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ENERGY

Energy Market Report

31st October 2022

Gas

Through October an extremely mild start to the winter season collapsed the Day Ahead NBP price.

Unseasonably warm weather, strong wind production, and close to full gas storage across North West Europe pushed Day-Ahead prices down well below 100p/th for the first time since early summer.

During October the Nord Stream saga continued. According to Swedish authorities, they have found evidence of detonators being used on the pipeline attacks. It has become clear that it was a state-sponsored and deliberate act of sabotage, but the perpetrator still remains a mystery. Russia recently pointed the finger at the UK but provided no evidence, the UK quickly dismissed this claim. Despite Presidents Putin stating that Europe could be provided gas via one of the undamaged strings of Nord Stream 2 this winter, it is widely understood that flows via any of the pipelines would be physically impossible.

There was good news for the European market from China who said it would likely decrease its LNG demand this winter, meaning less competition for Europe.

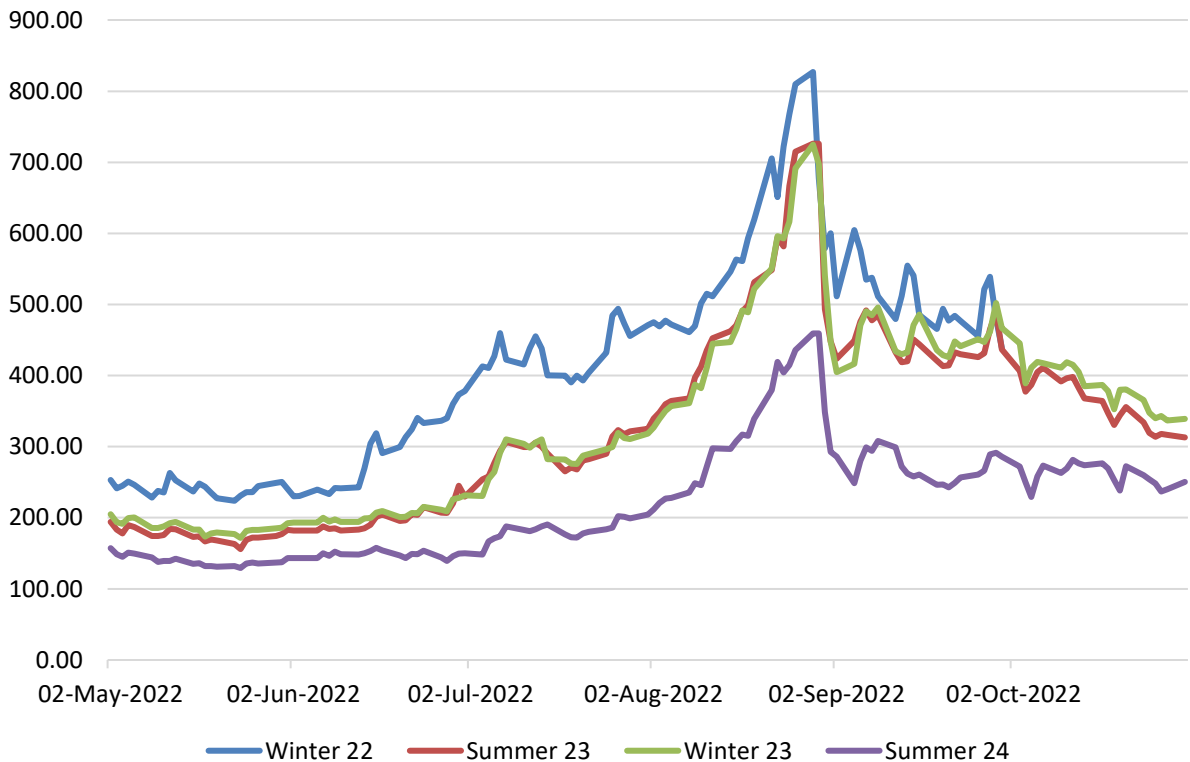
German gas storage is now around 97% full, considerably higher than the 5-year average of 89% for this time of the year. Wider EU gas storage level are at roughly 93%.

Warm weather, full storage, and ample LNG supply are keeping spot prices low. However, some media outlets appear to be quick to assume the price crisis is over which is far from the truth. Supply still looks extremely tight over the remainder of winter and a spell of normal seasonal weather would see storage supplies quickly depleted. In all but a mild winter scenario the supply and demand balance is extremely tight.

Prices are about 70% lower than the peak seen in late August but they are still three times higher than the 10-year average. Perhaps suggesting this favourable warm start to the winter season is the calm before the storm.

Wider financial markets seem have reacted somewhat favourably to the news that Rishi Sunak is the new UK Prime Minister.

Seasonal UK NBP
GBP / Therm



Outlook Drivers

Weather continues to be the main driving factor in terms of price direction. A cold spell will not only impact prices for the remainder of winter 22 but will also have a knock on impact on the summer 23 storage injection season and winter 23.

Bearish signals



- Mild winter.
- Strong increase in expected LNG arrivals and increased regasification capacity across NWE.
- Effective demand reduction throughout Europe with a possibility of industrial demand falling further with growing economic weakness and increased inflationary pressure.
- Norwegian production remaining maxed out this winter.

Bullish signals



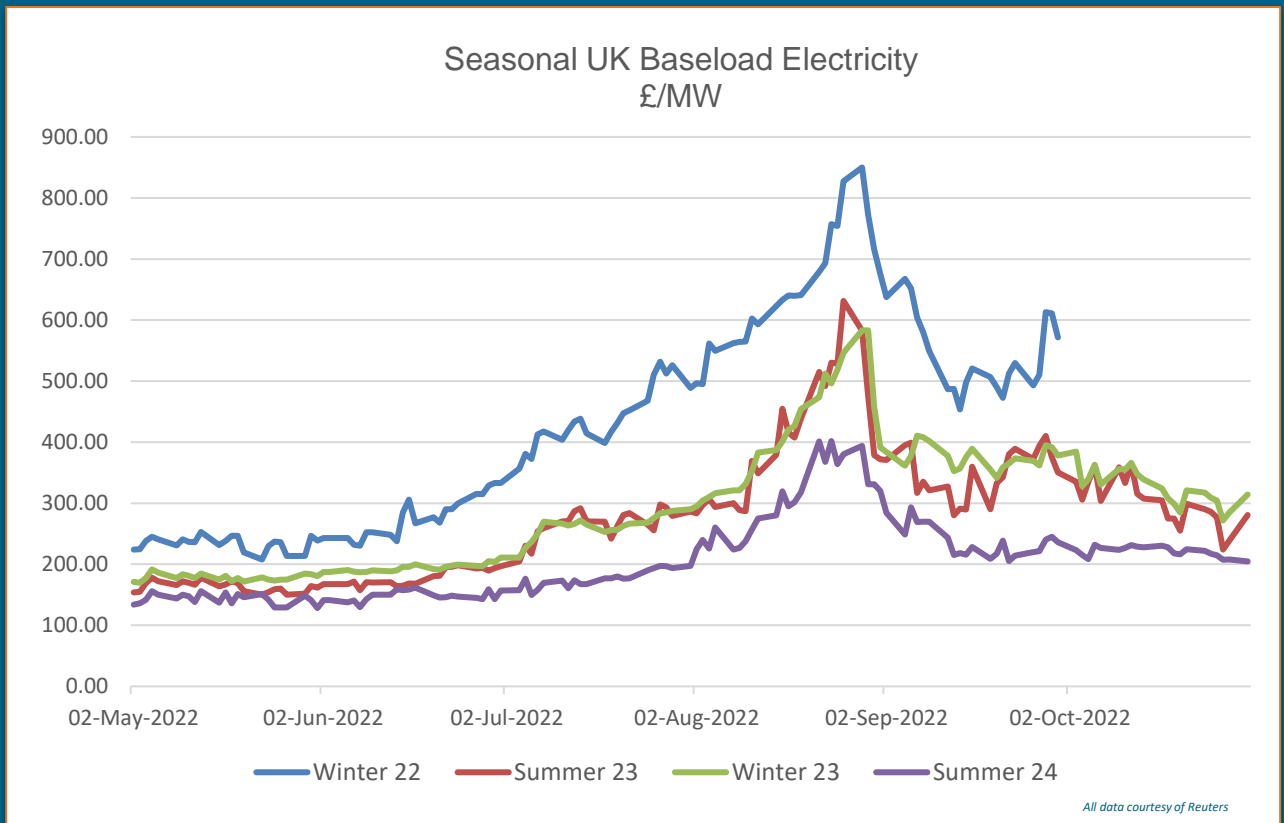
- Cold spell could quickly deplete storage levels.
- Any disruption to LNG exports or unexpected gas production outages.
- Continued Nuclear production concerns and potential for low renewable generation.
- Rebound in Chinese economy resulting in a ramp up in LNG import demand.

Electricity



Electricity prices once again broadly mirrored the movement seen on gas.

However, issues with the French nuclear fleet is causing capacity issues for the winter. This pushed UK prices for January and February sky high (+£1,000 MWh). Due to the interconnected free market, we could see exports from the UK to France during these months, possibly even to the detriment of the UK supply position.



Price context

Seasonal prices have continued to decline from last month but still remain at a premium versus prices from Mid-July and Mid-June. Electricity summer '24 still remains c.4 times higher than a typical price seen 2 years ago with an expectation that they will not return to anywhere near these levels for sometime given the outlook.

Elec	End October	Peak	End Oct Difference	Mid-Aug	End Oct Difference	Mid-July	End Oct Difference	Mid-June	End Oct Difference
S-23	285	575	-50%	375	-24%	255	12%	177	61%
W-23	295	587	-50%	389	-24%	267	11%	191	55%
S-24	195	395	-51%	279	-30%	166	18%	143	37%
Gas									
S-23	326	730	-55%	448	-27%	304	7%	191	71%
W-23	350	714	-51%	443	-21%	304	15%	202	73%
S-24	260	457	-43%	296	-12%	190	37%	153	70%



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