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ENERGY

Energy Market Report

7th December 2022

Gas

November has seen the arrival of cold weather and near term prices have responded accordingly with Day Ahead prices rising around 300p/th in the month.

The mild start has left NW Europe with record high storage levels for this time of year which is currently keeping a lid on prices further down the curve.

Seasonably mild weather continued throughout most of November which kept prices comparatively subdued. During the last week of the month the weather, and the December forecast, shifted colder which prompted an immediate reaction on Day Ahead prices. This near-term price rise also provoked an increase in seasonal prices, however, currently the changes felt are minimal in comparison.

Seasonal prices are currently being shielded from extreme spikes by a number of factors. NWE has record high storage levels at the start of December and there has been strong demand reduction across both gas and power sectors. It is currently difficult to understand exactly how much of that is down to the mild weather but it appears that the reductions seen are larger in magnitude than the weather deviation from seasonal normal indicating at least some level of behavioural change.

Strong LNG supply is helping the fundamental position with a flurry of tankers arriving in the UK during the month. Also, Germany has just completed the construction of a floating terminal at the port of Wilhelmshaven. The regasification and storage unit is the first of six floating terminals to be completed and is due to be commissioned in December increasing Europe's capacity to replace Russian gas with LNG.

For the time being there has been a continuation of the remaining Russian gas supply to Europe via Ukraine. Currently the c.400GWh/day, which is approximately 10% of total historic supply levels from Russia to Europe, continues to flow despite threats to the contrary from the Russian federation.

As we move deeper into the winter months the risks for Europe's future energy supply are clear. Total loss of Russian Gas, a competitive Asian LNG market and the current lack of capacity across Europe to take increased levels of LNG all pose very real threats.



Outlook Drivers

All eyes remain on the weather with recent forecasts predicting that the first full week of December could see cold temperatures advance towards Germany, France, and the UK, possibly reaching about 7.5 degrees Celsius below average in some areas.

Bearish signals



- Mild winter overall.
- Strong increase in expected LNG arrivals and combined with increased regasification capacity across NWE.
- Forecast for higher Norwegian production amid increase in capacity.

Bullish signals



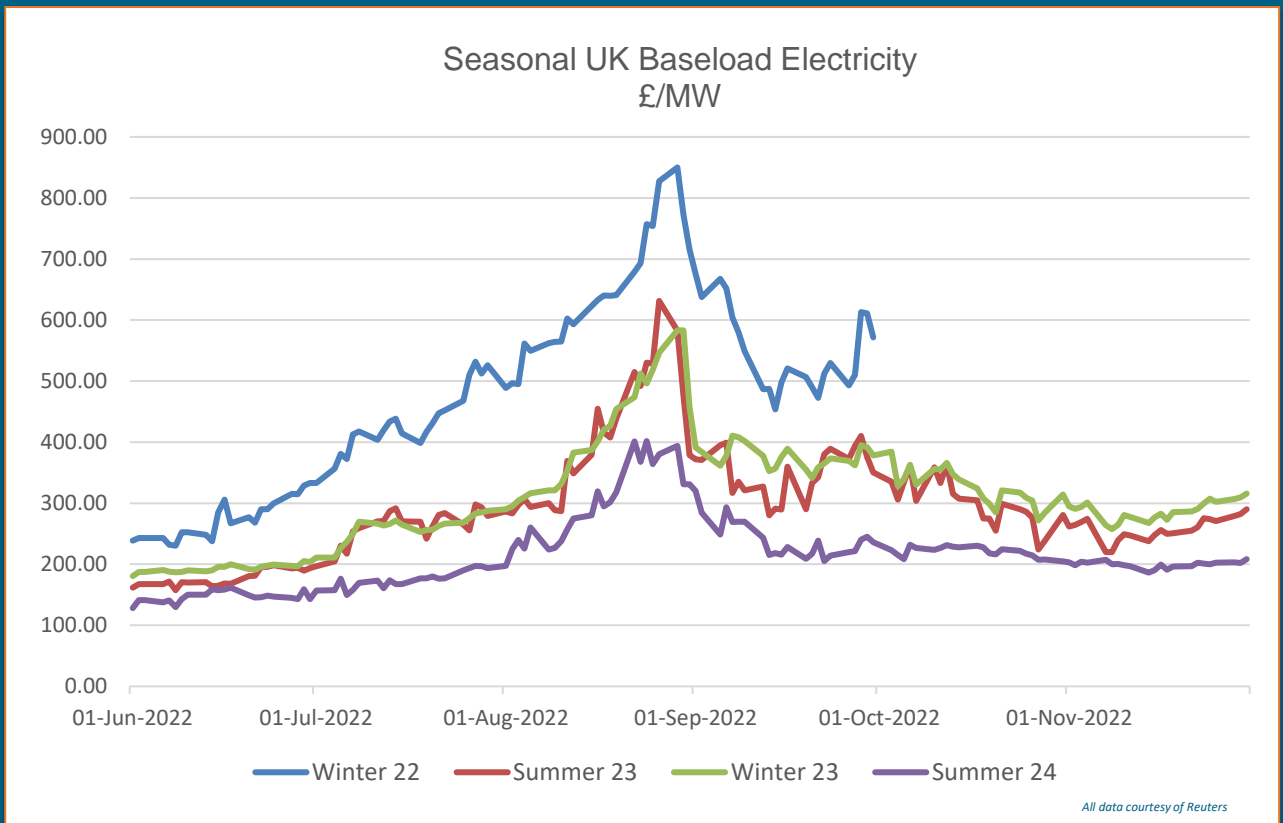
- Implementation of recent threat for Russian to cut or reduce remaining supply to Europe via Ukraine.
- Delays to Freeport LNG restart – currently delayed once until mid-December.
- Continued Nuclear production concern with outages now becoming more frequent.
- EU price cap proposal could add volatility to the market and support higher prices.

Electricity



Electricity prices in the early part of 2023 remain extremely susceptible to spikes due to the precarious supply position throughout Europe.

In a typical year France are one of the largest exporters of power in Europe but not this year. A record number of the countries nuclear reactors have experienced outages forcing France to become a net importer for the first time, adding real pressure to prices for the remainder of this Winter.



Price context

The slow decline in seasonal prices came to a stop at the end of November. The cold weather and tighter fundamentals in near-term curve impacted further dated prices, pushing them up as much as 13% in some cases. However, you still have to go back to July, when Russian gas flows were much higher, to see any substantially cheaper prices.

Elec	End November	Oct Report	End Nov Difference	Peak	End Nov Difference	Mid-Aug	End Nov Difference	Mid-July	End Nov Difference
S-23	311	285	9%	575	-46%	375	-17%	255	22%
W-23	334	295	13%	587	-43%	389	-14%	267	25%
S-24	220	195	13%	395	-44%	279	-21%	166	33%
Gas									
S-23	357	326	10%	730	-51%	448	-20%	304	18%
W-23	361	350	3%	714	-49%	443	-18%	304	19%
S-24	240	260	-8%	457	-48%	296	-19%	190	27%



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