Energy Management

Market Intelligence

May 2020

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GAS REVIEW

Gas News

Fall in demand reflected in prices

The UK gas market could effectively be split into three across the month of May, with the first two thirds trading marginally higher than the final third.

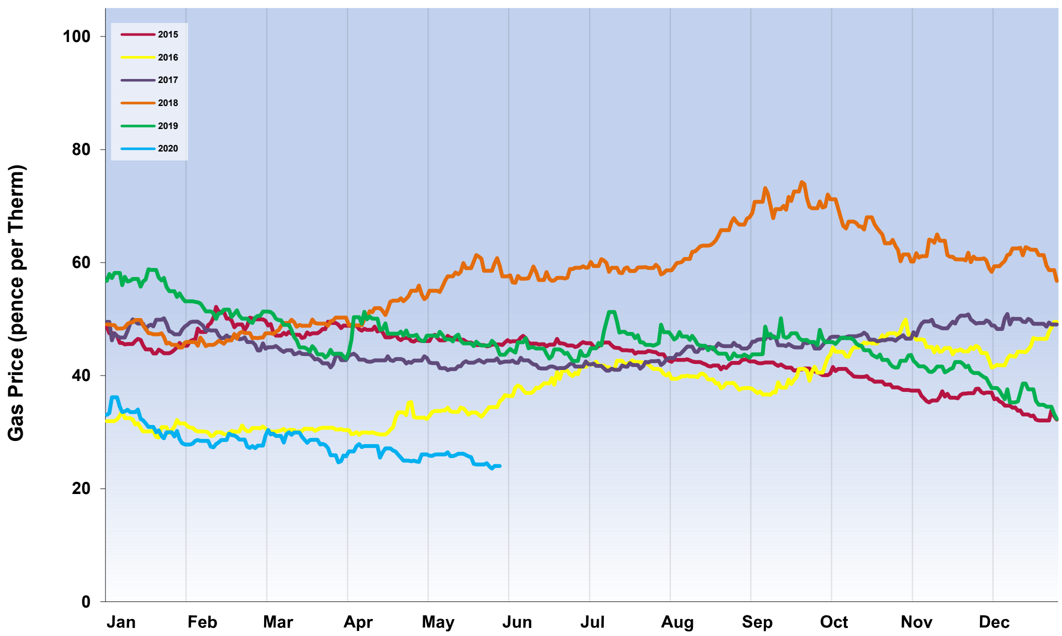
Short term prices showed the biggest drop as the month advanced when it became clear that the Covid-19 lockdown was far from over for a large number of UK businesses who had no choice but to remain shut. Couple this to a spell of sultry weather, where the need for heating across the UK almost completely disappeared, and the demand for gas-fired electricity generation reduced considerably.

Long term pricing followed a slightly more cautious path due to concerns about the European summer maintenance season being pushed back until later this year. Reports indicate that French and UK Nuclear revised maintenance schedules are likely to lead to increased gas-fired generation later in the year.

As May moved into June, all of the reductions over the previous 10 days were eroded as both long and short term prices gas prices began to embark on an upward curve. This was caused by expectations of increased demand as lockdown measures ease across Europe as well as a rise in Asian LNG prices. Closer to home, we have seen several unplanned outages in the North Sea.

Pricing does remain uncertain, but with many countries trying to kick start their economies from now on, demand is certainly likely to increase taking wholesale pricing with it.

Historic NBP Gas Graph



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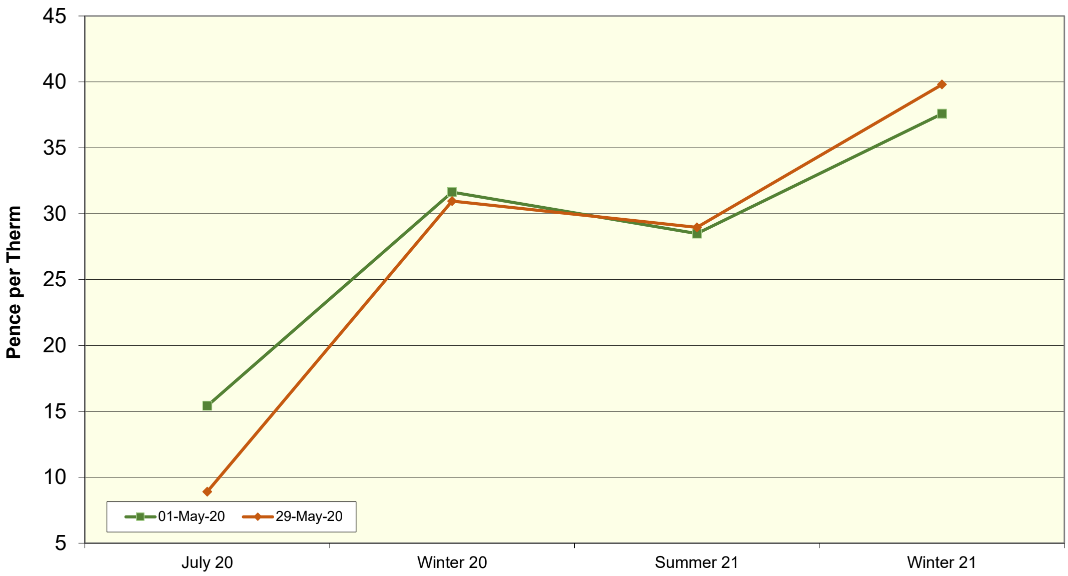
GAS REVIEW

NBP Gas Prices

	Trading date		
	01-May-20	29-May-20	Increase
July 20	15.42	8.90	-6.52
Winter 20	31.63	30.95	-0.68
Summer 21	28.49	28.95	0.46
Winter 21	37.58	39.80	2.22

Forward NBP Gas Curve



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ELECTRICITY REVIEW

Electricity News

Record-breaking month for renewables

UK Power prices have been far more volatile than gas prices across May, with no clear direction for both short and long term prices.

Prolonged periods of above seasonal average sun and wind has led to a number of renewable generation records being broken for the month of May, reducing the need to for fossil fuel generation. This has been reflected in the latest emission data from around the world which indicates that all forms of air pollution, including CO_2, have noticeably gone down during Q1 and Q2 of 2020.

Even when conditions were unfavourable for renewable generation, the switch to fossil fuel was not as painful as we would normally expect as both fuel cost and subsequent emissions costs were suppressed by lack of demand.

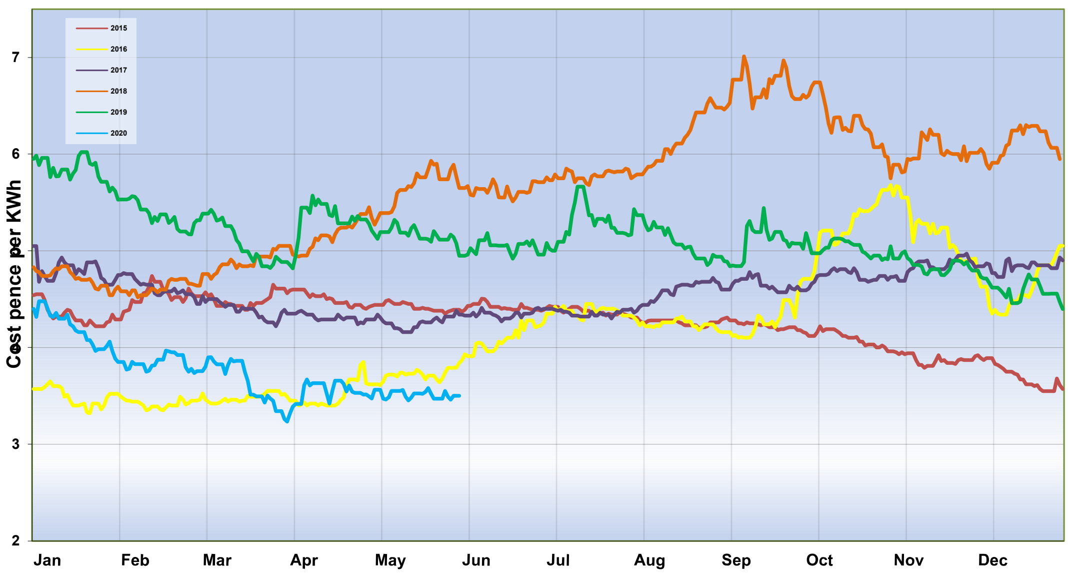
Long term issues are very similar to those mentioned in the gas section. While increasing the demand for energy from its historic low base, the long-awaited return to work for many will not bring about levels we have seen over the past few years.

The International Energy Agency (IEA) has already forecasted a 5% fall in demand this year, which would be the biggest fall since the depression in the 1930's.

The next 12-month rolling cost is a little more challenging to predict but a step change will occur naturally as we lose yet another summer month at the current record-breaking low price to a more reflectively priced summer month in 2021. This will continue throughout the summer as we tick off each month and replace with another month in 2021.

We fully expect prices to rise going forward, simply because they are so low now, and while governments across the world strive to return to the "new" norm, it will only push prices higher.

Undelivered Wholesale Electricity Rates



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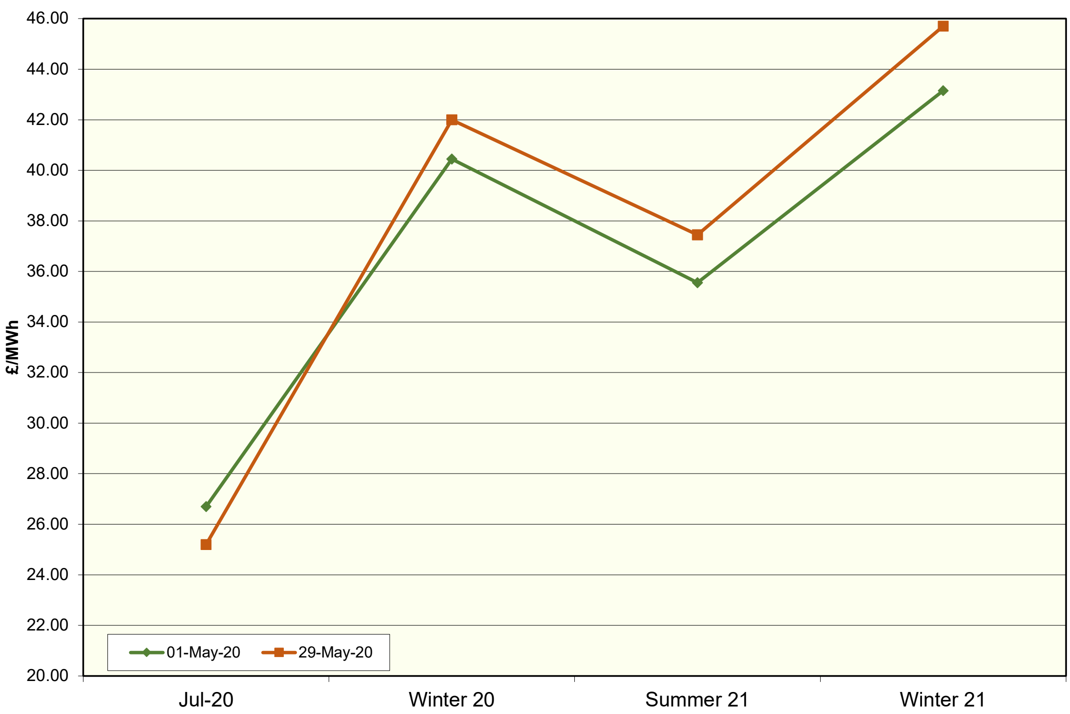
ELECTRICITY REVIEW

OTC Power Price Assessments £/MWh

	Trading date		
	01-May-20	29-May-20	Increase
Jul-20	26.70	25.20	-1.50
Winter 20	40.45	42.00	1.55
Summer 21	35.55	37.45	1.90
Winter 21	43.15	45.70	2.55

OTC Electricity Forward Price Curve



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OIL REVIEW

Money talks

Like the gas market, Brent Crude prices across the month can also be split into three. The first third of the month saw the recovery from record-breaking lows in the previous month; the middle third saw a return to stability with prices plateauing around the US$35 per barrel mark; the final third saw the bulls begin to run again with over US$5 per barrel listed in the final week of May.

An underlying factor for this volatile pattern of events is the strategy of financially incentivising traders to not take physical delivery of expiring May oil futures in the face of full storage sites and dismal demand. Meanwhile, North Sea oil prices have been bearish following the unprecedented collapse in US oil prices.

We have also seen curbs in output threatened from both Norway and Saudi Arabia in June, and increased diplomatic tensions between the US and China over the handling and reporting of the coronavirus, which reportedly began in the central Chinese city of Wuhan.

It should be noted that Norway's planned oil production cuts, introduced in June, could also lead to a reduction in the associated natural gas that is produced at some of the oil fields.

SALES

The ups and downs of the energy market

All crises create winners and losers and the coronavirus pandemic is no different when it comes to how much people are paying for their energy.

Compare electricity and gas prices from the period before the pandemic took hold, and adversely affected so many lives, to today's market and there is no comparison.

With the global economic slowdown came a vast reduction in energy consumption – by as much as 38% in April – as factories and offices shut up shop, and prices plummeted as a result.

Summer 2021 electricity prices took a massive hit, falling by 32 percent from the start of October until May 20, from £55.01 to £37.50, while Summer 2022 swung by 24 percent.

In terms of gas, there were equally big fluctuations over the near eight-month period. As of May 20th, Summer 2021 prices had gone from £53.34 to £30.23 – a 43 percent reduction.

Our team of expert energy consultants constantly analyse the energy markets to help clients try and strike deals with suppliers at just the right time. For Summer 2022, prices were cut by 36 percent.

Whilst this is clearly not an exact science all the indications at present are that this is a good time to review your energy contract renewal options.

We are starting to see the forward prices recover as the lockdown restrictions start to ease, but these costs are still low based on wholesale costs back in October/November 2019.

That lag won't last forever though, and as more and more people go back to work, there will be an inevitable knock-on effect on prices as demand for energy increases.

If you would like to talk to us about your renewal options, please give us a call on 01225-867722.

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