Wholesale Markets

briar

Energy Management

apolloenergy

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Analysis of wholesale markets

March 2022

Downward price driver ↓

Upward price driver ↑

Gas 12.5% ↑

Power 10% ↑

Short Term:Volatile

Wholesale prices are still volatile at present, and this is expected to remain while there are many uncertainties in the markets.

Long Term: Slightly Bearish

Prices are far removed from their historical averages. Long term it is expected for them to begin to move back towards these however, this could be a gradual process, with elevated prices remaining for a while.

Bitesize Snapshot

- Russian invasion continues in Ukraine ↑
- European gas storage around 20%↑
- Russian demands for gas payments in Roubles ↑
- Reduction in Russian gas flows to Europe ↑
- Threat of further sanctions on Russian energy exports ↑
- Oil holds value over $100/barrel ↑
- Attack on Zaporizhzhia Nuclear plant ↑

- UK gas storage levels at 77% ↓
- U.S. Pledge to increase LNG supply ↓
- EU Storage pledge to reach 90% by Nov 22 ↓
- 26 LNG deliveries in UK this month ↓
- Norway to ramp up gas output ↓

Price change from other commodities

Commodity	Value 28/02	Value 31/03	Value change
Brent Oil	$101	$107.91	+ 6.8%
UK ETS Carbon DEC 22	£82.21	£75.77	- 7.8%
Coal 2021	$151	$190	+25.8%
Pound/Euro Cross rate	£1.20	£1.18	-1.7%

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

March 2022

Review of market movements over March

March was a record breaking month, where we saw some record breaking valuations at the beginning, and some extreme volatility. Prices did ease from the middle of the month, and overall gas and power prices are up over 10% each month to month. Below are the key drivers in an eventful month.

Key Drivers

Russian Invasion of Ukraine ongoing

We are now 5 weeks into the conflict, which began on the 24th February, and there has been little progress of the conflict ending, or breakthroughs in peace talks.

The conflict brings with it the constant threat of supply disruption, both physical and political. As well as that we are seeing sanctions continually announced, which directly and indirectly impact the energy sector. We have see a wrath of companies self sanctioning as well, placing further question marks on the near term supply source.

As long as the conflict is ongoing, there will be continued speculation of gas supply from Russia, and prices remaining elevated as a result.

EU Gas storages at 20%

Exiting this Winter, European storage levels are due to be much lower than usual, and could drop further with the start of April looking cold for the continent. Along with a EU law for EU nations to reach 90% capacity by November, it is anticipated that gas purchasing will be significant and in fierce competition this summer.

As a result we are seeing this years summer months, normally cheaper in price, trade in line with next winters prices, if not higher.

Another strong month of LNG deliveries

Since the start of the year, the UK has had a strong LNG delivery record, and March is no different with 23 vessels delivered.

The strong deliveries are helping ease supply fears, however competition for LNG is expected to ramp up as Europe and Asia look to compete for the supply in the future, which could push up the values on the spot market.

Oil price resilient at over $100

With exception of a two day dip, Brent Crude has traded well above $100/barrel all month. This is helping to support other energy commodities with the sentimental link to gas and power prices.

While it did not rise much month to month, the fact it is consolidating at this new price range will help to prop up further dated energy contracts with the expectation oil will be at a high valuation for a while yet.

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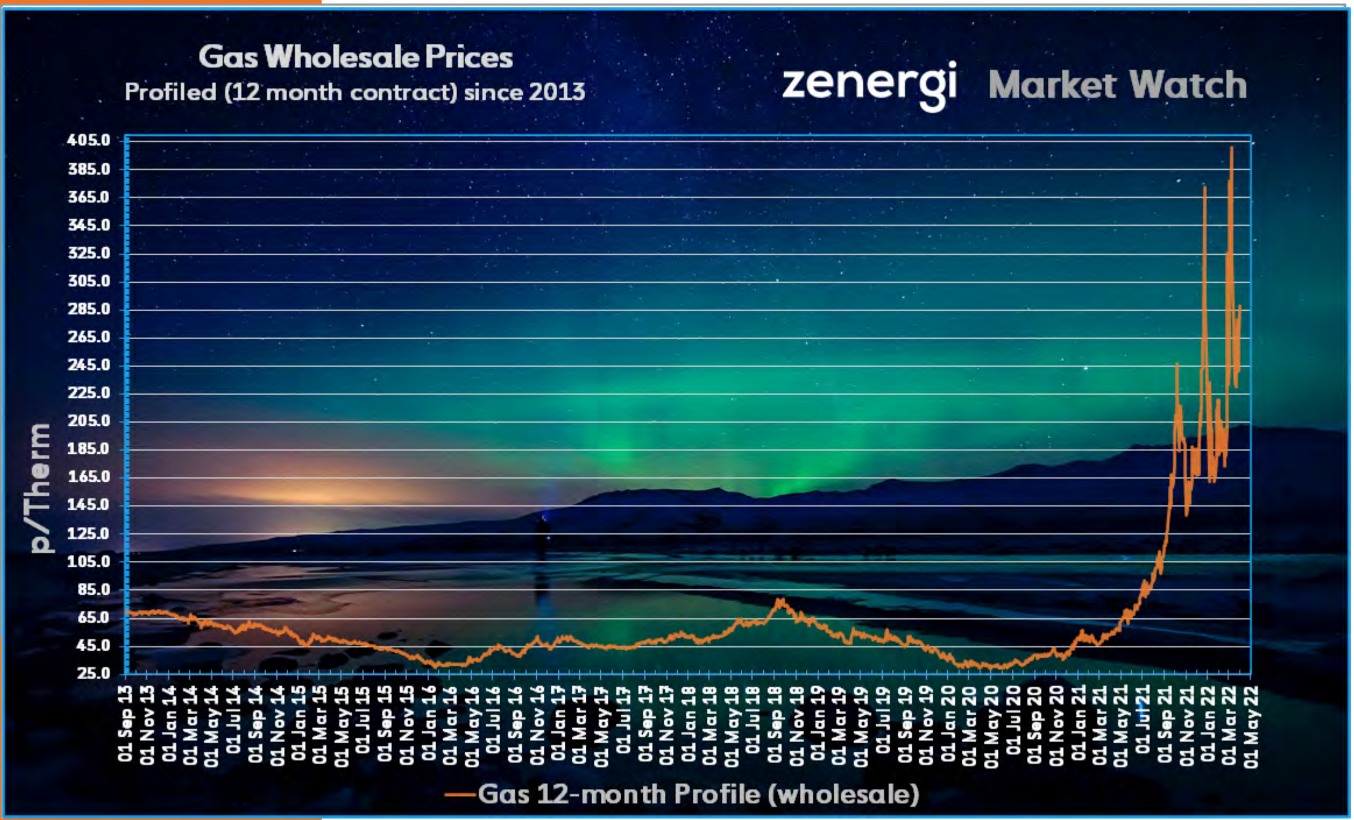
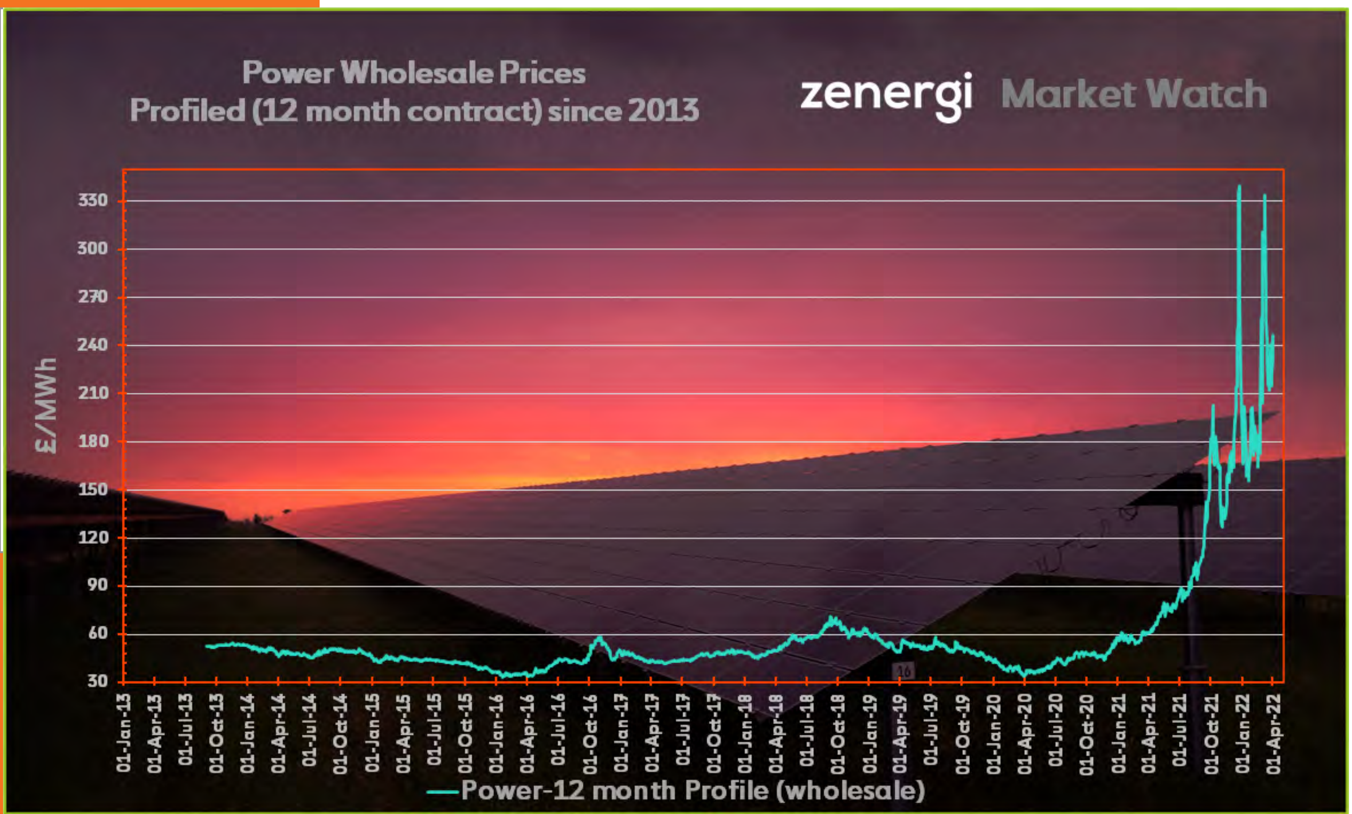
Long term Graphs

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 there be progress in peace talks between Russia and Ukraine?

Towards the end of the month, Russia and Ukraine delegates met once again to negotiate peace talks and terms in Istanbul. For the first time, there was some constructive outcomes, with Russia announcing they will 'significantly reduce' military presence around Kyiv.

This was welcomed news, but this did come a lot of skepticism from Ukraine and the west, citing actions speak louder than words and that it was a way for Russia to re-deploy troops without conceding defeat in capturing Kyiv.

Either way, if peace talks keep progressing, we could see the situation de-escalate, but we have a long way to go before we reach this stage, but progress could be made this month nonetheless.

Can Europe rely on Russian gas to continue?

A fallout of the payment term demands to be in Roubles, and the push back from Europe, has been the growing threat and statement gas contracts would 'not be honored.

Both Russia and Europe are at a stalemate and what happens next has the markets on edge.

Weather outlook for April

Aside from the start of the month, temperatures are expected to be above seasonal averages. Coupled with some wet windy conditions in typical 'April shower' fashion, the conditions could support high wind generation, while keeping heating demand lower.

The weather conditions on this forecast therefore would lend themselves towards a bearish driver. As always forecasts are a prediction and subject to change.

Recommendation

Since last months report, the energy markets remain as uncertain as ever, with each month bringing forth a new worry it would appear, or compounding supply issues. Prices remain well above historical averages still, and while we expect them to trend downwards over the long term, there is a growing acceptance high valuations will be here for a while, with plenty of volatility along the way.

Therefore we would suggest re-evaluating what represents good value in today's markets, with the acceptance valuations are going to be higher than what we are used too for a while. This is the same approach the Market Watch team here in Zenergi have undertaken, as we reset our price targets, and our recommendation is you will have to do the same with your energy budgets.

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