

Wholesale Markets



Analysis of wholesale markets

May 2021

Downward price driver



Upward price driver



Gas 7.9%



Power 7.3%



Short Term: Flat

After a recent record high, the market has pulled back slightly, and may trade sideways for a while in the short term as bullish and bearish fundamentals balance each other out.

Long Term: Slightly Bearish

We have seen strong price gains over the last few months. It will take a lot to now sustain it at these levels, particularly power prices, so we may see a shift to slightly bearish movements long term.

Bitesize Snapshot

- Wider fuels higher in price ↑
- Carbon EUA hits another record high ↑
- OPEC + Production cuts remain ↑
- Colder seasonal weather ↑
- UK restrictions easing ↑
- Low gas storage levels ↑
- Vaccine breakthroughs and roll out on track ↑
- Summer maintenance due to start ↑
- UK restrictions take stage three steps in easing ↑
- Busy LNG schedule ↓
- New 'Delta' coronavirus strain in the UK ↓

Price Change from other commodities

Commodity	Value 30/04	Value 31/05	
Brent Oil	\$67.25	\$69.32	+3%
EUA Carbon Dec 20	€48.84	€51.70	+5.9%
Coal 2020	\$76.10	\$80.85	+6.2%
Pound/Euro Cross rate	£1.15	£1.16	+0.8%

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

May 2021

Review of market movements over May

Wholesale prices have moved higher for the third successive month in May, but at half the rate of April, there are signs that the rally up is finally slowing down. Power prices reached its highest point seen at the very peak of May, eclipsing the peaks of 2008 and 2018, before tailing off slightly to end the month.

Key Drivers

Carbon EUA's break €50 mark

Newfound heights were reached in May, with carbon permits moving higher once more. There are signals it is finally losing steam, with its momentum slowing in recent days. Long term, this is a market that is likely to only go up as one of the main tools to encourage renewable energy development and uptake to meet key climate targets.

A very cool May overall

Like April last month, May for the most part was much colder than the seasonal average expected. It meant demand, mainly for gas did not drop off as it usually would, with central heating still required in periods across the country at times. The colder weather also meant storage injections could not take place as planned, though levels did increase slightly from 8% to 11% to end the month.

Brent crude hits highs not seen since 2018

Brent crude oil touched just below \$70 a barrel to end the month, which is its highest price seen in three years. Brent has been pushing slowly upwards for a few months now consistently gaining value, driven by demand recovery as well as a surplus of stock levels now depleted. Despite some suggestion OPEC would end its production cuts, it has also maintained it throughout, and has already announced it will continue to do so for June.

UK restrictions continue to ease, with stage three taking place

Despite a late scare due to the arise of the growing cases of the Delta variant (formally known as Indian), England proceeded with its stage three unlocking on the 17th May as planned. Large parts of the economy, including indoor venues have now been able to open, boosting optimism that pre-pandemic demand levels are not far off. There is already data encouraging the markets, such as traffic volume now back up to 2019 levels. While no one has been looking forward to rush hour and traffic jams returning, it suggests, at least domestically, that normal unrestricted times are a step closer.

Helping the country throughout this journey has been the speed of the vaccine roll out, which has been widely praised to date as a major success. Three quarters of all UK adults have now had at least one dose with the plan to have every adult offered a vaccine by July still on track. It is a further signal to the markets of a positive demand outlook ahead which is being priced in.

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

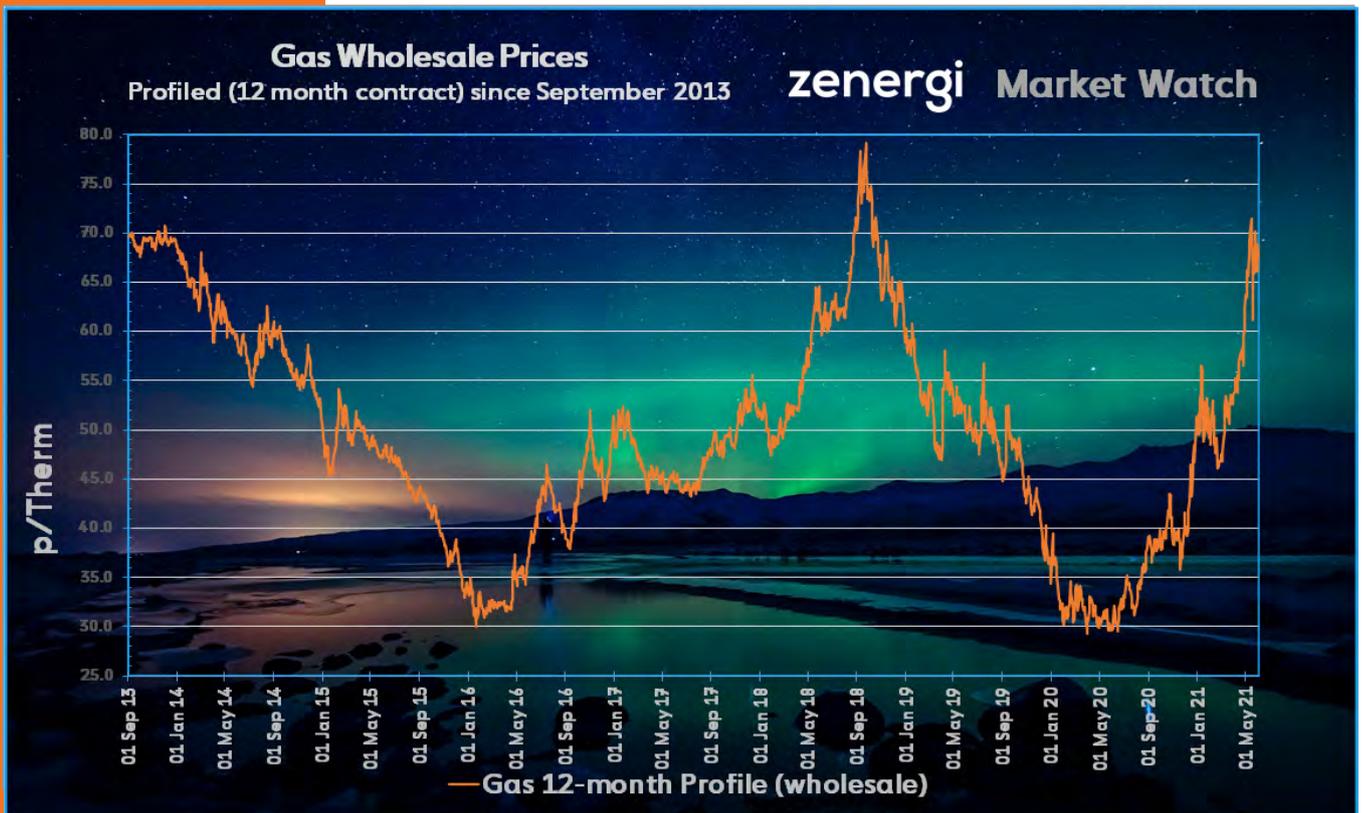
Prediction and key events for the month ahead

How rapid will storage replenishment be?

One of the main bullish factors right now is the fact gas storage levels in the UK are still very low. June is often a big month for replenishing levels, and anything above and beyond what was expected, could bring down the price of the lofty Winter 21 month periods. A busy LNG schedule could bring an opportunity for this.

Will the fourth and final unlocking stage take place?

The 21st June is marked as the final unlocking date on the road map made back at the start of the year. At this time of writing it is very much seen as going either way, with the new Delta variant doubling in cases every few days, but hospitalizations at one of the lowest since the pandemic began in the UK, the government has a big call to make. The markets will no doubt react to any decision, either bearishly or bullishly on the outcome.



Recommendation

The markets have risen for another consecutive month, however towards the end of the month there were signs it is losing momentum. That could change quickly though as we all know, but should nothing dramatic happen, we can't see the market pushing much higher over the summer months. It could however hold its value and fluctuate, so its not so clear cut to simply wait if you have your renewal approaching. Like last month, if fixing, our advise would be to try and secure your contract during any notable dips.

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