Wholesale Markets

briar

Energy Management

apolloenergy

part of the zenergi family

Analysis of wholesale markets

April 2022

Downward price driver ↓

Upward price driver ↑

Short Term: Volatile

Volatility is expected to remain in the market, in an ever changing energy landscape. The global energy market is currently very tight, and more prone to volatility as a result of short and medium term price drivers.

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 propose to ban Russian oil starting 2023 ↑
- Russia cuts off gas flows to Poland and Bulgaria over Rouble payment dispute ↑
- Carbon market resurgent following March dip ↑
- Ongoing ruble payment risk ↑
- Oil holds value over $100/barrel ↑
- High system demand ↑

- UK gas storage levels increased to 89% ↓
- EU gas storage higher than this time last year ↓
- EU Storage pledge to reach 90% by Nov 22 ↓
- Second highest LNG deliveries ever into UK in April ↓
- Warm May weather outlook ↓

Gas -10.4% ↓

Power -4.1% ↓

Price change from other commodities

Commodity	Value 31/03	Value 29/04	Value change
Brent Oil	$107.91	$109.34	+ 1.3%
UK ETS Carbon DEC 22	£75.77	£80.75	+6.6%
Coal 2021	$190	$209	+10%
Pound/Euro Cross rate	£1.18	£1.19	+0.8%

Scott - 023 8028 6300 - scott@zenergi.co.uk

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

April 2022

Review of market movements over April

April has seen prices come back down from the record price valuations we saw in March, as the market adjusts to changing drivers and risks in the markets. Overall, gas prices are down 10%, while power prices have fallen 4%. Below are this month's key drivers:

Key Drivers

LNG coming in at higher levels for the UK

April saw the second highest LNG (Liquid Natural Gas) deliveries into the UK, second only to the month of January this year, as global output increases and Europe out-competes with Asian markets for the cargoes.

For most of 2022, Europe has been trading at a higher premium to Asia for natural gas, and 'flexi LNG' which are cargoes that are typically positioned between the two markets, such as the U.S., have been sending more deliveries Europe's way. It has become a strong steady supply source, helping to pick up the shortfalls from elsewhere, and easing some market fears.

Sourcing LNG is however, becoming increasingly competitive as many nations look towards it as the solution to becoming less reliant on Russian gas. The recent heatwaves in South Asia, could also prompt a spike in energy intensive cooling systems, which could push up the Asian LNG spot price, and shift more cargoes their way over Europe.

EU & UK gas storage levels improve

Both the UK and EU have been able to begin injection season over April, beginning to replenish gas storage levels. We have seen UK storage levels go from 78% to 89%, while the much larger capacity of EU levels have climbed 26% to 32%.

It is a promising start to the replenishment, but for the case for the EU, this would have to accelerate to reach a legal requirement of 90% by November. Reaching this figure would put Europe into a much stronger position for next winter.

Russia cuts off Poland & Bulgaria over Roubles payment dispute

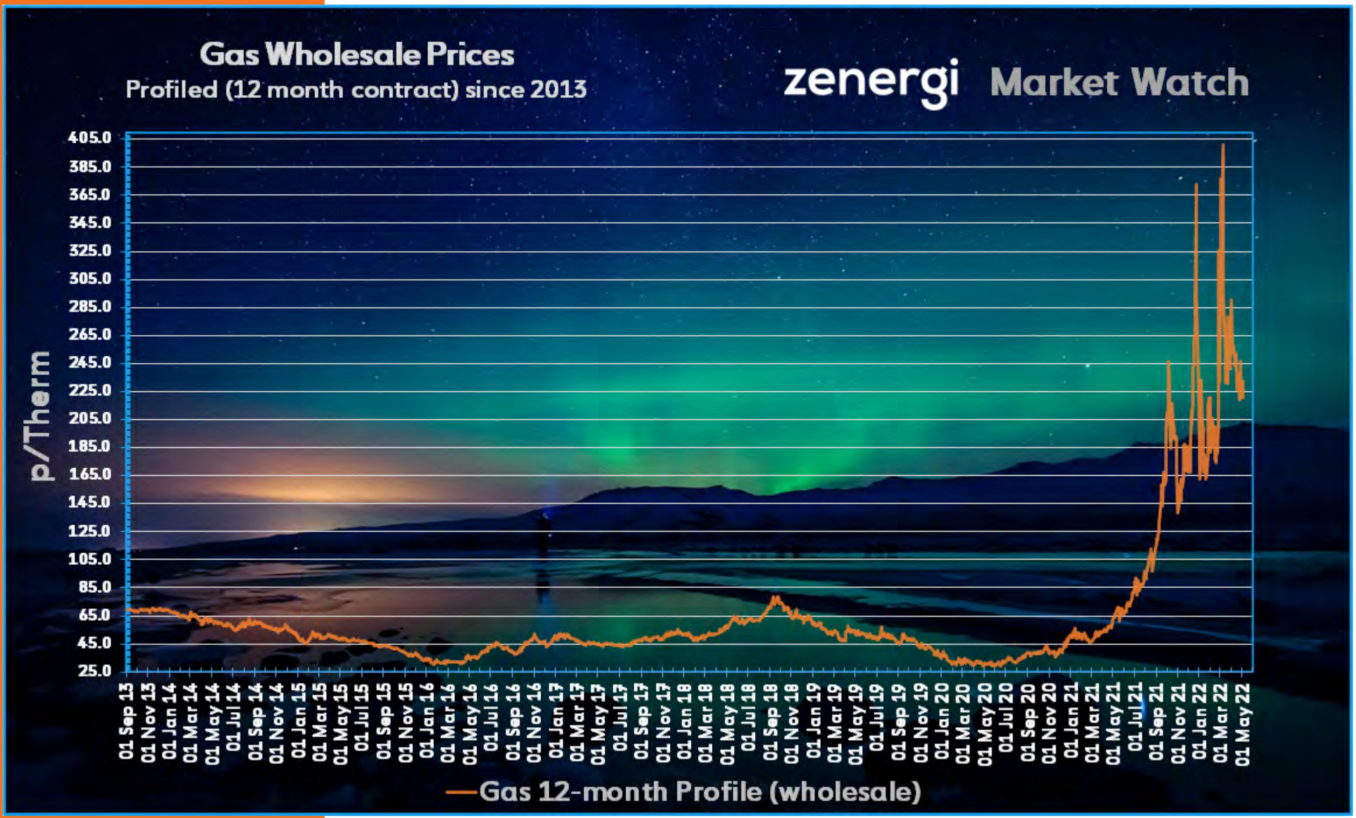
Any doubt that Russia was not serious over the insistence of payments in its national currency were realised on the 27th April, when GazProm cut off both Poland and Bulgaria, both of who did not pay in the requested currency through an exchange.

This was an immediate bullish driver in the markets, however, in some ways became a more bearish one over the days, as we saw a number of companies and nations open up accounts with GazPrombank, who conduct the transactions of dollars and euros into roubles. This led to the short term fear of more nations being affected quickly dissipate and near term prices sold off as a result.

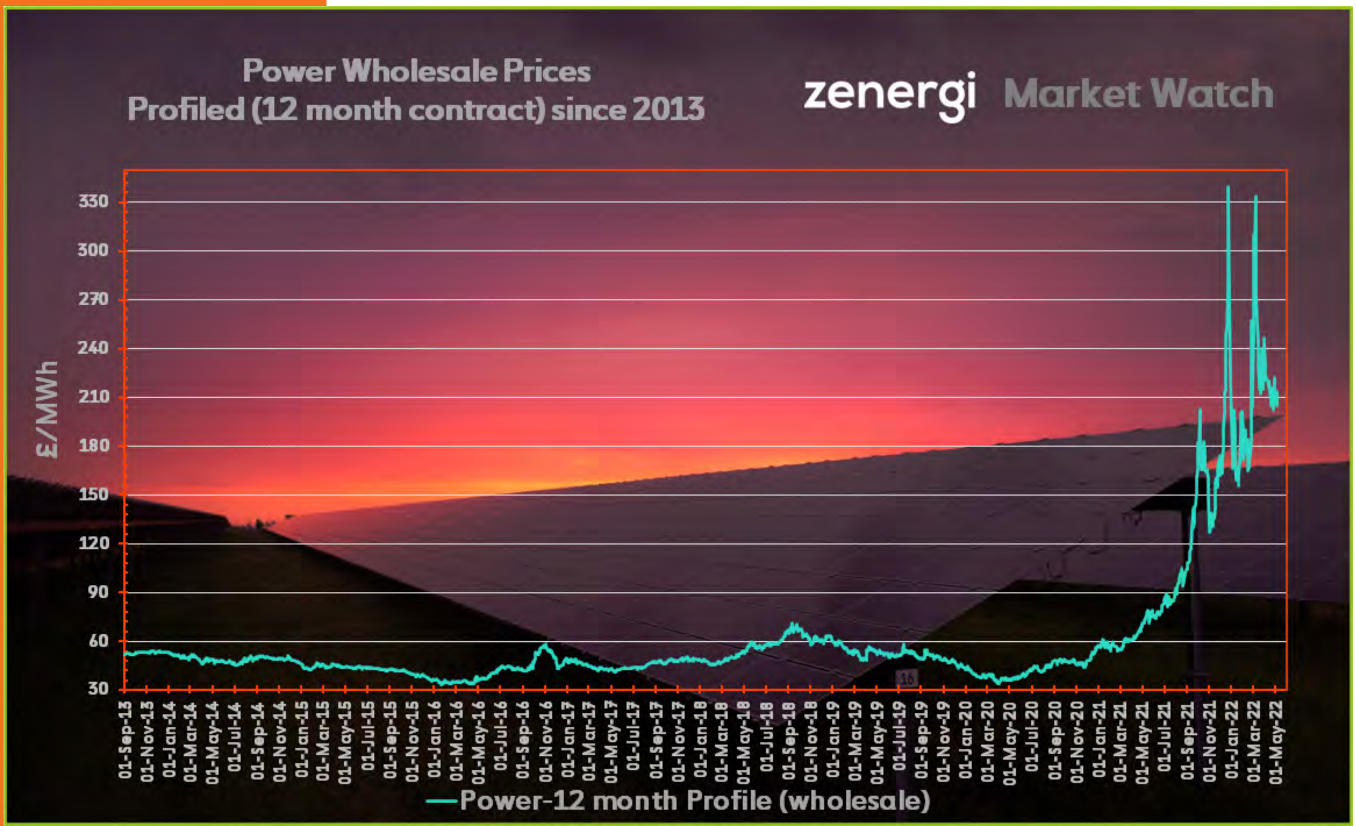
Scott - 023 8028 6300 - scott@zenergi.co.uk

Long term Graphs

Graph 1: Wholesale gas prices 2013 to date



Graph 2: Wholesale power prices 2013 to date



Outlook

Prediction and key events for the month ahead

Will EU's Russian oil ban go through?

The European Union are proposing to completely phase out oil sourced from Russia by the start of 2023, just over 6 months time.

However it requires support from all 27 member states to be approved, and some nations are much more dependent and will feel a greater impact from the ban than others.

One country putting the ban in jeopardy is Hungary, which sources over 65% of its oil supplies from Russia, and is geographically at a disadvantage in sourcing alternatives given its location and land locked status.

Under the embargo plan, the likes of Hungary and Slovakia have been given an extra year to transition, however, that may not sway them in voting against the move. This is a key event to look out for this month.

Will Russian gas continue to flow reliably into the EU?

Despite the actions against Poland and Bulgaria as mentioned, Russian gas into the EU has been flowing fairly consistently overall, at around 200 to 250GHh/day, although some of the daily variations have been wide at times.

While the EU is actively shifting away from Russian gas, it is still very dependent on the supply in the short to medium term, and would need that supply to continue. May will be an interesting month to monitor the levels once all of April's deliveries have been paid for, with Russia of course insisting in payments in roubles.

Weather outlook for May

May is looking very nice in the UK to put it simply. Forecasts are expecting above average temperatures, but not high enough to warrant high cooling system demand, and decent wind levels at times, both of which boost supply and reduce energy demand.

We have already seen some impact this has had on the day ahead market, and sustained favorable conditions would help to push down the near curve prices into the summer months.

Recommendation

In the current climate, clear cut recommendations on your energy contracts are still hard to conclude, given so much uncertainty, mainly on geopolitical factors at play.

We are starting to see some signs of the markets 'plateauing', and the backwardation price in the market weaken. Going forward, the price difference between a 1 year to 3 year could lessen further.

The reality is, high sustained energy prices may be here for a while, and timing the market, while still important, may be becoming less significant, and reducing your actual consumption becoming more so.

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