

# Wholesale Markets

**briar**

 Energy  
Management

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# Analysis of wholesale markets

July 2022

Downward  
price driver



Upward  
price driver



Gas +25%



Power +43%



## Short Term: Bullish

It has been another record-breaking month on many metrics, and our outlook is still the same short term, which is bullish. There are a number of upward drivers playing out in the near term.

## Long Term: Slightly Bearish

The long term view is unchanged. We are expecting a very high market environment with plenty of variation till 2024, where we then expect the energy crisis to have more stability.

### Bitesize Snapshot

- War in Ukraine continues ↑
- Record-breaking heatwaves ↑
- Gas flows from Nord Stream 1 reduced to 20% ↑
- Summer gas maintenance season ↑
- Latvia latest nation cut off from Russian gas ↑
- Coal prices rising higher ↑
- High system demand ↑
  
- UK gas storage levels increased to 100% ↓
- EU gas storage passes 70% mark ↓
- Oil trades lower over recession fears ↓
- Groningen gas field resuming in October ↓
- U.S. Freeport LNG to resume limited capacity in October ↓
- Rough Storage to reopen in Autumn ↓

### Price change from other commodities

Commodity	Value 01/07	Value 01/08	Value change
Brent Oil	\$114.81	\$100	-12.8%
UK ETS Carbon DEC 22	£90.16	£80.58	-10.62%
Coal 2021	\$252	\$271	+7.5%
Pound/Euro Cross rate	£1.17	£1.19	+1.7%

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

July 2022

## Review of market movements over July

July is yet another month of dramatic price rises. Notably, we have seen power wholesale prices surge 43% to break into all-time high valuations. Over the last two months, we have seen energy prices nearly double. Simply put, wholesale costs are ten times higher than they were in 2020. Below are some of the key drivers for this month:

### Key Drivers

#### **Nord Stream 1 reduces to 20% capacity after maintenance.**

Coming into the month of July, gas flows through Nord Stream 1 were already at suppressed 40% capacity flows. It then underwent 10 days of planned maintenance, where flows dropped to zero. After the work was completed, it did resume at 40% flows, to then get cut in half to 20% capacity a couple of days later, causing energy prices to rocket.

Russia have always cited that the turbine 073, sent off for repair in Canada and yet to be returned has led to this, with Nord Stream 1 only left with 1 of 6 working turbines. Delays in transporting the turbine, supposed lack of paperwork and sanctions have all so far prevented Russia from receiving the turbine, which is still in Germany. Both the chancellor of Germany and the CEO of Siemens, who were responsible for the repairs have both flown over to try and resolve this, but to no success, and it does not look like a resolution is near, which is why the market is fearful.

#### **UK heatwave that smashes all-time records**

Normally when a record temperature is broken, it is by half a degree at the most. July saw the peak of the heatwave reach 40.3 degrees, smashing the 2019 record of 38.7 by 1.6 degrees. The sustained heat brought strain and pressure on the national grid, highlighted when it had to pay Belgium a record-shattering £9,724MWh or £9.72/kwh to purchase energy across the **inter-connector**, to prevent a blackout in the South East.

The heatwaves are having more profound impacts in Europe, where they have been more sustained, and drying up river flows, critical to cooling nuclear and coal plants, as well as impacting hydro generation. It is estimated we are on track for the driest summer in Europe in 500 years, which is not what you want in an energy crisis.

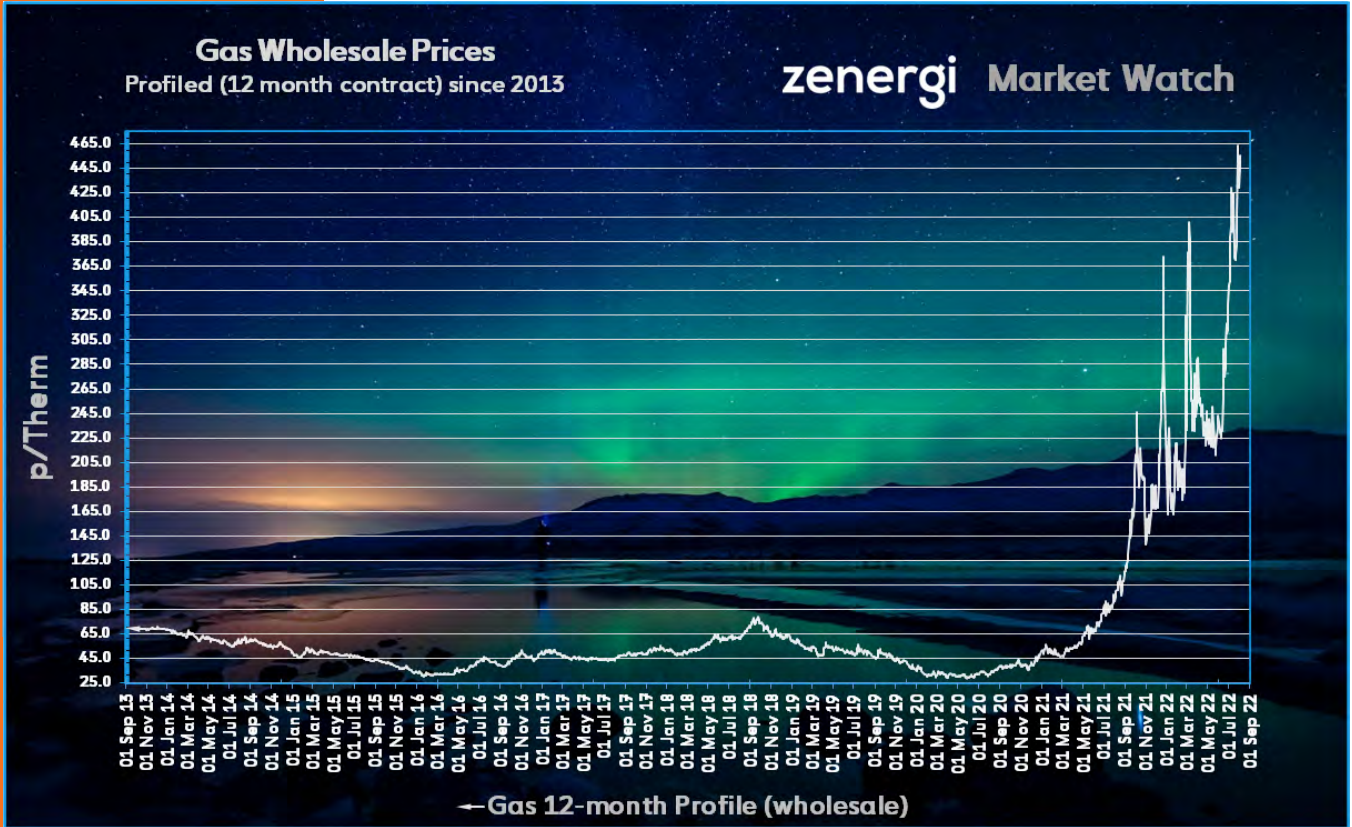
#### **Oil markets trade lower on recession fears**

One of the few energy commodities to buck the trend this month has been oil, with Brent down 12% over the month. After running up as high as \$120/barrel, it has been trading lower on growing recession fears and a clear slowdown in several economies.

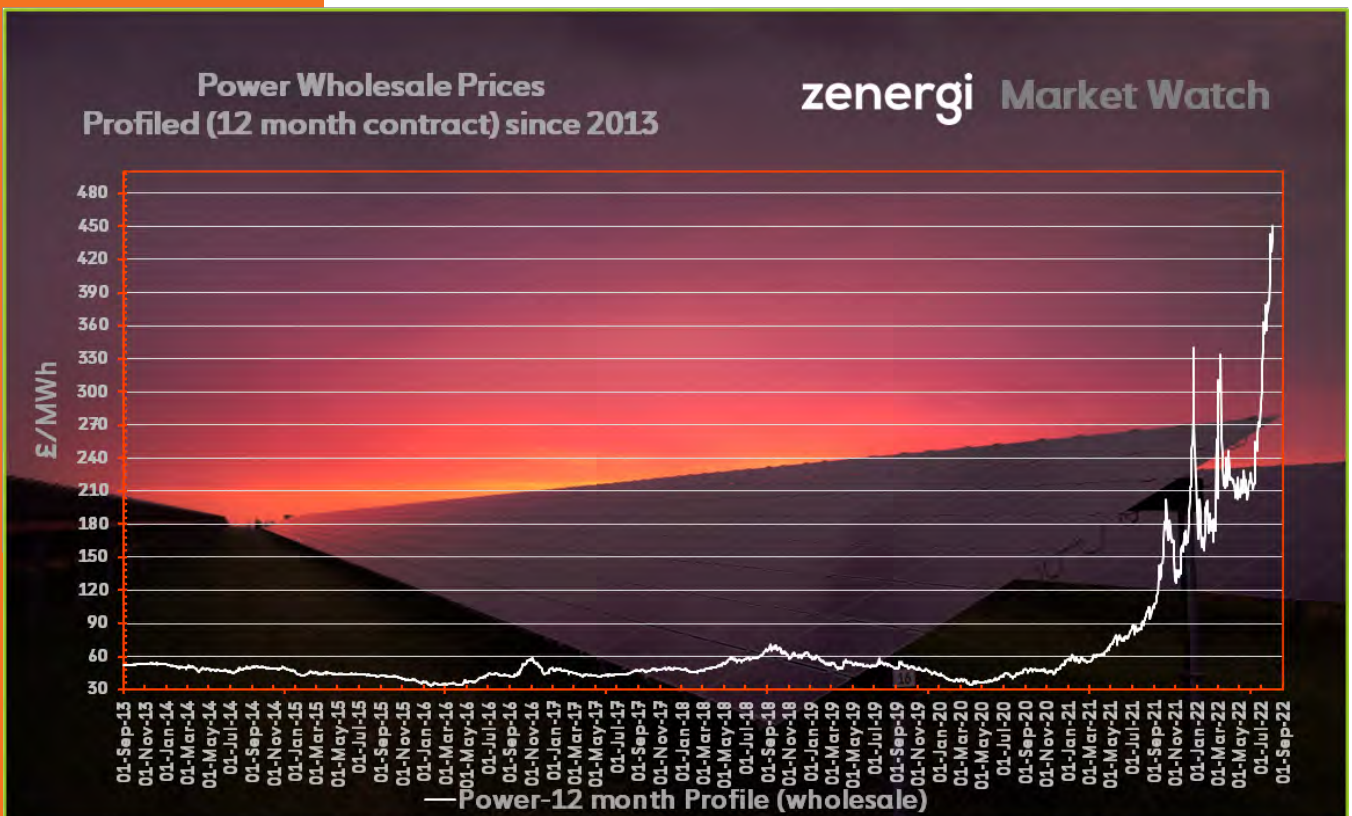
On top of this, OPEC are increasing production by 0.1mb and there has been a build-up in inventory in the U.S. In truth, it's done little to keep gas and power markets rising but could become a factor if it continues to drop.

# 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 gas supply stay uninterrupted?

In the last few months we have seen gas flows reduce from Russia, fires break out in LNG terminals across the pond, and outages occur in the North Sea. It has almost become a question of what next? If gas and power supply can somehow at least hold steady, it will be a deciding factor in where prices move this month.

### Another hot summer month?

July was one of the hottest on record. And also one of the very driest. The lack of rainfall is not only an environmental worry, but can start to impact energy outputs from coal and nuclear plants, who rely on river systems to keep them cool. It appears we have more to come in August, with further heatwaves forecast, and overall, sustained warm weather with little rainfall.

### Keep an eye on the situation in Taiwan

At the start of the month, we saw tensions between the U.S. and China rapidly rise, with Nancy Pelosi's visit to Taiwan as part of her Asia tour. This has infuriated China to say the least, and military tests have been operating as response. We saw in 2018 what tensions between the two most powerful nations can bring to energy prices, when we went through the dubbed 'trade war' between the two. This is one to monitor.

## Recommendation

This current market is punishing. It is unforgiving. We are at all-time highs. If you held off securing rates two months ago, you are looking at nearly double the costs now. By not acting, it is being proven that the stakes are incredibly high. If you are waiting for prices to return to 2020 levels, I need to make clear that unfortunately that is simply not going to happen.

We are going to be in a high market environment for at least the next two years. there will be peaks and troughs as always. There will be times where fixing long term makes sense and there will be times where going shorter term or into a flex deal make sense.

Whatever you choose, and if you are an October 22 start our advice is to act now. There is predicted to be a huge squeeze in September, given the amount of renewals nationally that are thought to be outstanding from supplier feedback. Don't run the risk of getting caught up in a bottle neck. We saw what happened last September. The same risk applies again. We can't see prices changing drastically between now and October, so why wait?