

Wholesale Markets

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Analysis of wholesale markets

September
2021

Downward
price driver



Upward
price driver



Gas 70%



Power 66%



Short Term: Bearish

After an extremely fast run up in prices towards the end of September, we would expect to see at least a correction in valuations in October.

Long Term: Slightly Bearish

The winter months are coupled with uncertainty, but past that, we expect prices to begin to drop off from current levels in 2022 once we pass the winter period.

Bitesize Snapshot

Fire outbreak at key IFA-1 Interconnector ↑

Coal up 64% in value September and greater part of UK energy mix ↑

Delay and red tape over Nord Stream 2 ↑

Gas storage levels below 5 year average in Europe ↑

Heighten trading activity upon October renewals ↑

Initial projections of a colder winter ↑

Lack of gas capacity purchased in East Europe ↑

Maintenance work still ongoing with outages ↑

Carbon permits hit new highs ↑

Oil approaches \$80 a barrel as OPEC keep cuts in production ↑

Lowest wind levels since 1963 ↑

Hurricane Ida causes disruption in the gulf ↑

French Nuclear reactor outages ↑

UK gas storage levels reach 100% ↓

Nord Stream 2 still expected be completed in 2021 ↓

Price Change from other commodities

Commodity	Value 31/08	Value 31/08	Value change
Brent Oil	\$72.99	\$79.28	+8.6%
EUA Carbon Dec 20	€60.76	€62.04	+2.1%
Coal 2020	\$114.75	\$167.95	+46%
Pound/Euro Cross rate	£1.16	£1.16	0%

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

September 2021

Review of market movements over September

It was an unprecedented month in September for wholesale energy prices, that will go down as a historical period in time. It is not a typo that gas prices moved 70% higher, and power just behind with 66% gains, both further extending the record breaking valuations. There is plenty to go through, as to why September 2021 became the perfect storm:

Key Drivers

Fire puts IFA1 inter-connector out of action

On the 15th September, a large fire broke out at our largest interconnector, putting half of its 2GW out of action for one month, and the other out of action till March 2022, adding to the energy crunch, and sending wholesale prices dramatically higher with the unexpected disruption.

Nord Stream 2 unlikely to be operational this year

News broke in September, that GazProm would not be flowing additional capacity along Nord Stream 2 if it gets up and running this year. The markets reacted bullishly, as it was hoped NS2 would alleviate the tight European supply.

Hurricane Ida forces oil and gas platforms to shutdown in the Gulf of Mexico

290 offshore facilities were evacuated as a Category 4 Hurricane Ida caused disruption and damage to oil and gas refineries in the US. The impact for the UK and Europe, was disruption to LNG shipping, with cancellations and delays to cargo vessels, raising wholesale prices.

Weak wind generation comes at the worse time

The UK suffered from a drop in wind power output in September, with output drastically lower than seasonal norms. The UK, which prides itself on wind capacity produced less than 1 GW of wind power on several days, compared to the average output of 24 GW. As a result, we had to fire up our coal plant to meet demand, with current coal prices soaring, resulting in a very expensive source of energy, which passed onto wholesale electric prices.

It is a reminder that, while renewable sources of energy are key to the future and our planet, you cannot guarantee that the sun will shine, and the wind will blow, which is why additional solutions are required.

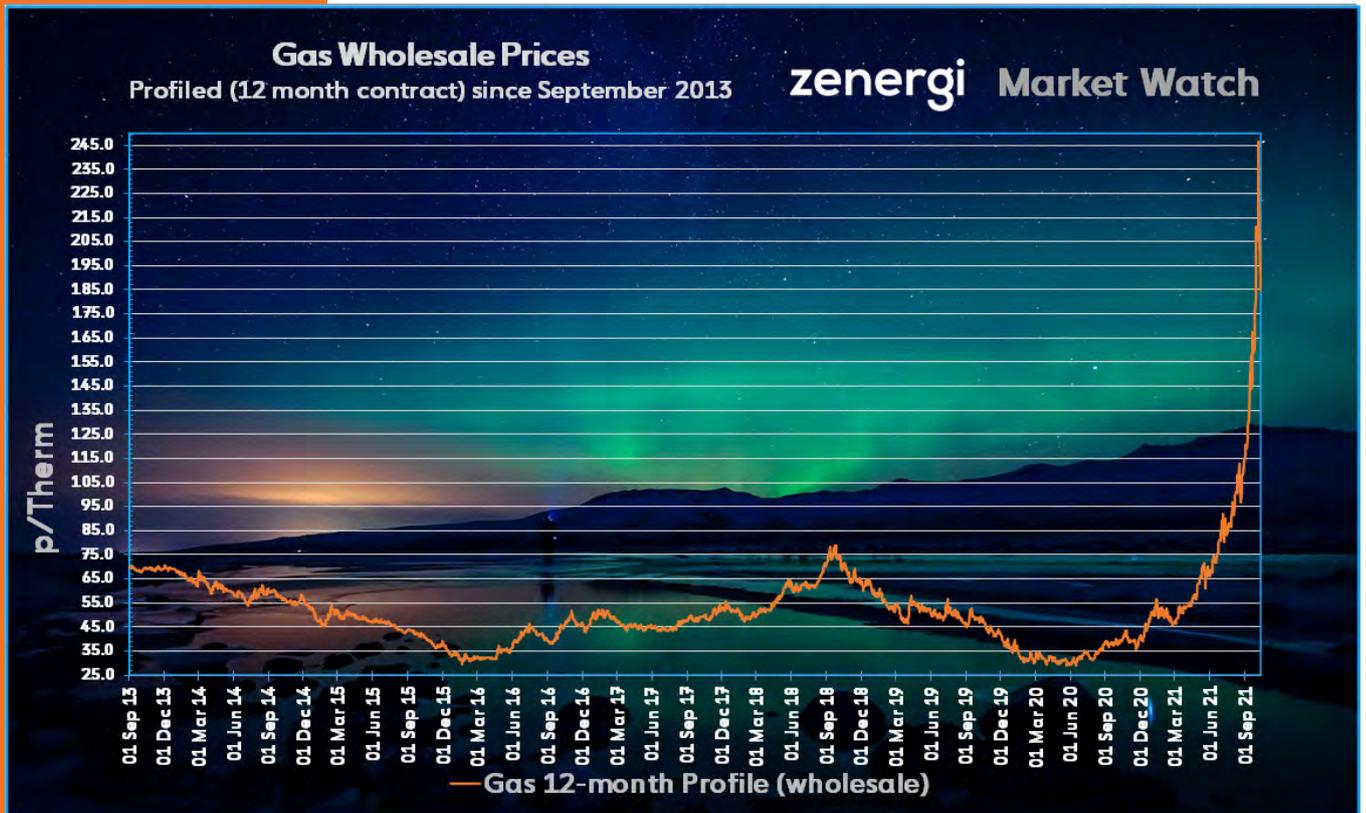
Carbon & Oil prices make steady gains

In the background of major instances, oil and carbon prices have steadily been rising throughout the month, with Brent approaching \$80/barrel. Both are being driven by greater energy demand as the world continues to awaken from lockdowns across the world. OPEC have also continued to reinstate production cuts into October, despite current valuations.

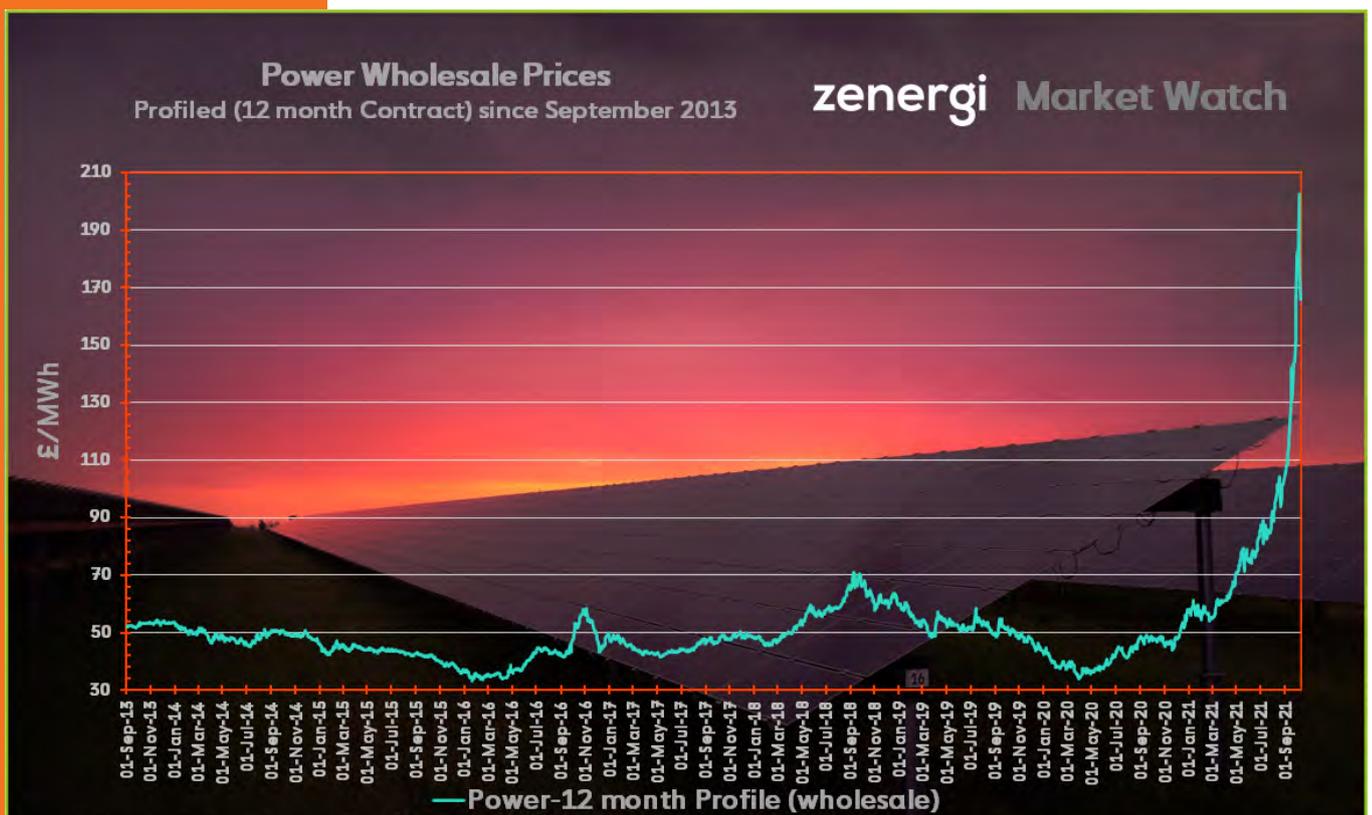
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Long term Graphs

Graph 1: Wholesale gas prices 2013 to date



Graph 2: Wholesale power prices 2013 to date



Prediction and key events for the month ahead

Will markets correct after buying bottleneck?

The run up to September is always a busy period of purchasing with October renewals and default purchases. This created a bottleneck of purchases, with many holding out in the hope prices came down, which never occurred, adding to the trading activity, and pushing prices higher. With October now out the way, activity in the markets should cool off, and we may see a correction from the recent run up.

Will Russia come to Europe's rescue?

It is well stated that mainland Europe is very reliant on gas supply from Russia and this over reliance is proving to be why we are seeing such a tight supply, with supply from Russia decreased this year and alternative sources hard to come by. The UK has a bit more diversity with supply from Norway, but we too are impacted by the tight supply.

There is growing talk of Russia boosting supply output soon, and if so, could be the catalyst to bring down prices if consistent supply can flow into Europe.

How is the winter shaping up?

Current preliminary weather runs are suggesting a winter on the cold side, which is just one of the many reasons prices have raced up. These are early-stage reports, subject to change. We should have a better outlook of this winter as we get towards the end of October and if the early-stage reports hold true. Which way these swings could have a massive impact on prices both ways.

Covid cases to continue holding steady?

Covid cases are trending upwards, but fairly slowly, and the better news is with hospitalisations, which as of writing are holding very steady. While we are still just in Autumn, at present, returning restrictions are unlikely, certainly for October at least. If we can get through the whole winter without imposing any will be the greatest challenge. Any restrictions imposed would normally result in reduced demand and lower wholesale prices.

Recommendation

Having just experienced the fastest moving month on record and prices further extending record breaking levels, volatility in the market is extremely high, and this may last for the winter period. Despite a correction in the last few days, prices remain extremely high, and our advice at the minute would be to avoid activity at the moment until at least prices settle or to look at short term options. If your contract renewal is approaching in November or December, we monitor prices daily, and our sales team will try to recommend the best suitable day in a challenging period in the markets.

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