

Wholesale Markets

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Analysis of wholesale markets

November 2021

Downward
price driver



Upward
price driver



Gas 34%



Power 35%



Short Term: Volatile

Large price swings are expected in the short term winter period, with supply in Europe delicately posed, and a number of unknown outcomes yet to play out.

Long Term: Bearish

The valuations we are seeing today, are not expected to be sustainable in the long term. Once fundamentals are factored in more, which they always eventually are, we should see a correction in prices.

Bitesize Snapshot

- Delay and red tape over Nord Stream 2 ↑
- European Gas storage levels below 5 year average ↑
- Colder winter taking shape ↑
- Lack of gas capacity purchased in East Europe ↑
- Carbon market price momentum after COP26 ↑

- Optimism on Nord Stream 2 approval for next year ↓
- Oil value drops as new COVID-19 Omicron variant sparks demand concerns ↓
- Healthy LNG schedule ↓
- Russian gas flows stabilise ↓
- Lockdown's brought back in parts of Europe ↓
- Maintenance schedule ends on Norwegian pipelines ↓

Price change from other commodities

Commodity	Value 01/11	Value 01/12	Value change
Brent Oil	\$84.71	\$68.87	- 18.7%
EUA Carbon Dec 21	€56.94	€76.81	+ 34.8%
Coal 2021	\$98.40	\$110.37	+ 12.2%
Pound/Euro Cross rate	£1.18	£1.18	0%

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

November 2021

Review of market movements over November

We have seen a complete recovery in the energy markets from the losses that occurred in October. Prices now sit at near all-time highs again. The choice of this month's cover image is no coincidence. We are in the eye of the storm of a global energy crisis in key markets, but could there be hope on the horizon? Read on to find out, as we look at the key market drivers that occurred over November:

Key Drivers

End of November was cold as Storm Arwen hit

November as a whole was mild, and 0.8 degrees above the seasonal normal. However, the last 10 days of the month were particularly cold, with Storm Arwen hitting the nation on the 26th and 27th, bringing snow and 100mph winds to our shores. Gas demand in this period rose substantially, and so too did gas prices.

European gas storage looks concerning

Coming into the winter, there was already concern on the fact Europe's storage levels were below 7-year averages. Over November, due to an inconsistent supply from Russia, Europe has been depleting its reserves at a quicker pace. At its current rate of depletion of around 3% a week, there is a risk of being dried up by late winter/early spring. This is impacting European gas markets the most, but the UK's gas market is also impacted by movements in neighbouring countries.

Nord Stream 2 sees further delays

On the 16th of November, the Nord Stream 2 pipeline approval process was halted by the German regulator, lifting prices significantly. This cast further doubt as to when Europe will start to receive gas flows from this pipeline and was a setback in the timeline. Current projections of March 2022 could be pushed back, and there is still no guarantee it will be granted approval at all from Germany. Nord Stream 2 has been an ongoing development for much of 2021, and it will likely continue into 2022.

Carbon EUA's hit all time highs

The carbon permit market took a breather over the last few months but has rallied strongly in November to reach all-time highs, pushing above €75/tonne. The UK equivalent ETS is also at near all-time highs. Being a smaller market, it has been prone to more volatility than its European equivalent.

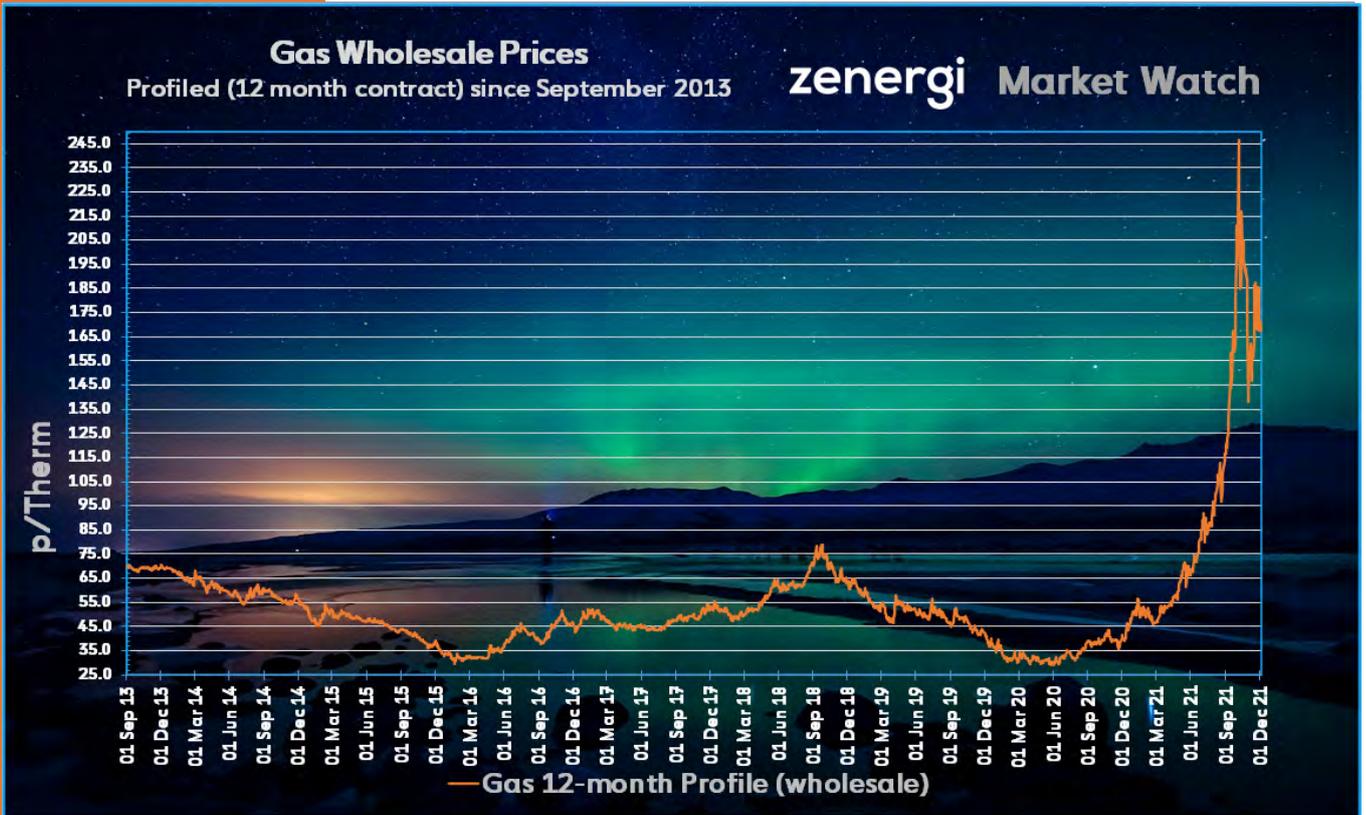
Much of the price rally was due to the announcement of the German coalition, with reference to a minimum price on EU ETS. This minimum level has taken away any risk of prices in the market dropping by any significant amount. Effectively given plenty of upside, with minimum downside, the market exploded, seeing a 34% rise in a single month.

Carbon price rises have been a constant over 2021 and they are clearly here to stay if the UK, Europe and the world are serious on achieving carbon reduction targets and keeping global temperatures below a 1.5-degree rise.

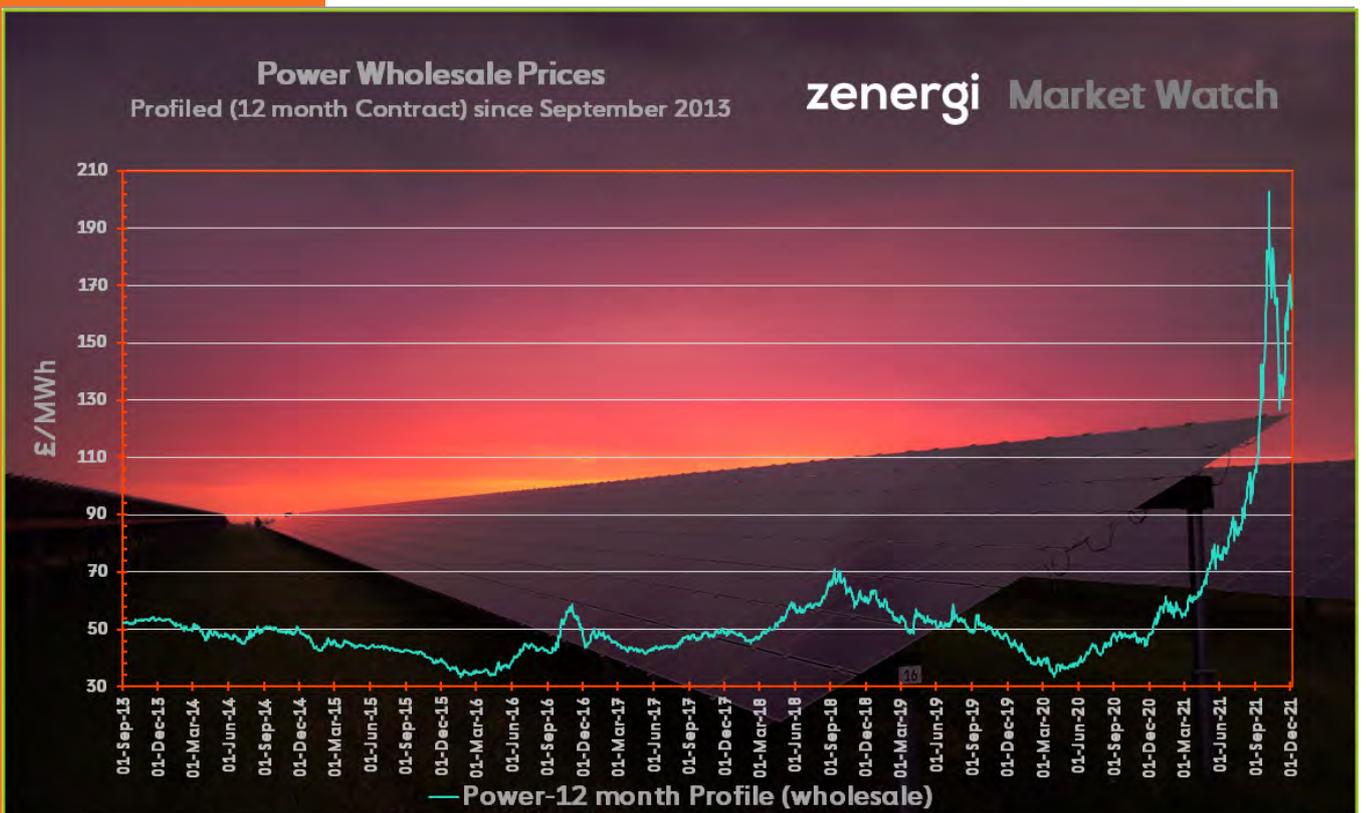
Scott - 023 8028 6300 - scott@zenergi.co.uk

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 Russia increase gas flows into Europe?

Russian gas flows into Europe have been very steady in the last few weeks, but with Europe's storage levels still depleting, there is a clear need and demand for an increase in supply. No monthly bookings were made by GazProm for December which raised some concern, but they still have the ability to do so on day-ahead capacity at daily auctions.

What could the new Omicron COVID-19 variant bring to energy demand outlook?

Scientific data on the new emerged variant is very limited at the time of writing, and this is likely to be a fast developing picture as information comes in daily. Of what is known so far, indications are that the Omicron variant is more transmissible and likely to have more vaccine evasive properties due to its significant number of mutations.

There is however a suggestion this variant is milder, but there really is not enough data at this time to say, with the population of South Africa, where it is most prevalent, very young and only 27% fully vaccinated. What is apparent, is just like the Delta variant, we are likely to see this variant become the new dominant strain globally. How long it will take, and the repercussions of energy demand globally are unclear. We will know much more in the month of December.

Weather outlook for December

The start of December looks set to be on the more mild side, with temperatures slightly above average. Another Storm is set to hit around the 7th, meaning wind generation looks set to be strong. Warmer temperatures and strong wind output will both place downward pressures on prices.

There is still the possibility of cold snaps in late December which will place upward pressures on prices. As always, weather conditions will play a big part in which way prices move this month.

Recommendation

Prices appear to have stabilised in recent days, sitting still at very elevated levels. The energy crisis is far from over and much is still to play out this winter, where most of the concern is placed. Like a storm, forecasts can change quickly, and so too could energy prices in either direction.

Often in these times, it's best advised to ride the period out best you can until things settle, and that would be our exact advice at present. If you do need to venture out into the market at this time, like a storm, keep your duration to a minimum and spend no longer than you need to in the conditions. Prices will eventually come back down. The big question is when and how long this is set to last? This is the hardest prediction to make at present.

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