

Wholesale Markets



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Analysis of wholesale markets

August 2021

Downward
price driver



Upward
price driver



Gas 19.8%



Power 16.4%



Short Term: Bullish

The run up to October is expected to be bullish with heightened trading activity, which the historical data shows at this time of year.

Long Term: Slight Bearish

Past October, when trading activity cools off, we could finally see bearish sentiment in the markets. The overall long term trend will be very dependent on the outlook of next winter's weather conditions.

Bitesize Snapshot

- Unplanned outages at Norwegian facilities ↑
- Coal up 20% in August ↑
- Delay and red tape over Nord Stream 2 ↑
- Depleted gas storage levels in Europe ↑
- No LNG deliveries to UK in August ↑
- Vaccine roll out hits 88% of adults ↑
- Lack of gas capacity purchased in East Europe ↑
- Summer maintenance underway ↑
- Carbon permits hit new highs ↑
- UK gas storage levels reach 83% up from 27% ↓
- Growing covid-19 cases in UK as we enter Autumn ↓
- Nord Stream 2 still expected to be completed in 2021 ↓

Price Change from other commodities

Commodity	Value 30/07	Value 31/08	
Brent Oil	\$76.33	\$72.99	- 4.4%
EUA Carbon Dec 20	€53.33	€60.76	+13.9%
Coal 2020	\$95.30	\$114.75	+20.4%
Pound/Euro Cross rate	£1.17	£1.16	- 0.9%

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

August 2021

Review of market movements over August

August has been a mammoth month in wholesale price rises, with power up over 16% in value and gas seeing a near 20% rise in value. We last saw rises like this as recently as in June. Since the start of 2021 wholesale gas prices are up 142% while Power is up 93% in what has been a testing year in the markets. Here's what happened over August:

Key Drivers

OPEC ease production cuts

Despite this month seeing a very large rise in prices, August actually started off in a downward trend, and this mainly due to the start of the oil production restrictions by OPEC easing, with an additional 400,000 barrels being produced a day as demand ramps up and travel resumes in many areas across the world.

The result has been, that Brent Crude has been one of the few energy commodities to lose value in August, down 4.4% this month, going against the trend.

Summer maintenance and outages take their toll

The summer season is often the busiest for maintenance work on the gas networks in the UK and Norway while demand should be at its lowest. This year has been further enhanced by the covid lockdown backlog of 2020, with the majority of the work pushed forward to this year. This has meant at times that gas flows into the UK have been severely restricted at times while this essential work takes place.

Compounding this is the fact we saw several unplanned outages over the month with outages on Troll and Oseberg a frequent occurrence, as well as a fire at a major gas processing plant in Russia, restricting flows into Europe.

Where did all the LNG tankers go?

Just two years ago, we were receiving a record amount of LNG imports with the frequent tankers a major part of our gas source into the UK. Now, in August 2021 we received nothing here in the UK and Europe did not do much better. Such a drastic shift helps to explain just why prices are so incredibly high right now, with one of our key sources effectively wiped out.

Hurricane Ida did not help this month, as it hit the Gulf of Mexico, forcing gas and oil production to halt and canceling LNG shipments due to leave the US.

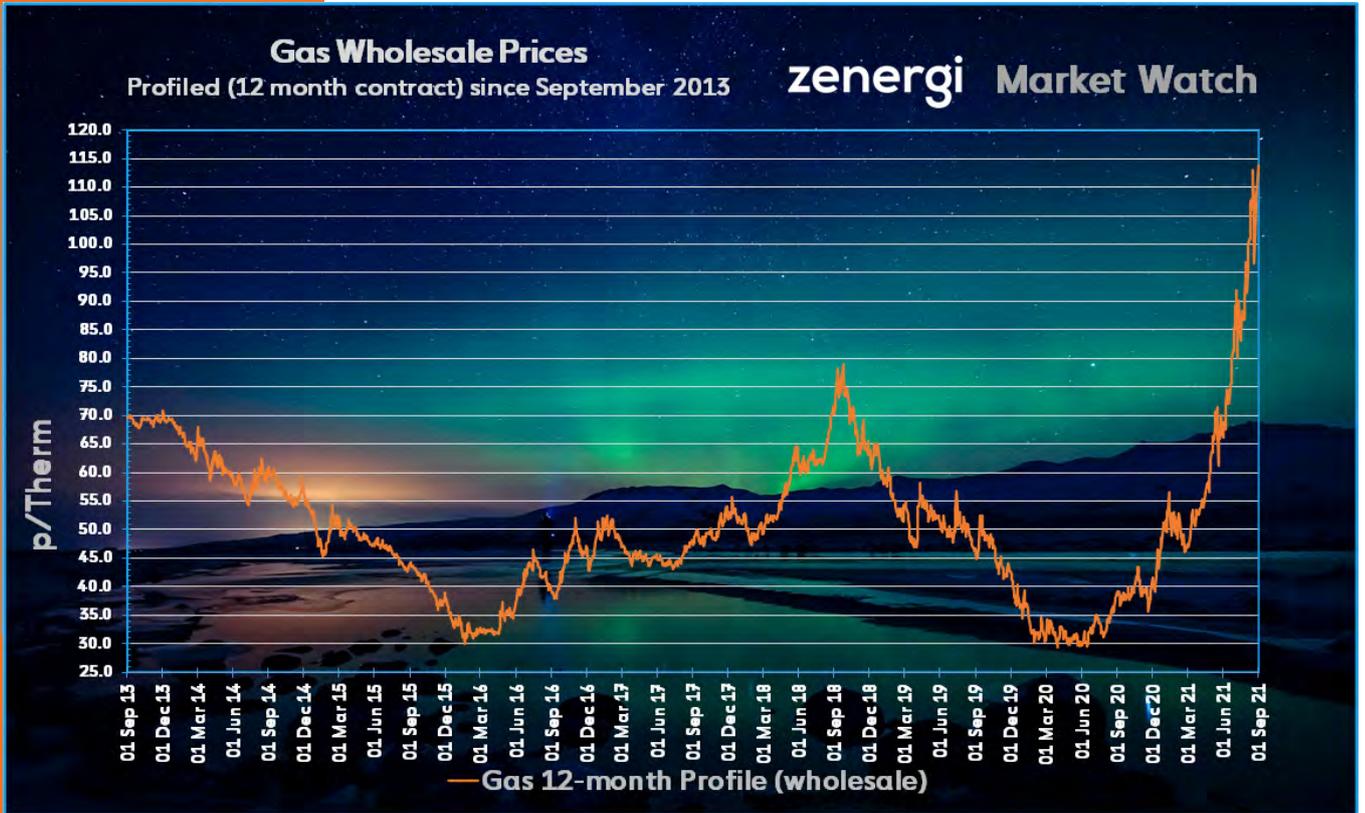
Weak wind generation meant renewables could not save the day

August was a particularly weak month for wind generation, resulting in a greater reliance on gas and even coal at times to generate power. Due to the high valuations of gas, the UK opted to turn on its one coal plant through most of August, when in recent history, coal has not been needed at this time of year. It poses the question once more on motives. What's really more important, net zero targets or financials? The lack of wind generation, which is the biggest renewable source in the UK helped push prices up throughout the month.

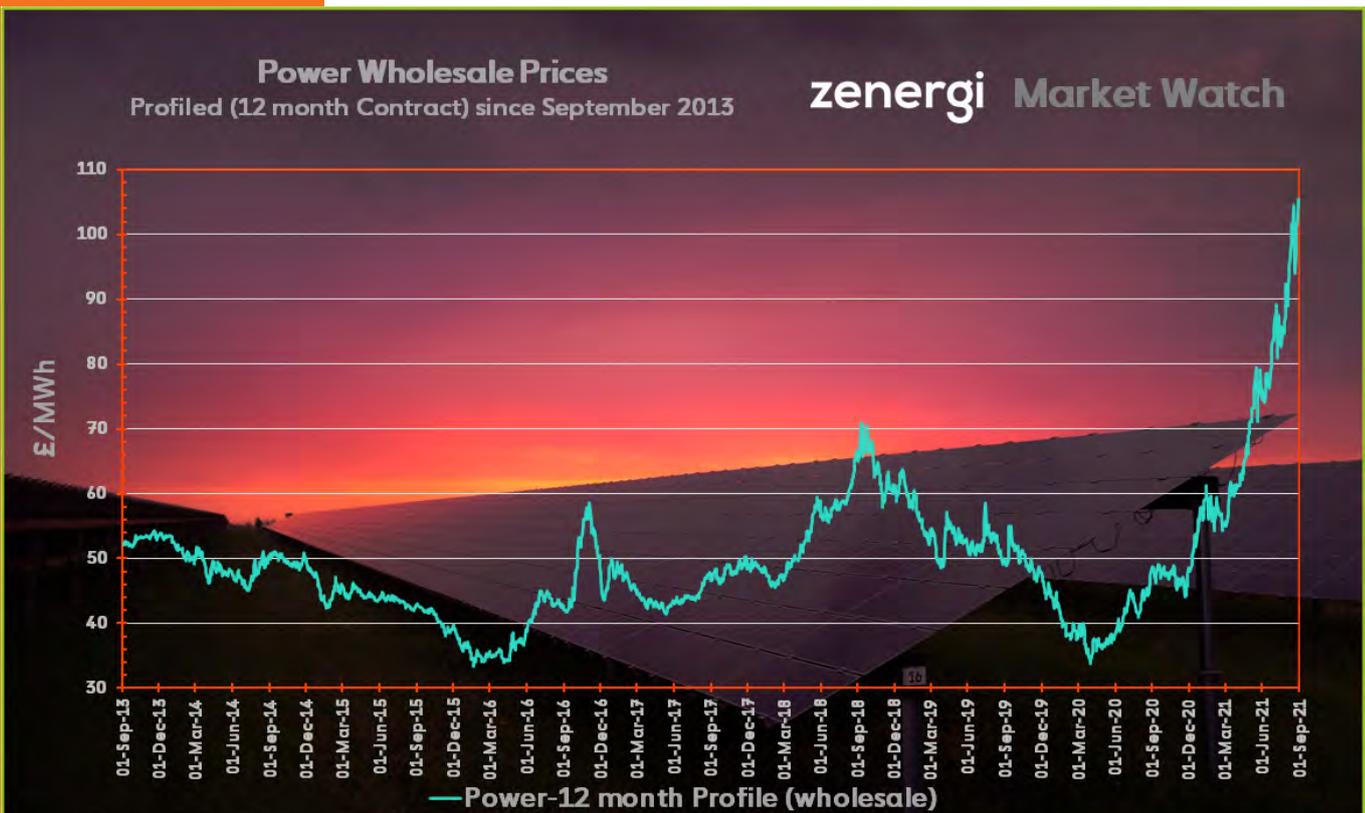
This also highlights, that while Renewable energy is clearly the future, its unreliable compared to fossil fuels, and this unreliability is its current weakness. If renewables are to become a greater part of the energy mix, the UK must look at ways to overcome this, such as battery storage technology, and advancements in nuclear energy (which is a constant source).

Long term Graphs

Graph 1: Wholesale gas prices 2013 to date



Graph 2: Wholesale power prices 2013 to date



Prediction and key events for the month ahead

Can the UK improve its supply picture?

August was a very bumpy month for gas supply, but with the peak of the maintenance work over, can the UK return to a more stable flow of gas through the grid? This would help calm the volatility of near term and day ahead prices we have been seeing.

Will the UK see any LNG imports?

The good news is that three tankers are destined for Europe, one of which from Qatar is expected to arrive at the UK this month. However, when I wrote last month's report, we had 5 on the books which did not materialise. So while this is somewhat promising, 'don't count your chickens before they hatch' as they say. Even if the UK did see three vessels dock, you could argue this is still low levels, but an improvement on last month none the less.

Schools back. What will happen to Covid-19 cases?

Like the markets, Covid-19 cases have been steadily rising through the month as we all enjoy life without restrictions. With the schools, colleges and Universities all returning in September, what will this do to the case numbers, and more importantly, the number of people in hospital? Remember, the vast majority of children are completely unvaccinated and UK hospital beds are at 85% capacity (only 7% of which due to Covid), which does not leave much wiggle room. While children are of course very unlikely to be at risk, it's the transmitting over to older adults that has scientists concerned.

Should restrictions have to be reimposed, what will this do to energy consumption and usage habits? At the moment the government message is it has no intention to reimpose any restrictions, but we have heard that before haven't we.

Will Nord Stream 2 outlook become clearer?

With its completion date continually pushed back, it has not helped with the price rises we have seen this year, and often spurring them on to rise further. Nord Stream 2 is seen as the a major solution to the tight gas supply at the moment in Europe, and the sooner it becomes operational, the quicker it could alleviate supply concerns.

While some may point that this only increases the reliance of supply from Russia, there are currently not many other short term options available to Europe right now.

Recommendation

Just like the last few months, we now sit at another record high in the markets, with many people asking, "just how long can this go on for". The bad news is we are expecting September to be no different as activity in the market grows for the October Renewals. Past October, we could finally see a shift in market movements, but there is a lot to play out and many macro factors in play. If your contracts are up for renewal in October-21, you have no choice but to commit now, but our recommendation for those with time on their side, is to ride this month out and reassess next month what the outlook looks like.

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