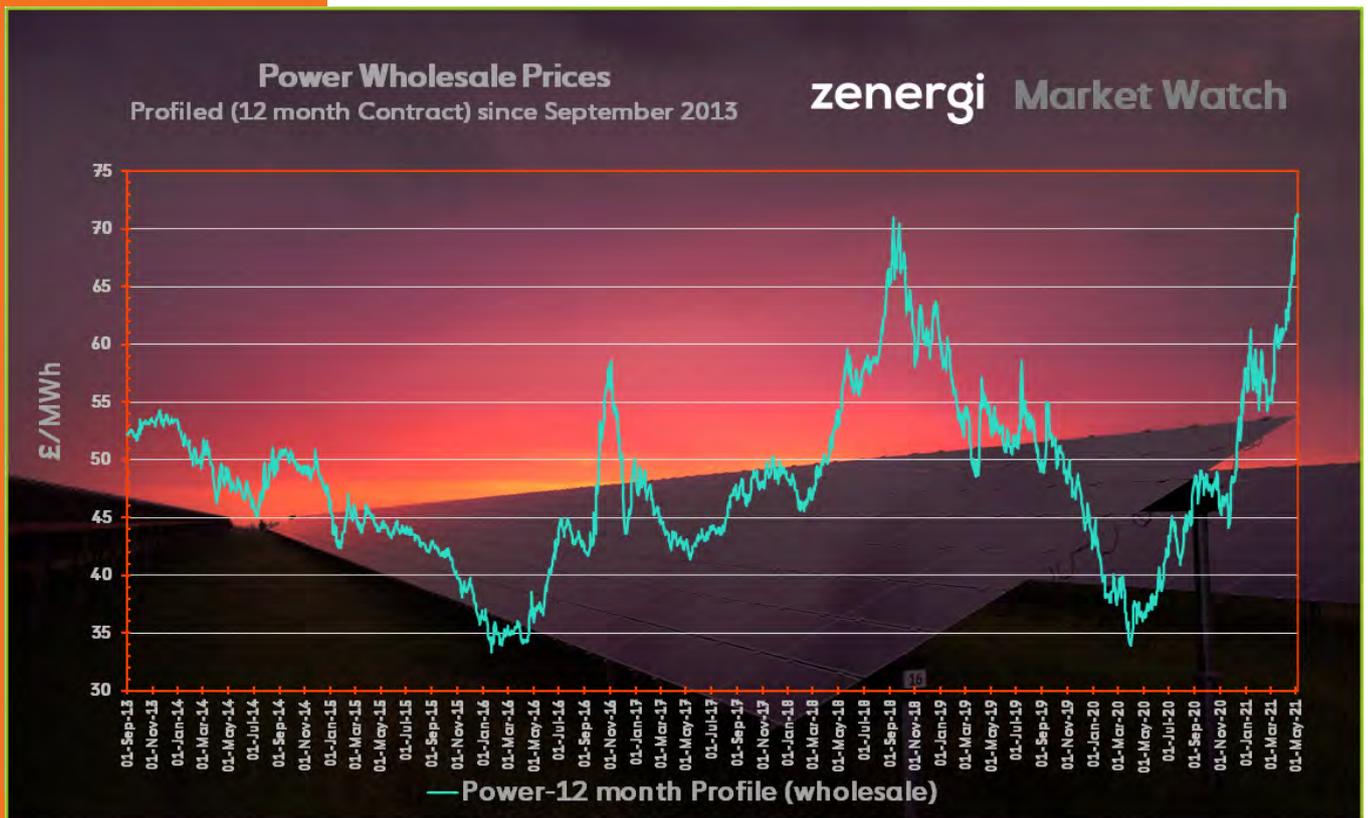
Carbon EUA is likely to continue its bullish trend in May, but just how high can it go after its serious hike in value in a very short space of time? It is open to debate, but at present it does not look like slowing down any time soon. Movements in this market will have a big impact in shaping the month ahead.

Further unlocking progress

Stage three of the easing of restrictions is due to take place on the 17th May. Confirmation of it proceeding will reinforce optimism priced into the markets, and could push them higher still.

Indian covid-19 variant is here in the UK. But how worried should we be?

Cases of the Indian variant are confirmed in the UK and growing at a fast rate compared to the other strains. However it is unclear just what impact this will have long term, with only preliminary data so far. We should know much more next month but this is a situation to keep an eye on.



Recommendation

As mentioned at the start, and illustrated on the above graph, wholesale prices are now at a level eclipsing the 2018 peak. The tricky situation is, between now and October, there is no guarantee of a significant dip, and equally a chance prices move higher. Anyone with renewals 2022 beyond, have much more time to ride this period out. For those with 2021 renewals, it would be our recommendation to consider a shorter term contract option, or flex, allowing you to capitalise better on a change of direction of the markets.

The report is based on our educated opinion taken from publicly available data. This is not a guarantee on future price movements, market prices can go up or down unexpectedly