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ENERGY

Energy Market Report

March 2023

3rd March 2023



Gas

March witnessed the end of the month-on-month downward trend observed in recent months. Seasonal prices rose at the end of the period eradicating any losses seen earlier in the month.

The end of the Winter season sees storage across North West Europe close to record highs.

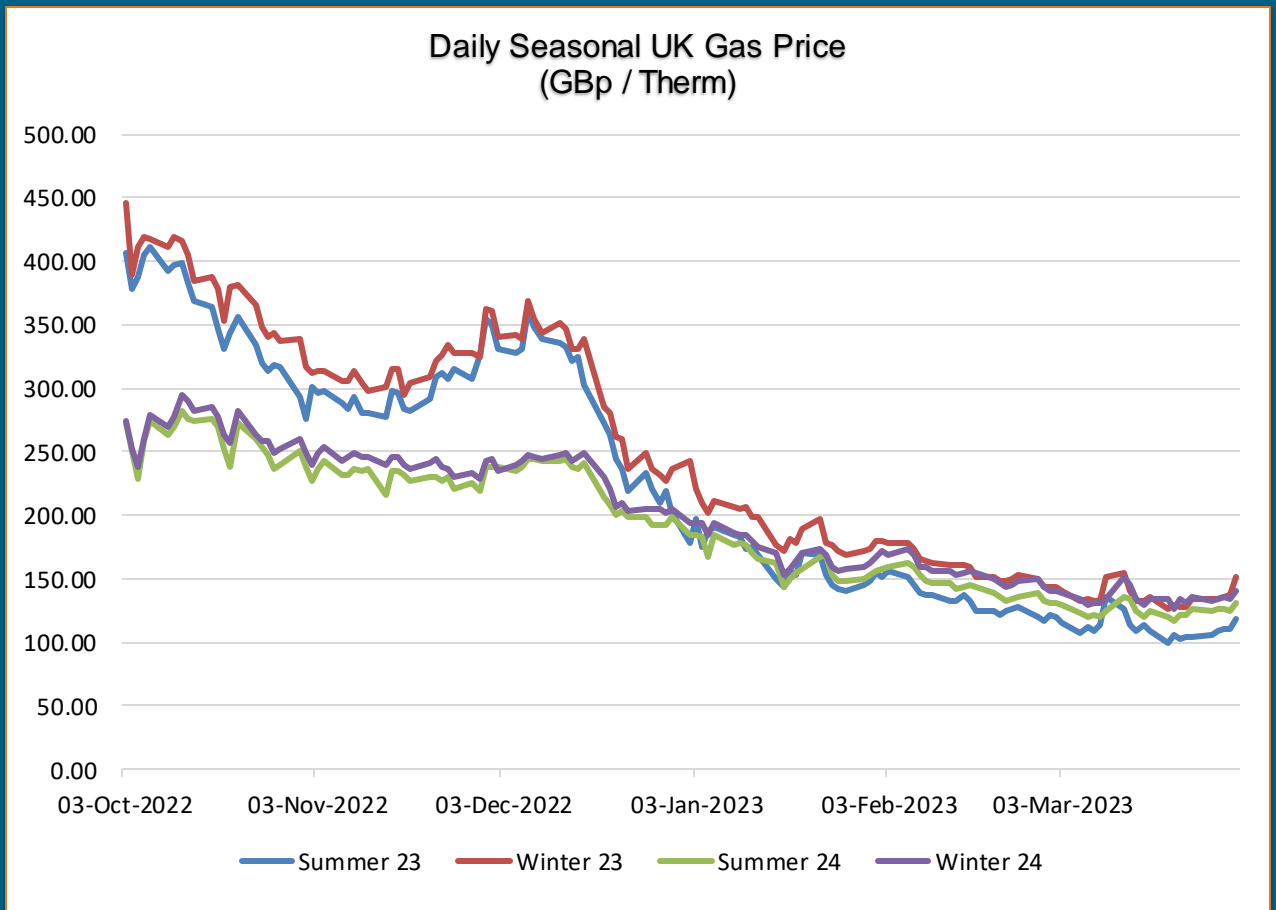
Seasonal prices started the month continuing the downward momentum witnessed through February. A short, sharp rise was witnessed around 10th March as cold weather (snow in the UK) pushed prices up. The really cold temperatures abated and markets returned to recently found levels fairly swiftly after the rise. They then continued to stay close to these levels for around a week until a fairly sharp upward movement was witnessed. Cold weather forecast, French Strikes at both nuclear and LNG terminals, and potential renewed LNG buying interest in Asia, all helped. Seasonal prices ended the month roughly 10% higher than the end of February.

The end of March brings the close of the winter energy season and the end of the first winter season without the vast majority of Russian pipeline gas. North West Europe has managed to achieve what many thought was impossible just months ago by ending the period with no major disruption and importantly near record levels of gas storage. Inventories ended the month around 56% full against a 5-year average of 34%. Although this achievement has not come without huge costs to consumers through unprecedented high energy bills, it is fairly remarkable that the end of winter has been met with a positive market outlook (despite prices being c.3x higher than historical levels). The kind winter weather at key times of the season, demand destruction, and subdued LNG demand from Asia have supported the European supply position allowing gas stocks to remain close to historic highs, reducing pressure on the coming injection season and, at this stage, next winter.

In other news

Nord Stream investigations and finger pointing continue, as Russia continues to push for an open and transparent investigation into the explosions.

The UK Chancellor announced that energy support for domestic consumers will be frozen at the current level of £2,500 annually (for a typical household) until July. However, households received £400 additional support over the winter period, which is not continuing, so in real terms the average annual cost has increased. Nevertheless, it is an improvement as the support level was due to rise to £3,000.



Outlook Drivers

A colder than average forecast for April could provide some bullish pressure with Chinese LNG demand possibly creating further upside. However, the fundamental supply position remains strong with storage in a good position at the start of the injection season.

Bearish signals



- NWE storage at close to record levels.
- LNG regasification capacity to continue to grow across NWE.
- Extension of EU 15% cut to demand until March 2024 should keep demand muted.
- Further demand destruction possible in line with economic weakness and inflationary pressure.

Bullish signals

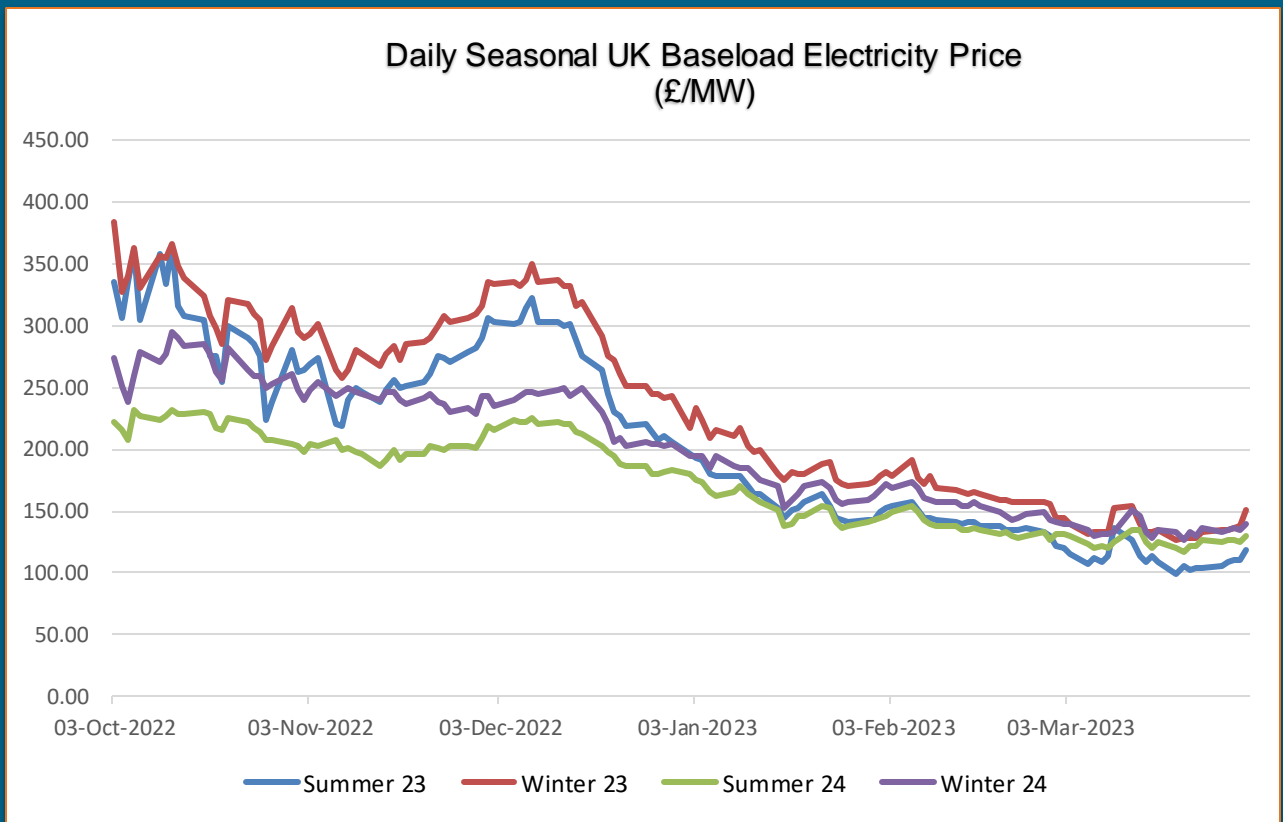


- Colder than average weather expected through April.
- French nuclear generation continues to be plagued with maintenance issues and strike action affecting both Nuclear and LNG supply.
- Potential for lower renewable generation and low hydro balance across NEW.
- Rebound in Chinese demand, an unforeseen demand surge would force European prices higher.

Electricity

Electricity seasonal prices continue to take signals from the gas market following very similar trends.

With roughly 40% of the UK's electricity demand met by burning gas there is likely to remain a strong correlation with the gas market until potential reforms are implemented to decouple fossil fuel produced electricity from renewables.



Price context

Seasonal prices continued to fall slowly for the majority of March. However, the last week of the month saw those losses reversed for gas with electricity still showing a small downside.

Elec	End February	Feb Report	End Feb Difference	Peak	End Mar Difference	Mid-Aug	End MAR Difference	Mid-July	End Mar Difference
S-23	120	129	-7%	575	-79%	375	-68%	255	-53%
W-23	158	171	-8%	587	-73%	389	-60%	267	-41%
S-24	121	127	-5%	395	-69%	279	-57%	166	-27%
Gas									
S-23	118	118	0%	730	-84%	448	-74%	304	-61%
W-23	155	142	9%	714	-78%	443	-65%	304	-49%
S-24	148	129	15%	457	-68%	296	-50%	190	-22%



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