

Wholesale Markets

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Analysis of wholesale markets

January 2021

Downward
price driver



Upward
price driver



Gas 1.3%



Power -0.3%



Short Term: Bullish

Given the weather conditions forecasted in February, it is likely to be a bullish month for prices and the volatility to continue.

Long Term: Slightly Bullish

The bank of England is confident of a strong economic rebound from Q2 and this will factor into a growth in demand through the year as economic output increases.

Bitesize Snapshot

Wider fuels higher in price ↑

OPEC + Production cut in place ↑

LNG schedule reduced ↑

Colder temperatures ↑

Storage levels reduced ↑

Vaccine breakthroughs and roll out ↑

Global economic slowdown ↓

Third national lockdown in place ↓

Nord Stream 2 pipeline construction recommences ↓

Price Change from other commodities

Commodity	Value 31/12	Value 01/02	
Brent Oil	\$47.42	\$56.35	+18.8%
EUA Carbon Dec 20	€28.86	€32.85	+13.8%
Coal 2020	\$60.79	\$66.25	+9%
Pound/Euro Cross rate	£1.11	£1.13	1.8%

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

January 2021

Review of market movements over January

Wholesale prices have seen very small overall movements from the start to the end of the month, with a slight increase in gas prices and a minimal drop in price for power. You would be forgiven for thinking January was a settled month, but it was highly volatile in regards to price changes, however the end month result is little change overall.

Key Drivers

Weather fluctuations and unclear forecasts

January was a real mix bag when it came to the weather, with unusually warm days followed by sub zero spells as two major weather fronts competed against each other. This complication made weather forecasts unusually hard to anticipate and led to the volatility we witnessed. This factor is still ongoing in February. Overall, January was the coldest it has been in a decade with cold snaps and storm Christoph occurring.

Speed of the vaccine rollout

The UK are very much leading the global effort in vaccinations. Per head of population, only 2 other countries have immunized more as a percentage. What this means for the markets is strong optimism that demand and economic recovery is not far off with restrictions anticipated to ease. All fuel commodities have traded strongly as a result of this in January.

Depleting gas storage levels

Back in the summer, mid range gas storage facilities were very healthy after a mild Winter, at times sitting at 80% capacity. This is no longer the case, and after a cold winter thus far, the UK and much of Europe have had to rely on these reserves. Storage levels are now as low as 20% in areas which has created unease in the markets and speculation if another cold spell is endured, there will be a strain on the grid. It has contributed to the volatility seen.

Oil and Carbon enjoy strong month

As mentioned, all wider fuel commodities had a strong month of trading, but none more so than oil and carbon. Starting with oil, it has been rallied by a lower than expected US inventory stocks, continued production cuts from Saudi Arabia and optimism of demand recovery with the vaccine breakthroughs. Carbon has been trading upwards ever since the UK and EU pledged to more ambitious carbon reduction targets, with carbon permits seen as one obvious method by many to achieve this.

Bank of England positive on Economic rebound

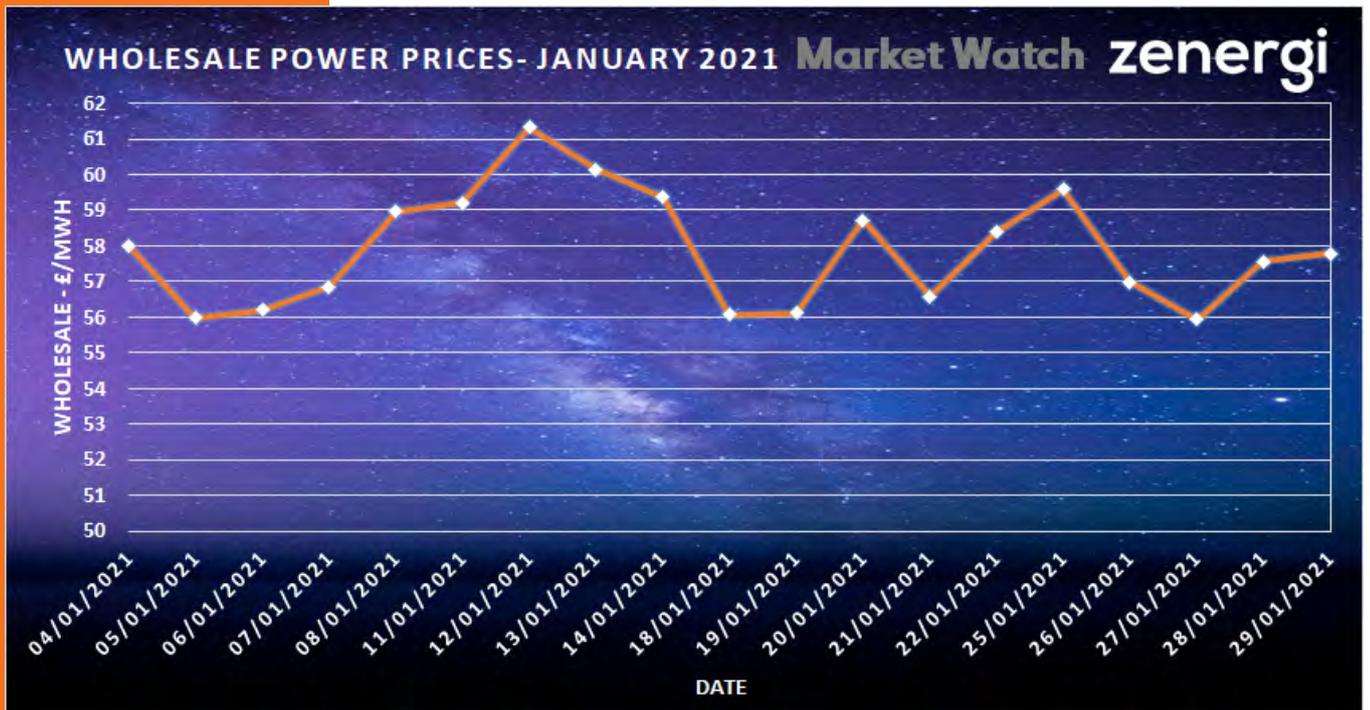
Finally, the Bank of England gave an economic outlook at the start of February, and it was an overall very positive one despite being conservative with its predictions. The economy is still expected to shrink by 4.2% in Q1 due to the national lockdown in place, but very strong growth is anticipated thereafter. This will spur wholesale prices upwards long term.

Monthly Graphs

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



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



Outlook

Prediction and key events for the month ahead

Will the third national lockdown begin to ease in March?

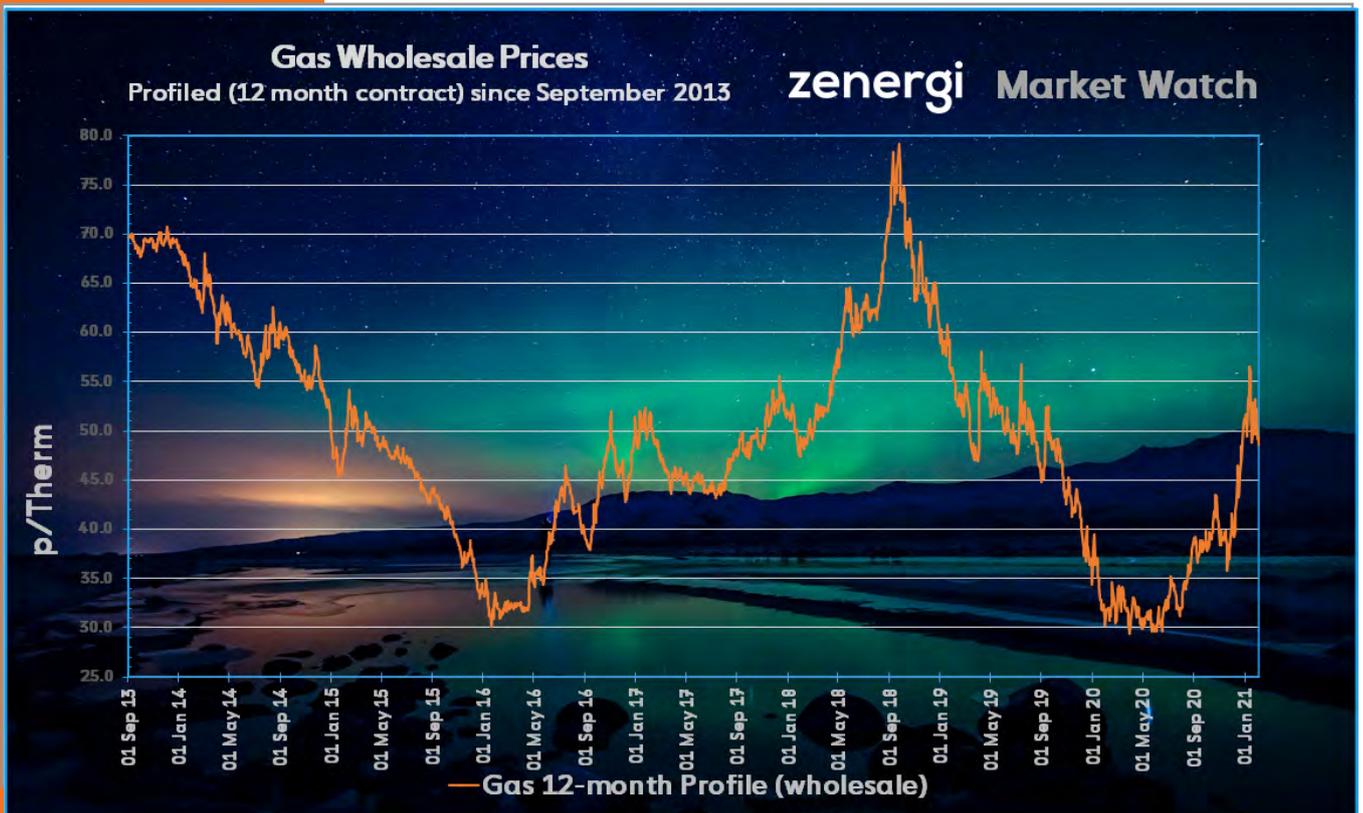
On the 15th February, PM Boris Johnson is due to give more details of a road map out of this 3rd national lockdown. The 8th of March has already been proposed provisionally as a possible return date for schools. The weeks to follow this should detail how restrictions are eased and at what pace depending on infection levels and strain on the NHS.

Weather outlook for February

February has started the month in very cold conditions and is anticipated to be a another very cold month on current forecasts, however wind levels will be much higher than in January to boost wind generation. An additional cold snap is not out the question and is one to watch out for.

UK budget on the 3rd March

A key date to watch out for is the 3rd March when Rishi Sunak will be releasing the spring budget, with a mind-boggling array of problems and tough choices ahead of him. The 'green industry' will be a key section that will directly impact the energy sector with policy choices.



Recommendation

February is shaping up to be another very volatile month for wholesale prices, with uncertainties on the weather and major political dates and events in the near horizon. It is therefore a more high risk time to be active in the markets, but with the overall long term trend looking upwards for prices, any dips we see could still be a great time to secure your position.

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