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ENERGY

Energy Market Report

4th October 2022

Gas

In September prices retreated from the peak seen at the end of August. Further Nord Stream news threatened to turn the tide but overall prices trended down returning to levels seen around mid-August. These prices are still over double the levels seen prior to the invasion of Ukraine in February.

Recent weeks have seen UK government intervention providing support for businesses for at least the next 6 months (Oct-Mar). These announcements had a small impact on the market but have been somewhat overshadowed by constantly evolving, ongoing Nord Stream 1 (NS1) saga.

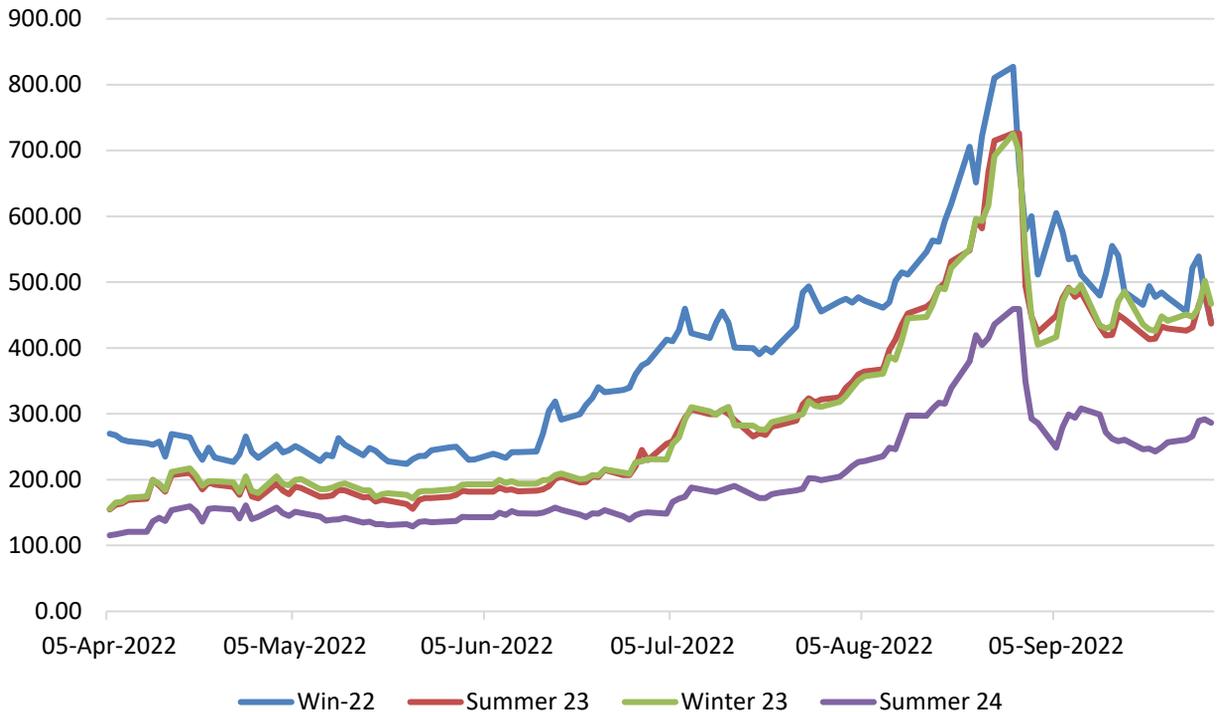
After being shut down for essential maintenance at the end of August, NS1 did not come back online and as a result the market spiked to new highs.

On 26th September news broke of a possible sabotage causing irreparable damage to both NS1 and NS2. There is an ongoing case of 'who done it' underway but suggestions of state sponsored terrorism look increasingly likely, but which state currently remains a mystery. No gas was flowing to Europe through the pipelines but the possibility of flows beginning has now possibly been completely removed as the damage is likely to be permanent. This has added to concerns that gas shortages will continue into next Winter. Markets were also strengthened by threats from Russia to sanction Naftogaz that could see Russian gas flows via Ukraine finally ceased, this would be an end to the last route to Europe for Russian piped gas.

Despite all of the above, the markets showed a downward trend as we reached the end of the summer season. Strong European storage positions, the UK's business energy support scheme, further EU meetings regarding windfall taxes, and Germany's announcement to release a 200 Billion Euro package to support its energy market have seemingly eased some of the pressure.

After the Nord Stream news markets initially increased as much as 20%, they have since returned to levels seen around mid-August, but it is clear there is now longer-term pressure on the source of gas for NWE. This is especially evident from the parity visible between where the Winter 22 gas price closed at the end of September and Winter 23 (W-22 c.440p/th / W-23 c.460p/th). The same is not currently true of electricity (W-22 c.£570 MW / W-23 c.£380 MW).

Seasonal UK NBP GBp / Therm



Outlook Drivers

We have now reached the winter season so much of the focus will be on the weather forecast. Cold weather will dramatically impact gas consumption and therefore increase likelihood of shortages this winter which would push the market up short and long term.

Bearish signals



- Mild winter.
- Continuation of low LNG demand in China.
- Effective demand reduction throughout Europe.
- High renewable and nuclear generation.

Bullish signals



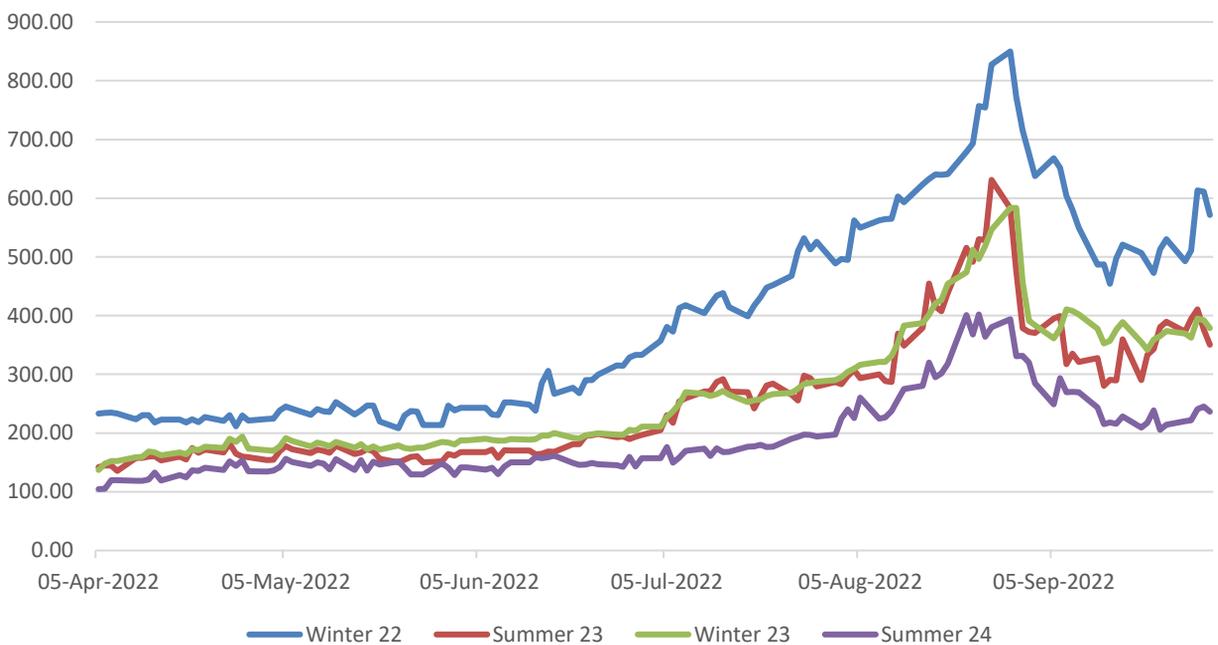
- Cold winter.
- Any disruption to LNG exports or unexpected gas production outages.
- Continued Nuclear production concerns and potential for low renewable generation.

Electricity

Electricity prices once again broadly mirrored the movement seen on gas generally trending downwards from the peaks seen at the end of August.



Seasonal UK Baseload Electricity
£/MW



All data courtesy of Reuters

Price context

Although prices have declined severely from the extreme peaks at the end of August the below table shows how they remain elevated when compared to June & July.

Elec	End September	Peak	End Sept Difference	Mid-Aug	End Sept Difference	Mid-July	End Sept Difference	Mid-June	End Sept Difference
W-22	569	870	-35%	594	-4%	433	32%	262	117%
S-23	335	575	-42%	375	-11%	255	31%	177	89%
W-23	353	587	-40%	389	-9%	267	33%	191	85%
S-24	225	395	-43%	279	-19%	166	36%	143	58%
Gas									
W-22	482	833	-42%	512	-6%	440	10%	269	79%
S-23	441	730	-40%	448	-2%	304	45%	191	131%
W-23	489	714	-31%	443	11%	304	61%	202	142%
S-24	282	457	-38%	296	-5%	190	49%	153	85%



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