

# Wholesale Markets



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 Energy  
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# Analysis of wholesale markets

May 2022

Downward price driver



Upward price driver



Gas +5.15%



Power +4.5%



## Short Term: Volatile

There is a lot of uncertainty in the energy landscape at present. This will likely result in a lot of volatility in the short term outlook.

## Long Term: Slightly Bearish

Over a long timeline, we would expect wholesale markets to assume a gradual downward trend as medium term solutions to supply are introduced, easing a very tight energy market.

### Bitesize Snapshot

- Russian invasion intensifies in Ukraine ↑
- EU ban of Russian oil agreed ↑
- Russia cuts off gas flows to Netherlands and Finland ↑
- China begins to ease Covid-19 restrictions ↑
- Ongoing rouble payment risk ↑
- Oil holds value over \$120/barrel ↑
- High system demand ↑
  
- UK gas storage levels increased to 94% ↓
- EU gas storage passes 50% mark ↓
- Most GazProm clients have facilitated roubles payments ↓
- Warm June outlook ↓
- High wind generation over May ↓

### Price change from other commodities

Commodity	Value 03/05	Value 31/05	Value change
Brent Oil	\$104.97	\$122.84	+ 17%
UK ETS Carbon DEC 22	£88.19	£84.02	- 4.7%
Coal 2021	\$221.17	\$242.15	+9.5%
Pound/Euro Cross rate	£1.18	£1.17	- 0.8%

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

May 2022

## Review of market movements over May

Following falling prices in April, May has seen a modest rise of around 5% in each commodity. The volatility in the markets is still present, but easing off from the heights we saw over March. Over the last three months, prices are relatively unchanged, with no long term trend in movement. Below are some key market drivers that occurred over May:

### Key Drivers

#### EU ban of Russian oil agreed

Following a few weeks of discussions, the EU has agreed to a partial ban on Russian oil, with the aim of cutting funding to the war in Ukraine. Three quarters of Russian oil imports will be immediately affected, rising to 90% by the end of the year.

Seaborne oil tankers will be banned immediately, which covers around two thirds. A key concession has been given to parts of East Europe following push backs from Hungary, who are heavily dependent on Russian oil among others in that region.

It is therefore not yet clear when the EU will seek to move to a complete oil embargo, but a 90% target by the end of the year is already significant. It is one of the biggest factors leading to a further run up in oil prices this month, as much of the world observes record fuel prices.

#### Russia cuts off gas flows to Netherlands and Finland

Having already seen Poland and Bulgaria cut off in the previous month, two more nations have been added to the list in Finland and the Netherlands. First was Finland on the 20th May, with the Nordic country refusing to pay in the demanded Roubles. It also coincided with the same week Finland applied for NATO membership, with many seeing this as a political statement, given the timing.

The Netherlands followed on the 31st, with GazProm suspending gas supplies to GasTerra due to the Dutch traders "failure to pay in rubles". With the Netherlands only reliant on Russia for 15% of its gas supply, they feel confident to be able to cope and mitigate the disruption.

Both events sent other European markets higher. Mainly with the fear other nations could be next, and a clear demonstration that Russia is prepared to use natural gas as a 'political weapon' which could have future consequences.

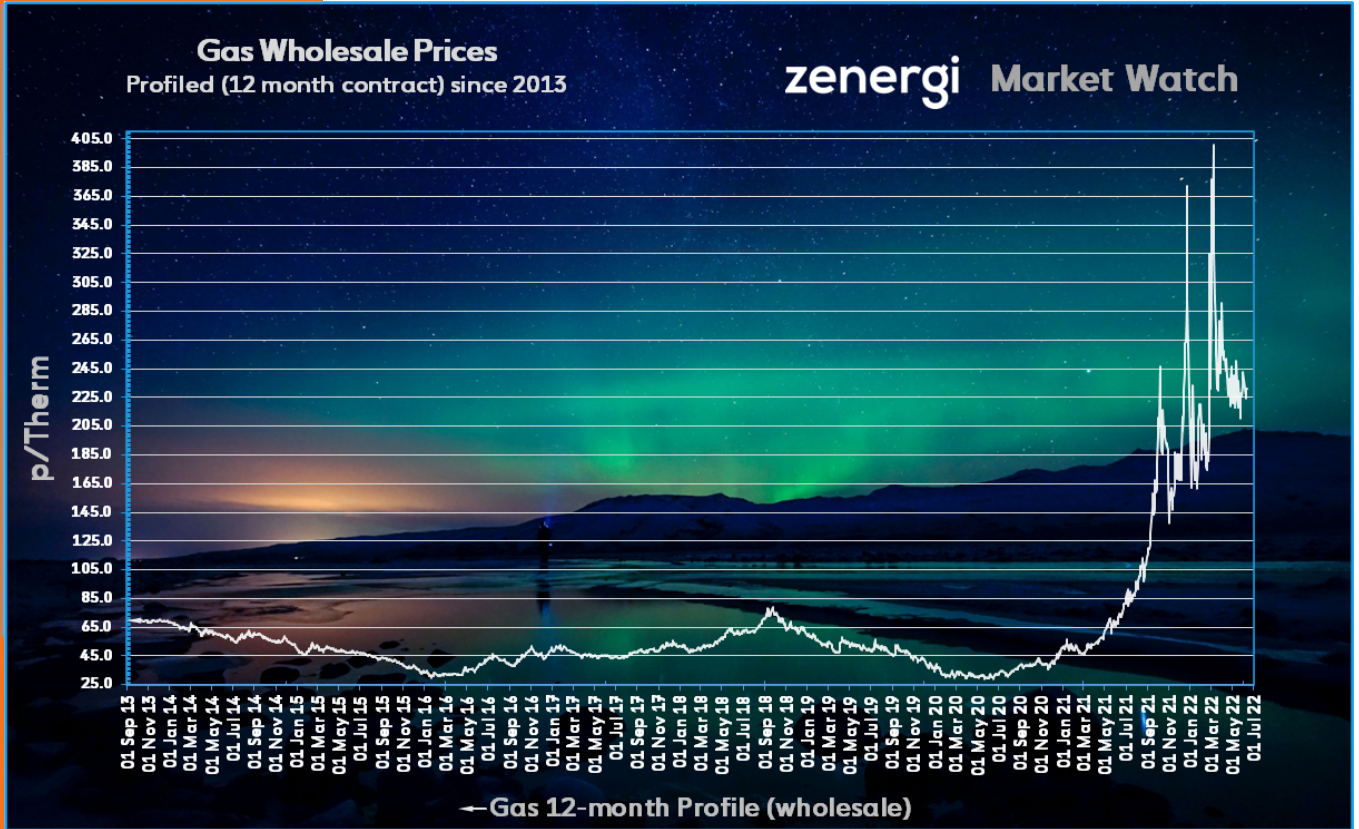
#### Oil marches on in value, gaining 17% over the month

Oil has seen the strongest gains of all the energy commodities over May. Despite being well above its average valuation, it ran up a further 17%, hitting 3-month highs and getting close to the \$129 peak we saw at the start of March.

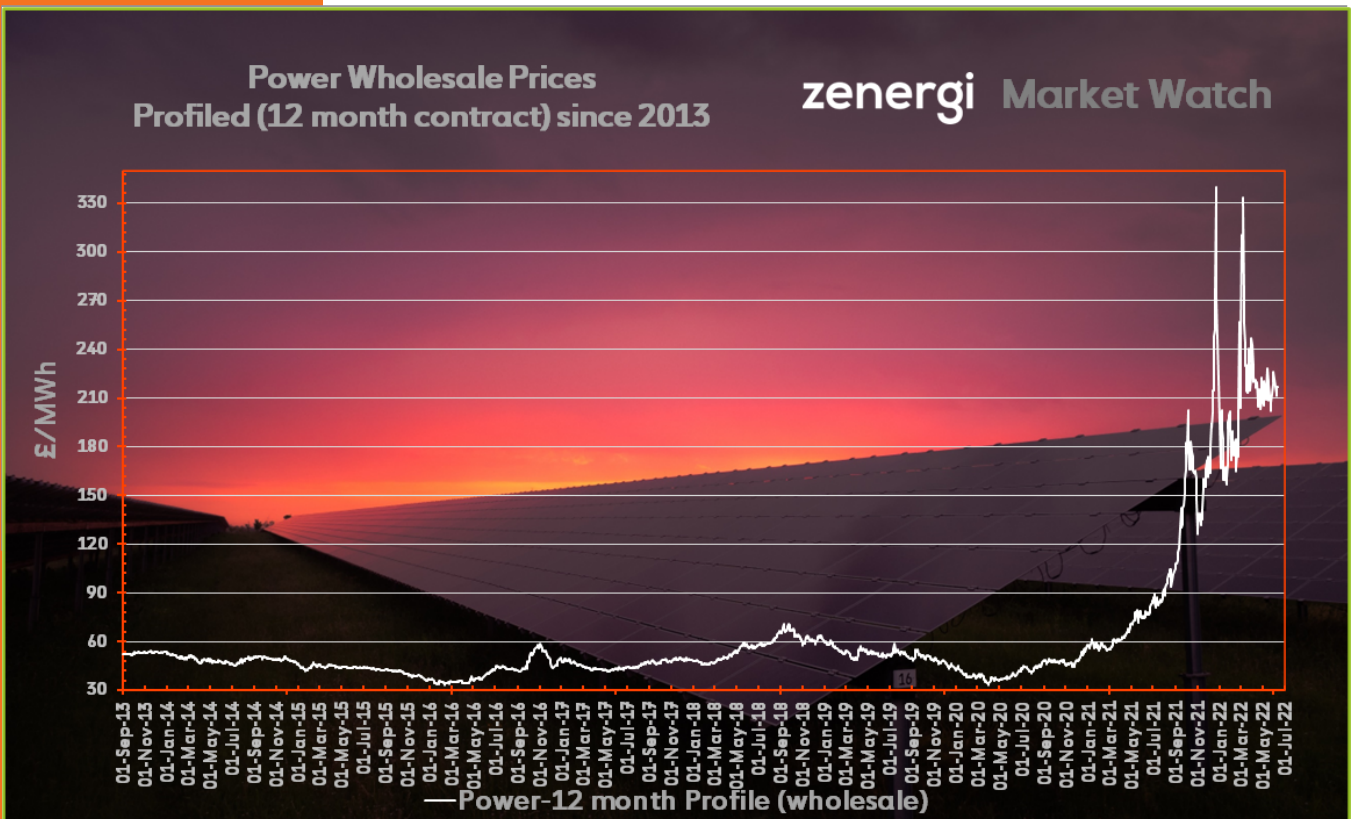
Aside from the EU oil ban as mentioned, oil has been lifted from signs and reports that China is rolling back its Covid-19 restrictions at a fast pace. This action would likely lead to the world's biggest importer of oil to return to near-normal consumption levels and increase global demand.

# 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 oil keep climbing higher?

Last month saw several bullish factors impact oil prices and push them higher. Will that trend continue into June? Though we are focusing on gas and power markets, at the valuation oil is trading at, oil is having an impact across the energy complex and keeping prices propped up.

One factor to monitor in June is global demand. We have already seen OPEC cut its global demand forecast by 480,000bpd on the back of economic concerns. On the flip side, we have seen them lag behind pledged output hikes.

Movement either way this month in the oil market will influence wider market movements.

### Will any further nations fall victim to GazProm's supply cuts

Two a month for the last two months has been the going rate of nations having their gas supply cut off. Since Putin's demands of Rouble payments in April, the majority of nations would have had to pay for April deliveries by now. This helps to ease fears in the market. However, we do know there are some participants that have still publicly refused the payment terms.

Will we see any further disruption in June?

### Weather outlook for June

Average wind levels and above average temperatures are forecasted for the UK in June. This lends to the side of favorable weather conditions. That is providing the above average temperatures do not lead to heatwaves, which would spike cooling energy demand.

## Recommendation

The truth is, the UK wholesale markets have not moved a great deal over the last three months, since the correction of the March run-up. We have had variation of prices over that time, peaks and troughs and volatility. But there will not be a great deal of difference in most scenarios from where the market is right now in that time frame.

It is likely this consolidated valuation in the market will hold strong leading up to October, therefore, it's unwise to over stress 'timing the market' best you can if you are an upcoming October start, and focus on implementing energy saving infrastructure in preparation for a high value market environment. This is something we can assist with and arrange here at Zenergi. You can ask your Relationship Manager for further information.