

Wholesale Markets



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Analysis of wholesale markets

June 2022

Downward price driver



Upward price driver



Gas +35%



Power +22%



Short Term: Bullish

We have seen markets increase greatly this month, and in the very short term next three months, there are potentially many more bullish factors pressuring the markets up.

Long Term: Slightly Bearish

Prices are forecast to fall back long term, however, currently, we would expect energy prices to be priced above the typical average levels for the remainder of this decade.

Bitesize Snapshot

- Russian invasion intensifies in Ukraine ↑
- Fire outbreak at U.S. Freeport LNG Terminal ↑
- Gas flows from Nord Stream 1 reduced by 60% ↑
- Strike action across globe including Australia LNG facilities ↑
- Germany moves into stage 2 of 3 gas emergency plan ↑
- Coal and Carbon permits rising higher ↑
- High system demand ↑
- UK gas storage levels increased to 95% ↓
- EU gas storage passes 50% mark ↓
- Oil trades lower over recession fears ↓
- Groningen gas field resuming in October ↓
- Warm UK Weather ↓

Price change from other commodities

Commodity	Value 01/06	Value 30/06	Value change
Brent Oil	\$116.29	\$114.81	-1.2%
UK ETS Carbon DEC 22	£86.08	£90.16	+4.7%
Coal 2021	\$225.28	\$252	+11.9%
Pound/Euro Cross rate	£1.17	£1.17	0%

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

June 2022

Review of market movements over June

June has seen a dramatic rise in prices, which has followed on from a period of settled market prices. We have seen a 35% gain in gas prices and 22% in Power. What this means is prices are close to all-time highs once more, nearing levels we saw at the start of March. The key drivers below have fundamentally changed the supply picture.

Key Drivers

Explosion and fire at Freeport LNG Terminal

The start of the month saw UK and European prices rocket over a major fire and explosion at the U.S. Freeport LNG Terminal, off the gulf of Texas. The port provided 20% of the U.S's LNG processing capabilities.

Initially the outage was forecast for 3 weeks, which caused a bump up in gas and power prices, as a projected 12 to 15 LNG cargoes would be impacted. A few days later it was confirmed the outage was going to take 90 days to repair. This caused a dramatic rise in the markets, as its impact on the global gas supply becomes much more significant.

At the end of the month, it was announced that only a partial restart should be expected between 90 to 120 days since the incident occurred, which provided a further blow and pushed prices higher still.

Nord Stream 1 reduces to 40% capacity

Mid month we saw an unexpected drop in gas flows through Nord Stream 1. The reduction was significant, with the key pipeline now flowing at only 40% capacity. It has impacted Germany the most, where it flows directly into, but has still sent a shockwave across Europe where all markets rose.

Nord Stream 1 does have planned maintenance upcoming on 11 July, where it will be shut for around two weeks.

Germany sees the instance as a clear pretext in a greater gas dispute, referring to the turbine part sent to Canada for repair, but not allowed to return under sanctions. Moscow have defended their stance, stating this part is required to return to full capacity. German Economy Minister Robert Habeck has countered "All agree, including Russian technicians, that Nord Stream 1 could now supply 100% gas. There is an excuse, a technical pretext that is taken,".

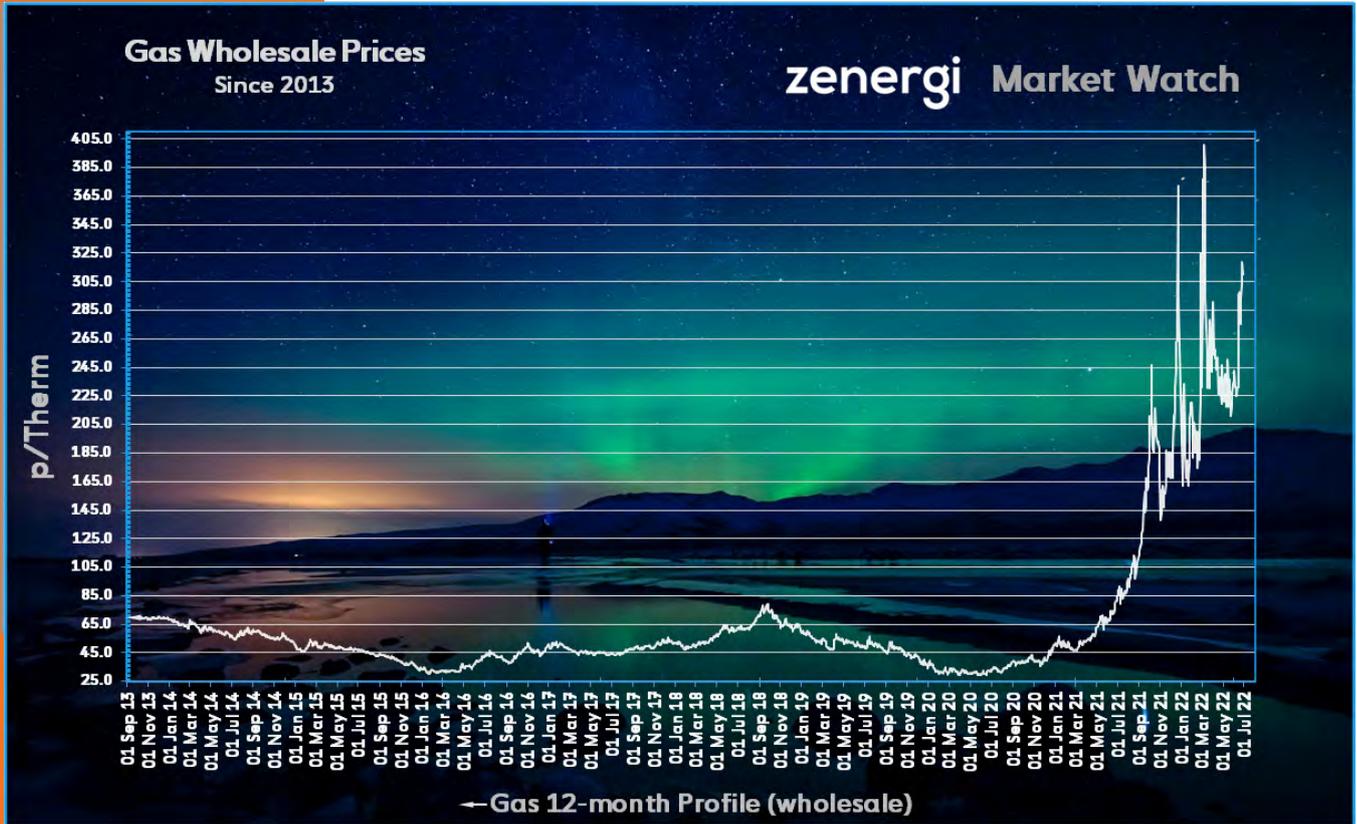
Germany enters stage 2 of 3-stage gas emergency state

A fallout consequence of the above, was a very quick action from Germany to move to stage 2 of its 3-level gas emergency plan. At this stage, the full wholesale cost of Energy can be passed down to the customer, including domestic users. The idea is to encourage consumption behaviors that dramatically reduce usage.

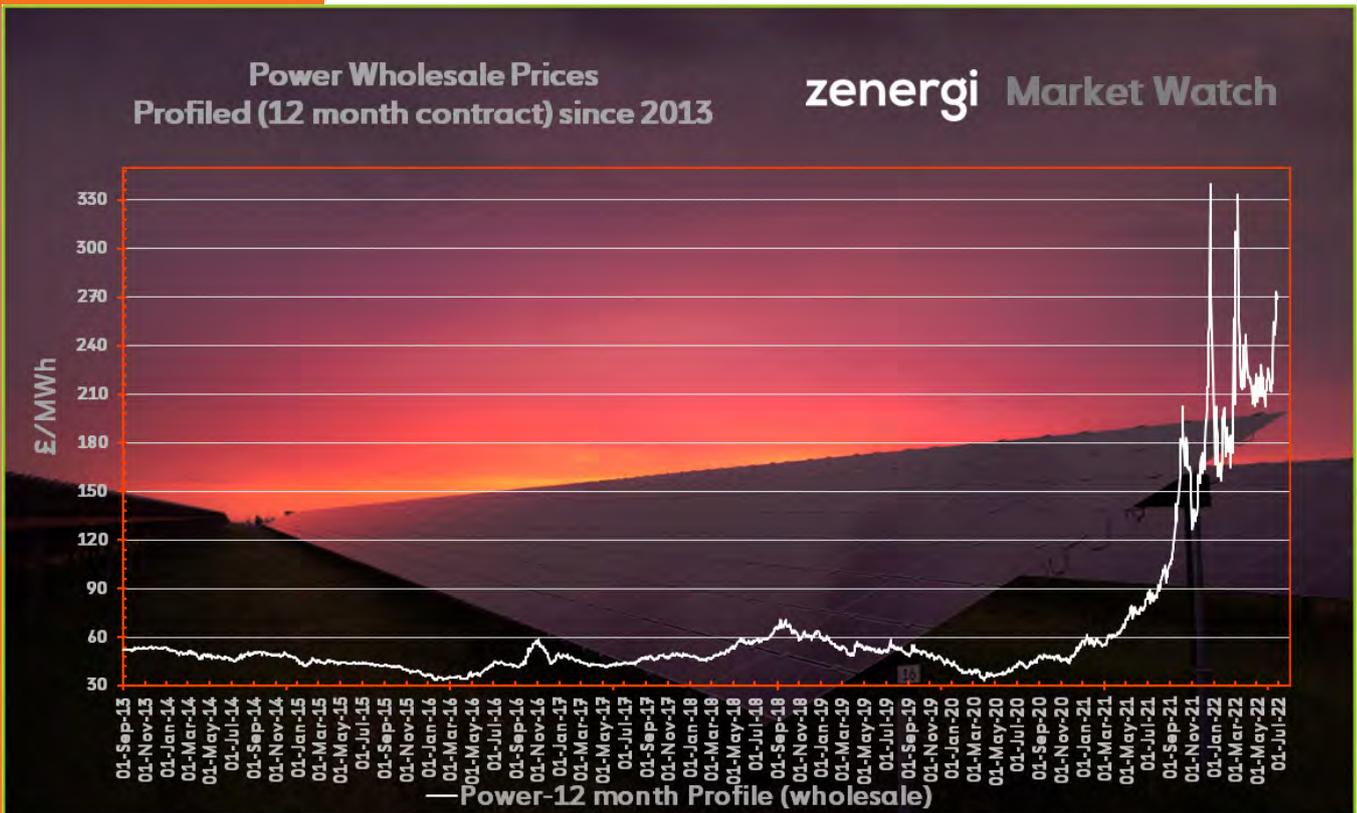
At the moment we have not seen the suppliers pass this cost over, but it could be a matter of time until they do. The headline and instance itself sent prices higher, driven mainly by fear and highlighting the precarious position Germany is heading towards.

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

Slowdown of UK economy for Q2?

The end of the month could see preliminary data released on the UK's Q2 GDP data, an indication of the growth change between April to June. Having seen Q1 growth slow half a percent between Q4 2021 to Q1 2022 at 0.8% growth, Q2 forecasts are for 0.2% growth, teetering on the edge of negative growth.

What does this mean for the energy markets? Slowing and declining economies is often associated in a decline in energy consumption. Take the 2008 financial crisis for example, which saw UK Energy demand drop 5 to 10% on reduced economic output. This in turn could signal bearish movements on prices. With positive growth in Q1, the threat of a recession could only come as soon as the end of the year, which is defined as two consecutive quarters of negative growth.

Will gas flows from Russia into Europe reduce further?

The situation and reliability of gas from Russia into Europe is deteriorating with each month, whether that's through Rouble payment disputes or simply gas flows reducing as we have seen with the Yamal and Nord Stream 1 pipelines.

The trend is not one giving the markets optimism and will be a key factor going forward into this month as to where prices go. If supply was to ramp up from Russia, it would help the supply picture greatly. But then there is the fact Europe and the UK are actively trying to move away from Russian sourced energy anyway, and alternative sources and infrastructure needs to be scaled up quickly.

Weather outlook for July

The weather outlook for July looks warm with light wind levels. Temperatures look set to be near seasonal norms, and above at times, with heatwaves a possibility in the southern region. The weather therefore could pose some risk of cooling demand increase.

Recommendation

It has been a challenging year in the energy markets, where we have seen prices run up in value, and for the most part hold their value or rise further at times, with no notable dips to speak of.

For October 2022 renewals, we do not expect this trend to change in the final 3-month period. It is also important to note that the deadline for our flex procurement baskets is 31 July for 1 October starts. Therefore, for any upcoming renewals not secured, we would highly encourage for you to do so in the month of July and not defer until the September period, where buying pressure often lifts prices, as we saw all too well last year.