

# Wholesale Markets



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# Analysis of wholesale markets

February 2021

Downward price driver



Upward price driver



Gas -4.2%



Power 1.2%



## Short Term: Bullish

With a roadmap out of lockdown proposed and wider energy fuels picking up momentum, prices are likely to rise short term.

## Long Term: Slightly Bullish

Strong economic recovery projected over the long term will increase demand for energy and will be an overbearing factor likely to keep prices trending upwards.

### Bitesize Snapshot

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

### Price Change from other commodities

Commodity	Value 01/02	Value 01/03	
Brent Oil	\$56.35	\$63.69	+13%
EUA Carbon Dec 20	€32.85	€37.13	+13%
Coal 2020	\$66.25	\$69.27	+4.6%
Pound/Euro Cross rate	£1.13	£1.15	+1.8%

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

February 2021

## Review of market movements over February

Wholesale prices have seen an interesting split between gas and power prices in February, with gas down over 4% while power recording a marginal gain. With the two markets so closely correlated, this happens very rarely, and one of the key drivers below could explain why:

### Key Drivers

#### **Extreme cold spell in Texas forces production facilities to close**

The middle of February saw the U.S.A grappling with an extreme cold snap, with over 70% of the nation covered in snow and ice at one point. One of the states most notably affected was Texas, with production facilities for gas and oil closing as a result and restricting global supply. The UK had already overcome its own cold snap when this occurred, so was less impacted on wholesale prices, but it still contributed to the strong gains we are seeing in the wider energy fuels on the international market.

#### **Asia out-competing Europe for LNG supply**

As well as the US, far East Asia was also dealing with its own cold snap, with Japan in particular hit with a brutal snowstorm, one of its worse in decades as the effects of the global weather phenomenon La Nina appears to peak. Along with Asian economies recovering much faster from Covid-19, the result has been the need for LNG imports rising, and more vessels heading to Asia over Europe for a better price. This could be a more long term factor throughout 2021 if the trend continues.

#### **EUA carbon market looks set to break €40 barrier soon.**

One likely factor as to why Power has moved opposite to gas this month could lie in the 13% value increase of EU carbon permits, nearly exceeding €40 now, which directly influences wholesale power prices. The era of these being €5 or lower before 2018 are long gone and it now represents one of the most key drivers on the power markets. Carbon permits as a form of financial punishment for sourcing less 'green' energy and to encourage carbon neutral sources are seen as one of the most key tools in achieving EU emission reduction targets, which were recently made more ambitious.

One key point to note here is as a result of Brexit, the UK will be setting up its own carbon auction house, using the same mechanics as the EU's but possibly at a different price point. It should be up and running in Q2 this year with further details expected soon. It's worth noting last year, Prime Minister Boris Johnson set a UK objective to cut emissions by 68% by 2030, higher than the EU's 55% target.

#### **The 'Beast from the East 2' was tamer than expected**

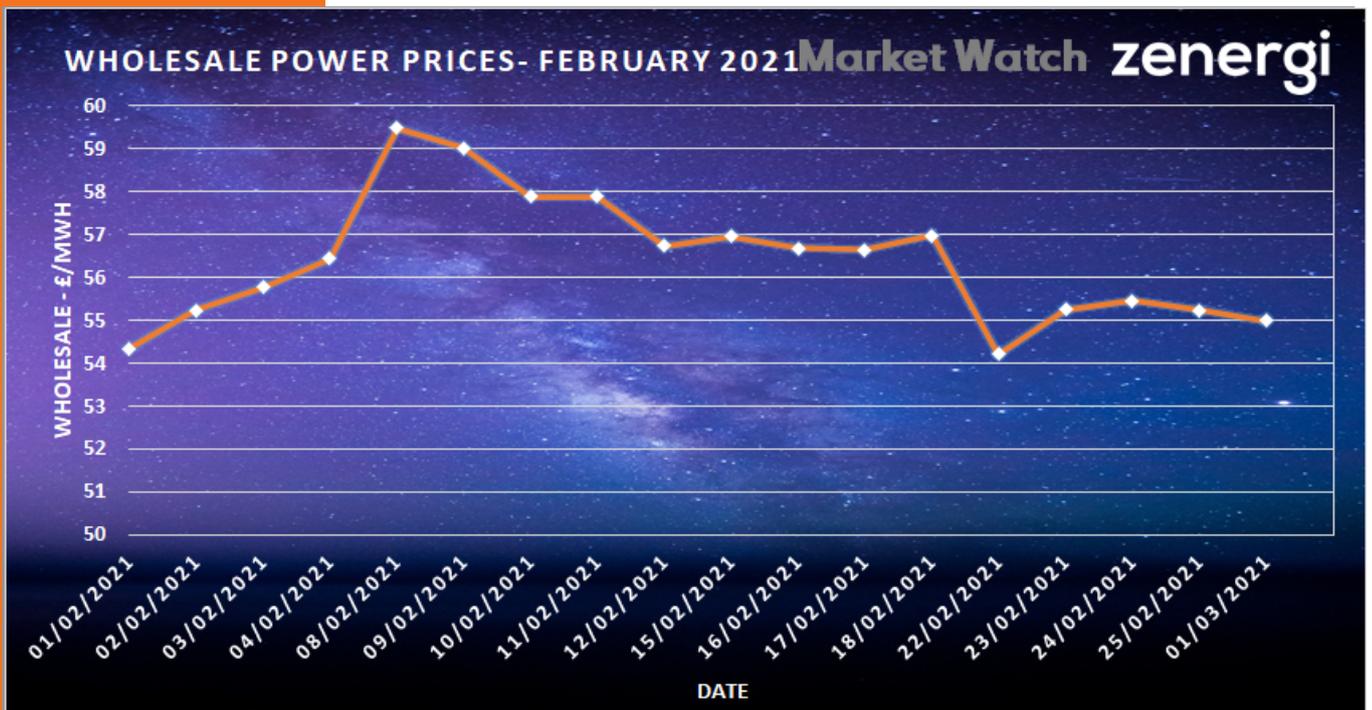
Despite all of the above being bullish drivers, gas prices did in fact fall this month and that's largely down to the fact fears we would see conditions like 2018, however it never quite materialized in reality. Though conditions were still extremely cold for a long spell, the UK system coped remarkably well. They say the sequel is never as good as the original, and this was the case, with less extreme weather putting pressure on gas storage.

# Monthly Graphs

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



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



# Outlook

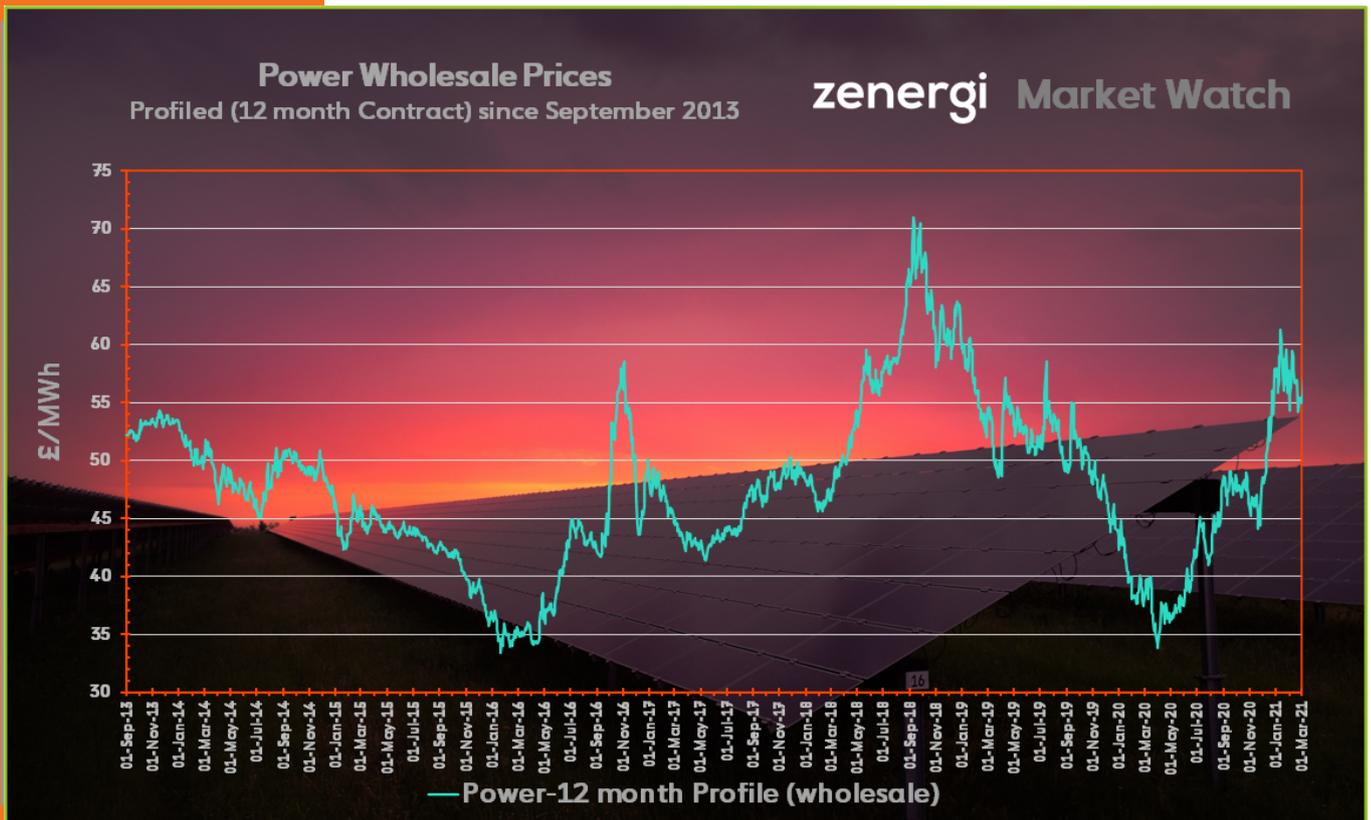
## Prediction and key events for the month ahead

Road map out of lockdown announced. Will we meet target dates? and what could this mean for energy prices?

The country has now been given a clear proposal of a route out of lockdown, with a four stage approach adopted. Each stage has a 5 week gap to assess the impact of lifting restrictions and if the next step can then take place. Phase one is split into two parts for March with children returning to school on the 8th March and some outdoor activities to resume on the 29th March along with the 'stay at home message' ending.

If all goes to plan, which I'm sure we are all hoping for we could see little to no restrictions by the 21st June, which is just 3 months away and we could see a full return to usual energy consumption, and inevitably prices encouraged to move higher.

However, it is not so clear cut and guaranteed there will be no adjustment to the timeline. Any set back could in fact see wholesale prices tumble. With the R number (reproduction rate) of the coronavirus estimated to be between 0.7 to 0.9 nationally and signs of it above 1 in some areas currently, it does not give much wiggle room at present and schools returning could tip the balance against us. We however now have an ace up our sleeves with the vaccine rollout compared to before and almost everything now depends on both the speed of the rollout and effectiveness of these vaccines. What happens in the next few weeks could be fundamental to energy prices.



## Recommendation

Prices are very much in the 'middle of the road' right now. Certainly much higher than they have been in 2020 but equally much lower than the peaks witnessed in 2018, and to a lesser extent 2016 as the graph above illustrates well. Going forwards it would appear there are more drivers encouraging further rises right now. If you are looking at your renewals, our advise would be to pay close attention to any dips and act then. If you happen to have imminent renewals, you may want to consider 'biting the bullet' now, than waiting.

*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*