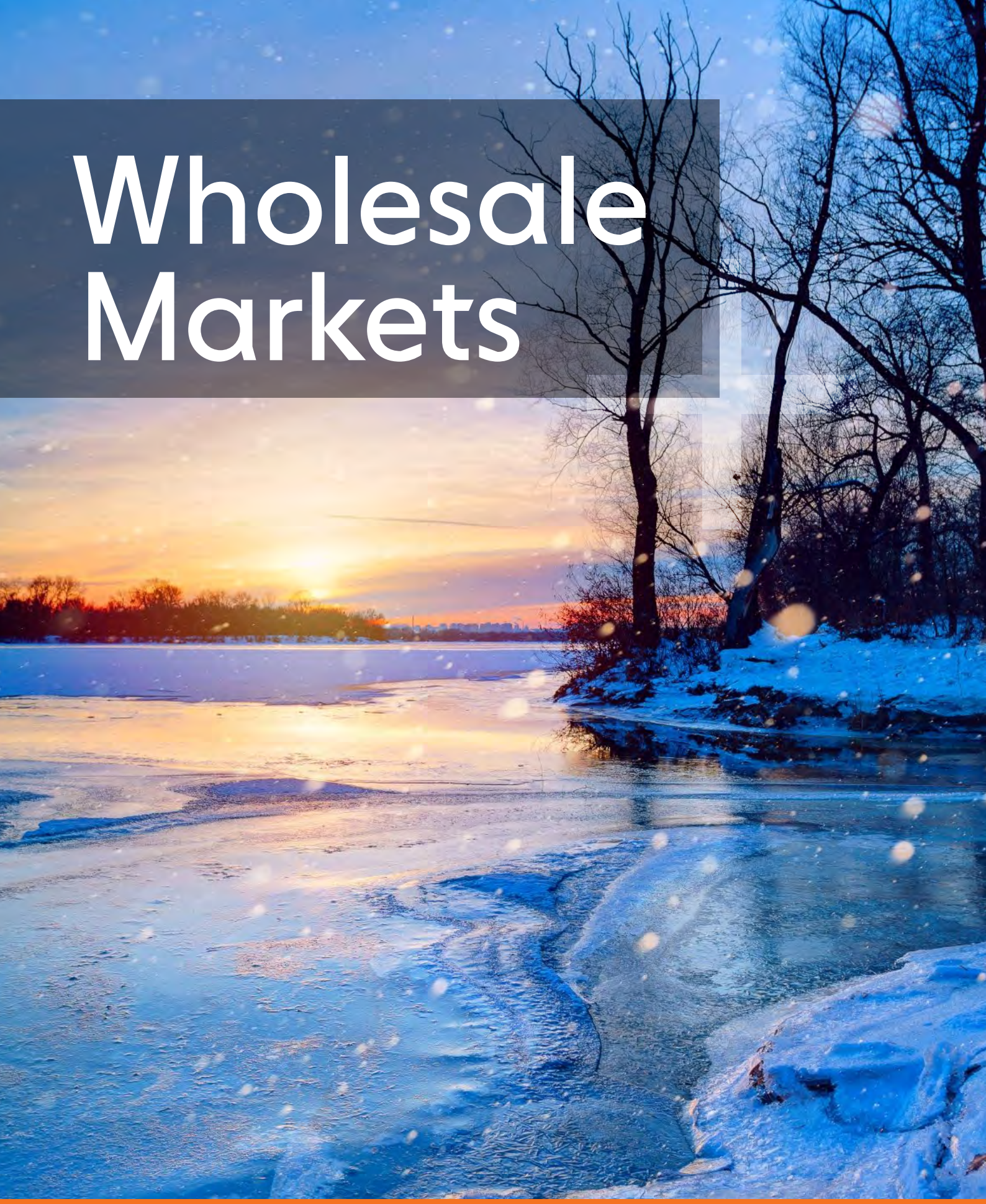
Wholesale Markets



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Analysis of wholesale markets

December 2021

Short Term: Volatile

Extreme volatility has been seen in the markets and is expected to continue through the winter with uncertainty over supply remaining.

Long Term: Bearish

Current valuations are expected to 'cool off' much longer term to more traditional price ranges. However we could be talking past 2022 following the fallout and impact of this winter.

Downward price driver ↓

Upward price driver ↑

Bitesize Snapshot

- Delay and political tension over Nord Stream 2 ↑
- European gas storage levels below 60% ↑
- Colder winter taking shape ↑
- Reduction in Russian gas flows to Europe ↑
- Carbon market price momentum after COP26 ↑
- Major outages in gas fields and terminals ↑

- Healthy UK gas storage levels ↓
- Mild December in UK ↓
- Strengthening LNG schedule ↓
- OPEC+ agree to ease production cuts ↓
- Lockdowns brought back in parts of Europe ↓

Gas - 3.2% ↓

Power 3% ↑

Price change from other commodities

Commodity	Value 01/12	Value 03/01	Value change
Brent Oil	$68.87	$77.78	+ 12.9%
EUA Carbon Dec 21	€76.81	€81.57	+ 6.2%
Coal 2021	$110.37	$87.64	- 20.6%
Pound/Euro Cross rate	£1.18	£1.19	+ 0.8%

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

December 2021

Review of market movements overDecember

December was an extremely volatile month, with new all time highs seen again, peaking on the 23rd December, and then dropping dramatically. Overall, despite the volatility, it was little change month to month, with gas down 3.2% and power up 3%.

Key Drivers

Reduction in gas flows from Russia

GazProm failed to book any monthly capacity for December and has been operating on a day ahead basis through the month. This has resulted in bookings being sporadic and notably has been dropping at times, creating uncertainty, a tighter European gas network and lowering storage levels.

The second half of December, we saw this issue greatly enhanced with gas flows to Europe via the Yamal pipeline dropping to 0 and then going into reversal, flowing back Eastwards towards Poland and Russia. Reportedly, some of Gazprom's buyers have reached their contracted supply limits for the year under their long-term deals.

A 'flotilla' of U.S. LNG cargoes dock in the UK

One of the consequences of the high market valuations in the UK and Europe, is the profit attraction to LNG operators, particularly in the U.S. The first half of 2021 saw the majority of U.S. LNG Asia bound to fetch a better spot price. This has now changed, and Europe and the UK have seen very strong delivery numbers over Autumn and December, with 18 vessels docking over December here in the UK to boost gas supply.

The strong delivery numbers, in combination of the mild weather, helped to eventually drive down prices towards the end of the month, with supply confidence rising, at least in the short term.

A mild December

You could have got away with a light cardigan on New Year's Day, and that summed up the mildness seen for most of the month. It was in fact the warmest New Year's Eve and Day on record, with a high of 16.2C recorded in London, breaking a record from 1916 of more than 100 years.

As ice rinks across the country were forced to close, predicted energy demand for December was greatly reduced, with the mild weather peaking at the end of the month here in the UK, helping to turn the tide of the rising energy markets.

Political tensions grow between Russia, EU and U.S.

The markets have been paying close attention to the developments surrounding Ukraine, and the uncertainty around how it will play out often brings fear and price rises, which is what developed throughout the month.

Some of these fears have their merits, with the U.S. and EU threating sanctions against Russia, which could include Nord Stream 2, directly affecting medium- and long-term supply. Without going into details to make a report political, both parties are standing their ground on the situation, and both believe the other side is in the wrong, making it hard to gauge if any compromises will be made. This is likely to be a key driver into 2022.

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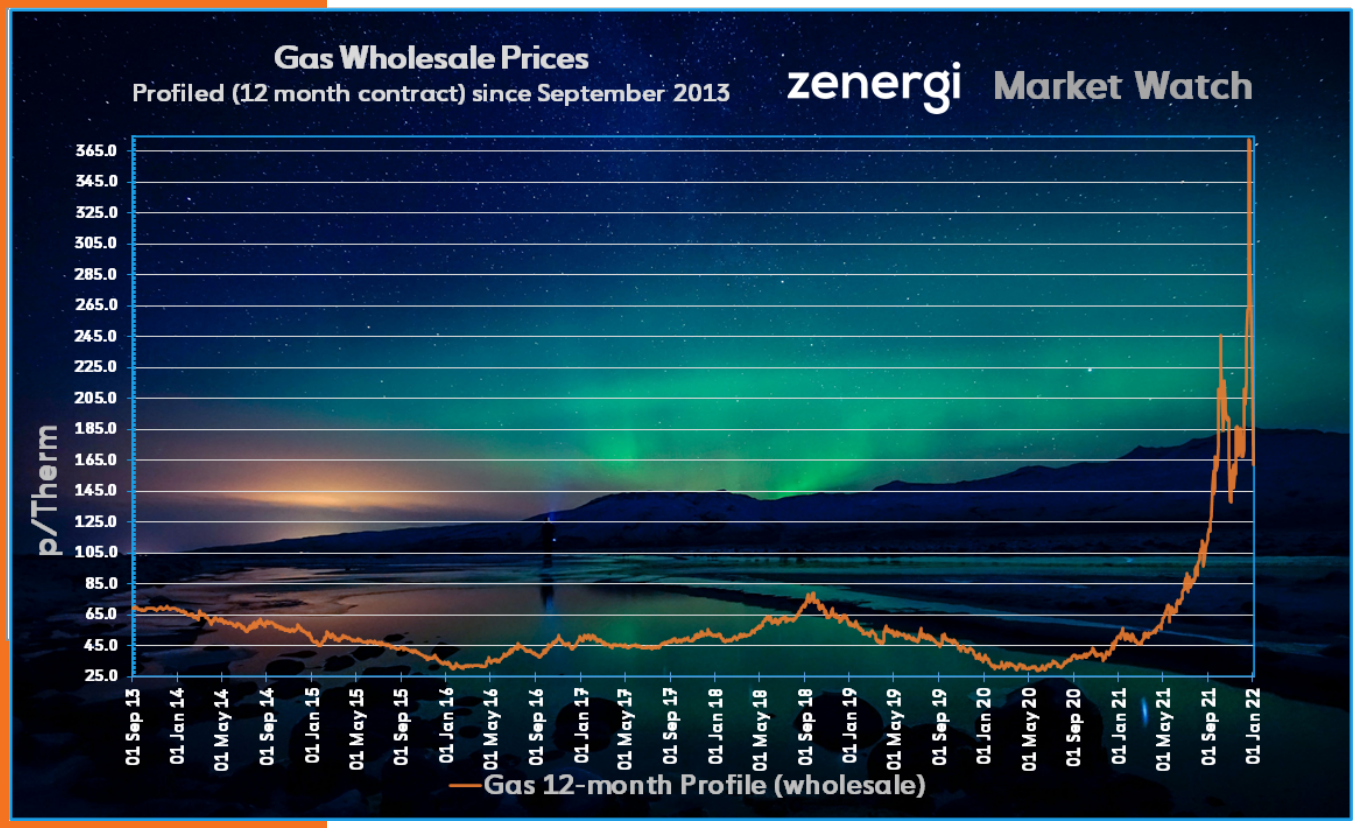
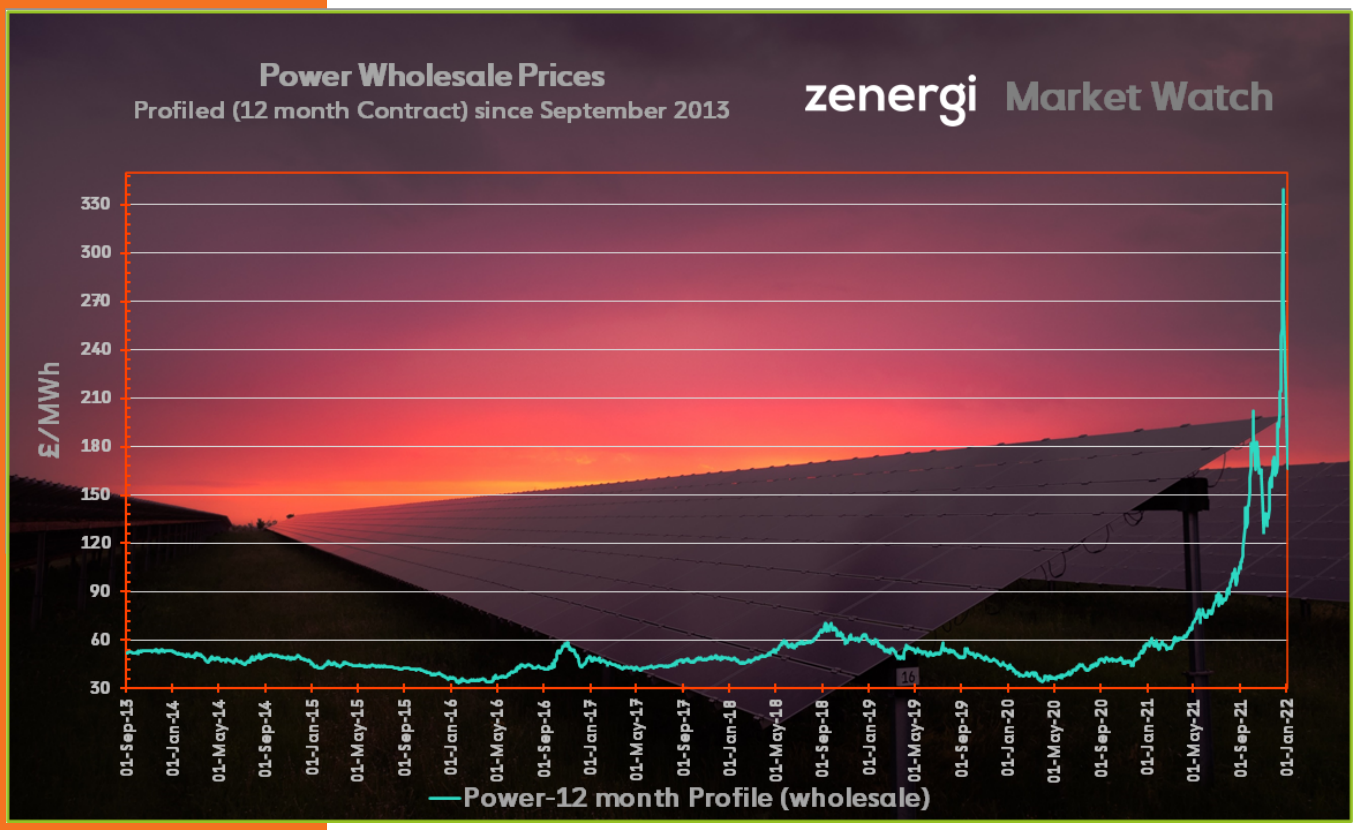
Long term Graphs

Graph 1: Wholesale gas prices 2013 to date



Graph 2: Wholesale power prices 2013 to date



Outlook

Prediction and key events for the month ahead

Developments between Russia and the EU/U.S. over Ukraine

Ukraine indicate Russia is preparing for an invasion in January. That would be the worst case, most extreme scenario to happen. If January passes without this scenario, could the market's fear ease? Putin and Biden have been holding talks. Russia has several NATO demands. Will either side compromise?

Could the Pandemic be becoming an Endemic in 2022?

January is likely to see more 'record high' case numbers in the UK it's safe to assume, but as time passes, the more scientists learn about the new Omicron variant, there are some positive shoots of hope in the detail long term, this could be the 'exit wave' the transition from a pandemic to an endemic, though much is to be determined.

Focusing on just this month, it's likely to be the trickiest and most challenging, where we expect to peak in case numbers if current models are correct. As of now, the government are confident that 'Plan B' is currently adequate, and they are comfortable with the current softer restrictions in place. It is good to point out, all four devolved nations have varying degrees of restrictions, with England currently the most relaxed.

Will OPEC+ continue to ease production cuts?

On the 2nd of December, OPEC+ agreed to hike up oil production by 400,000 barrels a day, seemingly unconcerned with the emergence of Omicron and any impact on global demand. While we have seen some nations such as the Netherlands and Austria go into a full lockdown in recent months because of COVID, it is still having some impact, but there is a growing confidence we will not see wide-scale lockdowns like we saw last winter.

Because of this, OPEC+ could continue to ease production cuts in place to the point they are back to full unrestricted output as demand is sufficient. The production cut agreements in place expire in April 2022 currently.

Such a scenario would tempt oil prices lower with the boosted supply, and wider energy markets could follow the sentimental bearish trend.

Recommendation

December was the most volatile month of 2021, making trading and predictions chaotic at times, and that volatility is likely to continue into January. But volatility can bring opportunities. Could the late sell off seen in December represent a good period to secure your energy deals? Or is it setting up to drop further? It would be folly to try and answer that given how the markets are so volatile but looking at rates now represents much better value than two weeks ago. Any renewals due this quarter may want to take advantage of this dip.