

Wholesale Markets

briar



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Analysis of wholesale markets

October 2022

Downward
price driver



Upward
price driver



Gas -29%



Power -23%



Short Term: Bearish

Both fundamentals and sentiment have turned bearish in recent weeks, which has seen a continued decline in valuations. With mild weather set to continue into November, the bearish tone could go on.

Long Term: Slightly Bearish

One month of Winter-22 down, five to go. As we move through the most at risk periods unscathed, the forward outlook and curve becomes less expensive. January and February remain the riskiest months with the highest premiums currently.

Bitesize Snapshot

- War in Ukraine intensifies ↑
- Little liquidity in markets ↑
- Carbon permit price surge ↑
- OPEC+ Production cuts on oil ↑
- French strikes on Nuclear plants ↑

- EU gas storage nears 95% ↓
- Mild weather all month ↓
- LNG deliveries increasing ↓
- Rough Storage to reopen ↓
- UK and EU price support reliefs ↓
- Mild November outlook ↓
- Higher wind generation ↓
- French Nuclear restarts forecasted ↓
- Gas maintenance season ends ↓

Price change from other commodities

Commodity	Value 31/08	Value 31/10	Value change
Brent Oil	\$87.96	\$94.83	7.81%
UK ETS Carbon DEC 22	£66.76	£79.97	19.8%
Coal 2021	\$286.86	\$209.80	-26.9%
Pound/Euro Cross rate	£1.13	£1.16	2.6%

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

October 2022

Review of market movements over October

Substantial losses in the markets over October, with prices roughly losing 1/4 off valuations as concerns begin to ease. For the first time this year, we have bearish factors outweighing the bullish ones. Below are some of the most impactful ones:

Key Drivers

EU Gas storage nears maxing out

A few months ago, the prospect of the EU hitting the mandate of 80% looked in doubt. How quickly things can change, with the end of October closing in just shy of 95% gas storage as an average for the bloc.

Suddenly Europe looks more prepared and resilient to cope with supply curtailment this winter should it occur. The extra 15% or so storage gives the EU a bit more wiggle room it did not expect to have. The markets have taken note, and it has been an overarching reason in the background, helping prices come down this month.

October was very mild

We have not seen any days or periods where temperatures drop below seasonal norms all month. In fact, they have been well above at times. While we await official confirmation from the met office, October 2022 was likely one of the mildest on record.

As a result, we have seen prices erode on the day ahead market and front month. Day ahead valuations hitting what we would consider 'normal' pre-energy crisis. Whether the day ahead market will stay at these suppressed values to the forward market remains to be seen, and a lot will have to do with if the mild weather is set to continue this autumn and winter.

Weather forecasts for November continue to look mild, with higher certainty on the first half of the month. Beyond then, forecasts become less clear, but it should be expected that temperatures will have to drop at some point, which is why December onwards is still priced at a high premium currently.

OPEC+ cut production by 2 million barrels a day

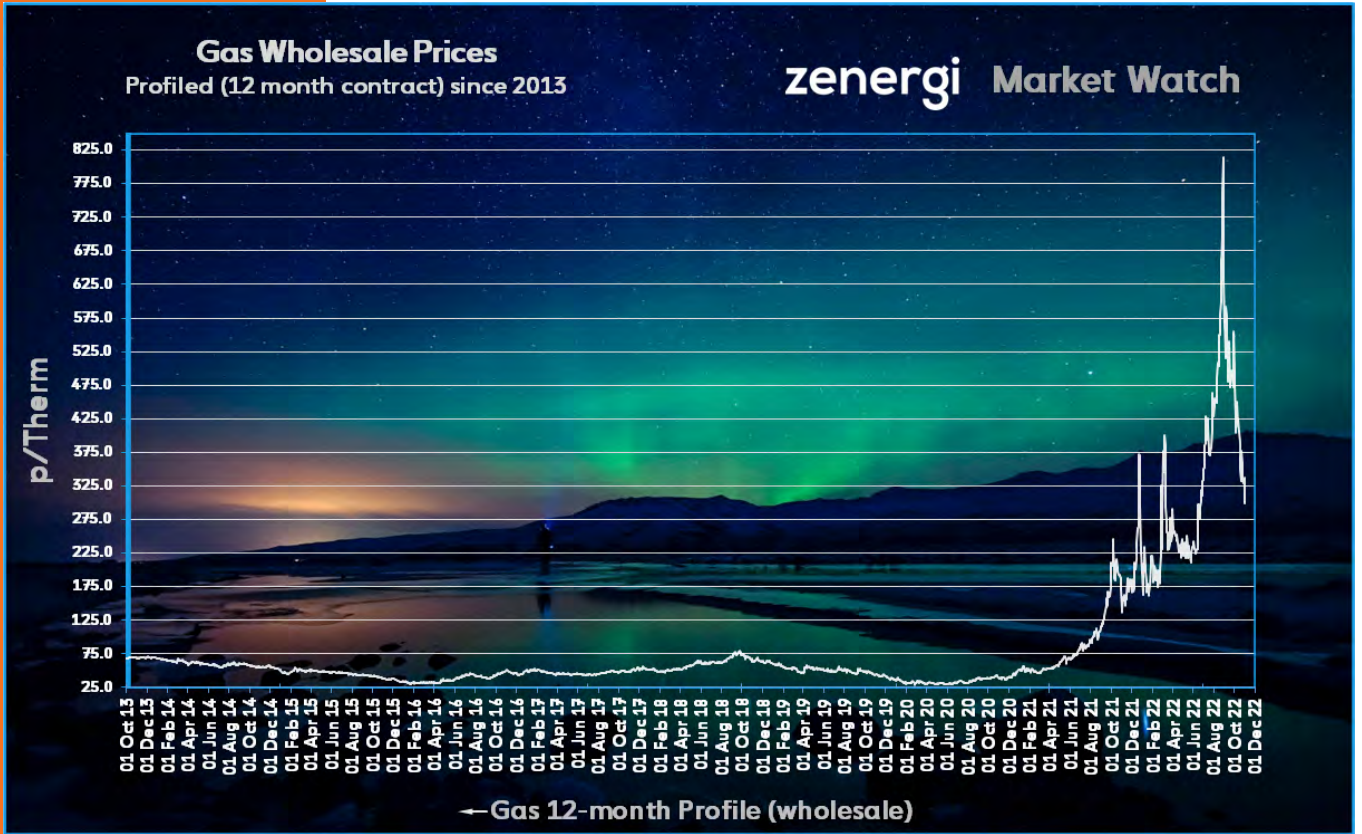
One of the few bullish drivers this month came from OPEC+ this month, who decided to cut 2mbpd of production between them, in the hope to prop up oil prices, which had taken a hit over weakening economic data.

As a result, Brent, the European benchmark, rose 7.8% this month, consolidating in the \$90 to \$95 range. OPEC's influence on market control has been questioned in recent years, given the rise of the U.S's output to become the largest oil exporter. But this is a reminder that they still have effective market control.

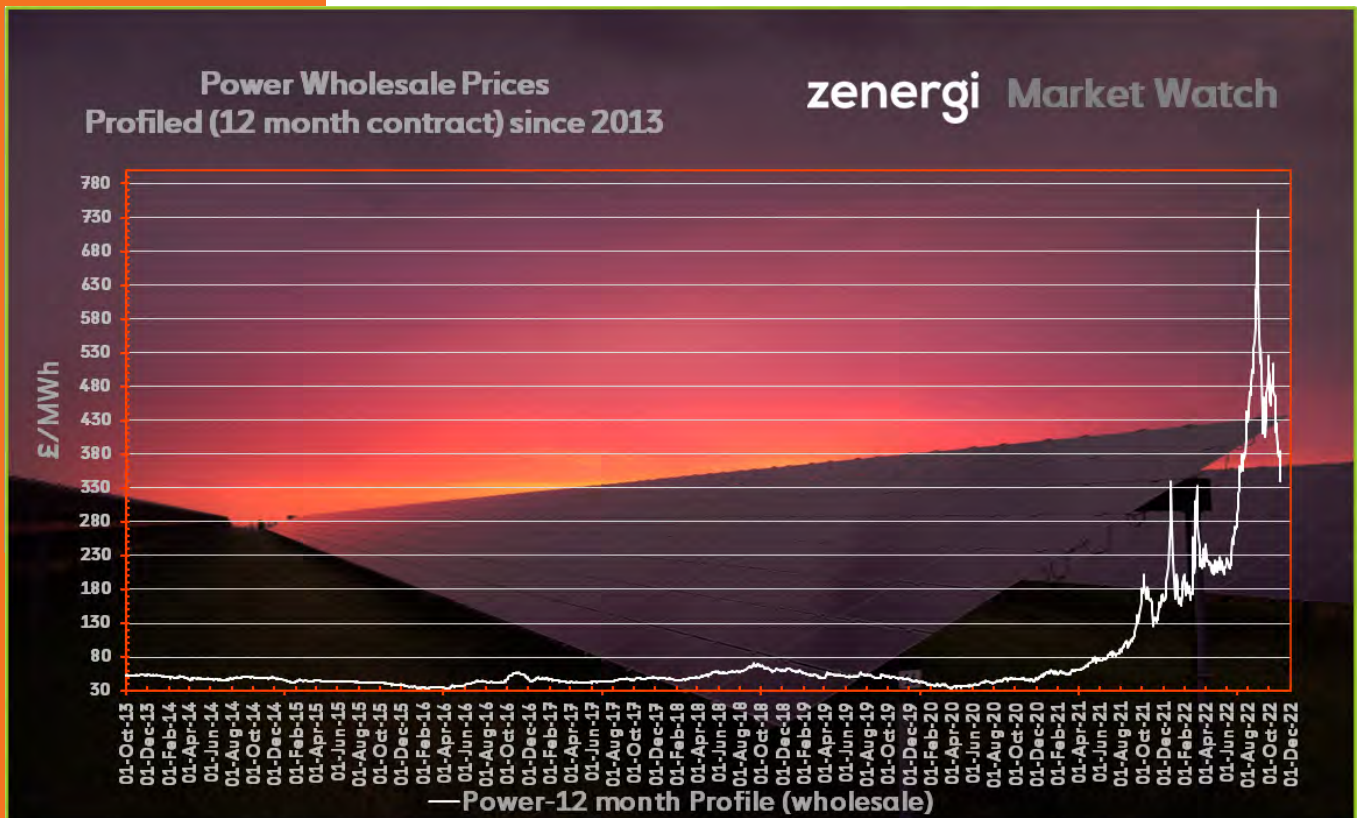
A high price oil environment will have some impact on gas and power price outlooks, with energy commodities very interlinked.

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 the mild weather continue?

The mild weather we saw in October is expected to roll into the start of November. Past then, it is less uncertain, but the mild start gives a stronger chance of an overall mild month. The temperatures we do experience will be key to determining price movements this month.

Will gas storage hold up well?

The markets will be paying close attention to storage levels through the winter. As we progress through the season, the level of storage, against the five-year average will be tracked. If we trail above this, it bodes well to see a price decline. But similarly, should we fall below averages, that places more risk of supply tightness and prices rising. Again, the weather will be a major factor, but so too will supply chains, such as LNG deliveries into Europe.

Will LNG supply remain strong through the winter?

LNG deliveries will be the key flexible supply element this winter on keeping supply in line with demand, and ensuring that the system is not too squeezed in high demand moments.

Key to supply, is our competition with other international markets, namely the Asian JKM (Japan-Korean Marker). There is talk by the EU of introducing a cap on LNG price in Europe benchmarked off the Dutch TTF market. While this will bring price control, it could make Europe uncompetitive with other markets, and in turn lower import numbers if implemented incorrectly.

Recommendation

After a large fall in valuations in October, the attraction of securing rates in the market does now look better. The harder call to make, is if prices will continue to downtrend through the winter.

While rates are now half of what they were at the extreme peak in August, they are still significantly up from historical averages, and higher than most the year.

Therefore, November looks set to be a very important month to track the market, more so than most, to spot any developing trends. Fundamentals remain bearish, but as we know all too well, outlooks can change very quickly in the energy markets.

The report is based on our educated opinion taken from publicly available data.