

Wholesale Markets



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Analysis of wholesale markets

December
2020

Downward
price driver



Upward
price driver



Gas 21.8%



Power 18.2%



Short Term: Bullish

With Brexit concluded and the uncertainty over, the vaccination campaign well underway and a cold Winter outlook, the markets are likely to show strength and rise in price.

Long Term: Bullish

Confidence that the UK will be one of the first European nations to see its economy rebound being at the forefront of vaccinations, prices should strengthen long term.

Bitesize Snapshot

- Wider fuels higher in price ↑
- OPEC + Production cut in place ↑
- LNG schedule reduced ↑
- Colder temperatures ↑
- Storage levels reduced ↑
- Brexit deal breakthrough ↑
- Vaccine breakthroughs and roll out ↑
- Global economic slowdown ↓
- Third national lockdown announced ↓
- Nord Stream 2 pipeline construction recommences ↓

Price Change from other commodities

Commodity	Value 01/12	Value 31/12	
Brent Oil	\$47.42	\$51.80	+9.2%
EUA Carbon Dec 20	€28.86	€32.72	+13.4%
Coal 2020	\$60.79	\$68.85	+13.3%
Pound/Euro Cross rate	£1.11	£1.11	0%

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

December 2020

Review of market movements over December

Gas and Power prices have both seen remarkable strong price rises over December, with gas and power prices around 1/5 higher in value from start till end.

Key Drivers

A cold December

The most basic and important aspect to affect demand is the weather, and while there were no significantly colder days, mid December onwards saw a sustained spell of cooler weather across the UK to keep gas demand in particular above average during this period and pushing near and medium term prices up.

Brexit trade deal last minute

On the 24th of December, the UK struck a last minute trade deal between the EU, concluding years of negotiations. Leading up to this point, a deal felt out of reach with only one week to go on the deadline, and did create shock waves in the markets. Boosted by certainty, prices rallied upwards and the Sterling (£) trading strongly. The deal was voted through parliament on the 30th, another key moment which moved the market further upwards.

Mass vaccination roll out begins

On the 8th of December, the first vaccine outside trial conditions was administered in the UK with the rollout of the Pfizer/BioNTech vaccine. Since then, the vaccine campaign has been moving at breakneck speed, with the Oxford AstraZeneca being approved by the MHRA on the 30th December. This announcement shortly led to another, that the government aims to have the top four priority groups vaccinated with a first dose by the 15th February, requiring 2 million a week. Economic confidence is growing that UK can emerge as one of the first countries to bounce back as it moves significantly faster than other nations, helping to support a rapidly rising wholesale market.

UK enters third national lockdown

The end of December saw a number of areas enter tier 3 and 4 restrictions as a new 'Kent' variant of Covid-19 is identified as 50 to 70% more infectious begins to become widespread throughout the UK population, particularly where it first emerged in the South East. The new tier system was not to last long however, with the government announcing a third national lockdown on the 4th January which can last till the 31/03/2021, and to be reviewed mid-February. This announcement did cause prices to drop by a large margin initially, however, unlike the last two lockdown's, its effect was short lived and prices rebounded stronger with other inputs still pushing up prices just a couple days later on.

Monthly Graphs

Graph 1: Wholesale 12-month forward gas prices for December



Graph 2: Wholesale 12-month forward power prices for December



Outlook

Prediction and key events for the month ahead

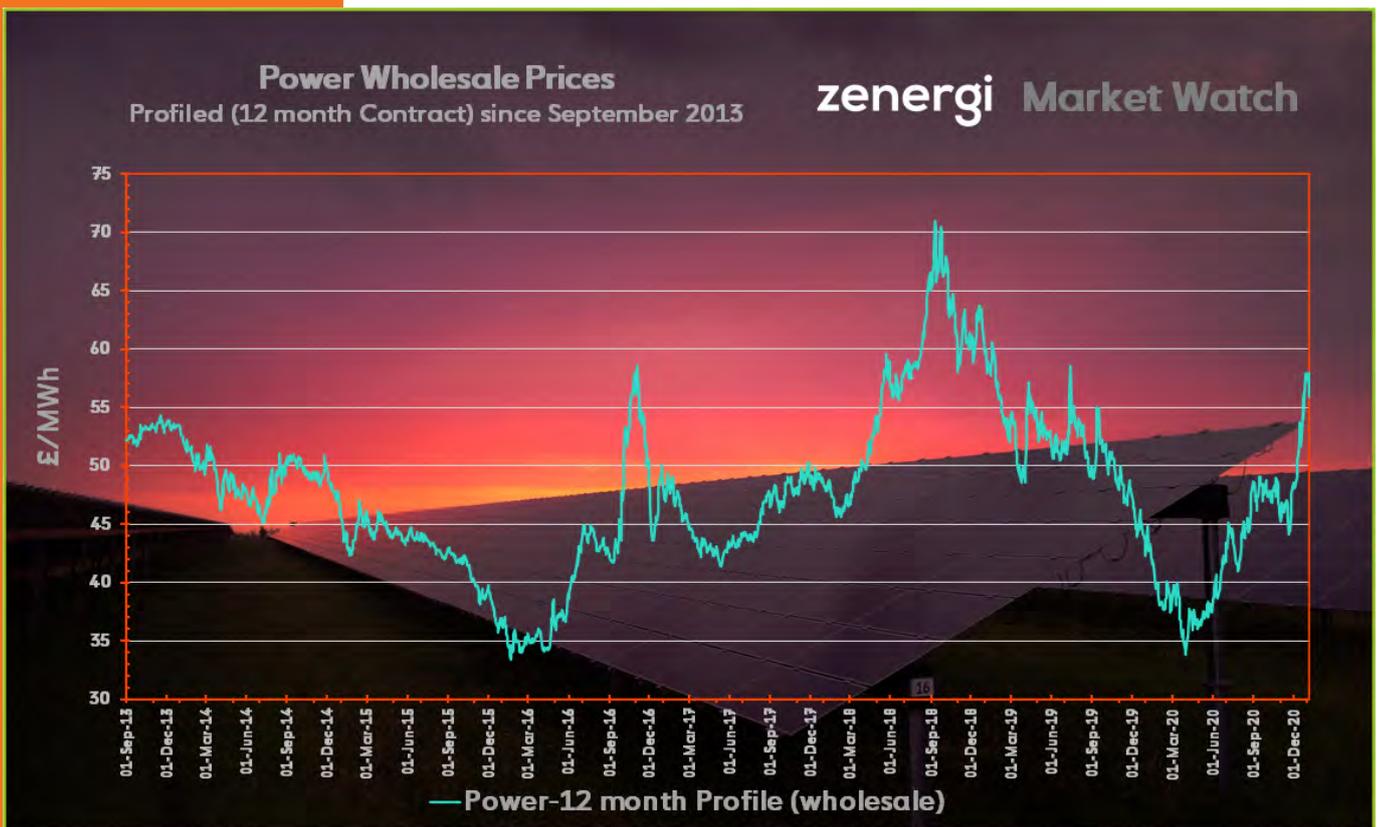
Will a third lockdown and vaccinations turn the tide?

Currently, record number of daily infections and deaths are being reported from Covid-19. The markets are optimistic the vaccine campaign will be a success, pricing in premiums from the medium term. The short term through January however are widely expected to be difficult and lockdown measures are expected to tighten not ease if any changes are made.

Weather outlook for January

January is starting the month below seasonal average temperatures, before returning to normal levels. Gas storage levels have been increasingly relied upon with a reduced LNG schedule, and any cold snaps will leave the market exposed to cold weather risk this month.

Graph 3: Wholesale power prices from 2013 to date



Recommendation

As the graph above illustrates, we are at a high point in the market now, however notably still well below 2018 levels. With prices anticipated to rise further throughout January, anyone with upcoming renewals in the short term are placed in a tricky situation. Bite the bullet now, or risk further price rises in the hope the market dynamic changes downwards soon.

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