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ENERGY

Energy Market Review

December 2023



3rd January 2024

Market Context

At the start of the December, we witnessed a sharp decline amidst strong fundamentals. Mid-month there was a short blip with Red Sea disruption causing momentary concern before a return of the bearish pressure. This decline continued over the festive period.

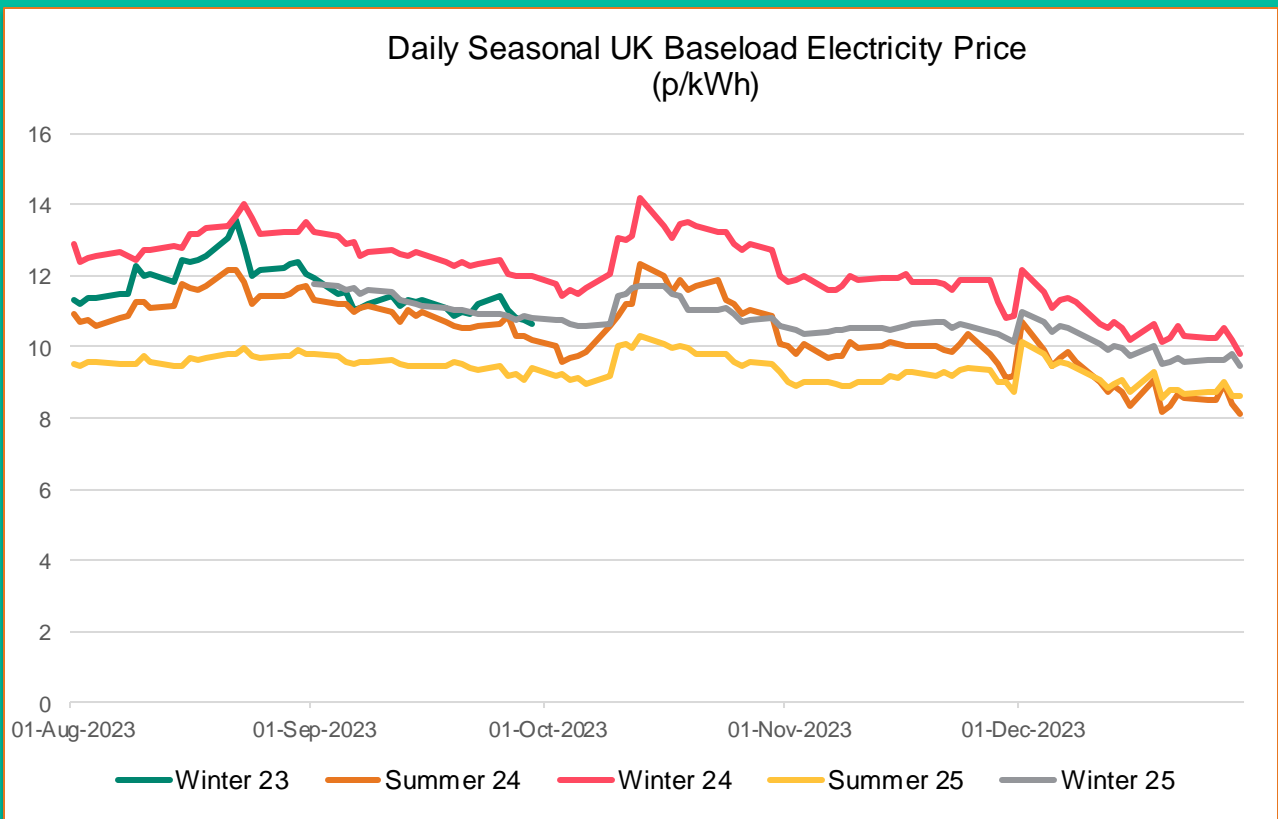
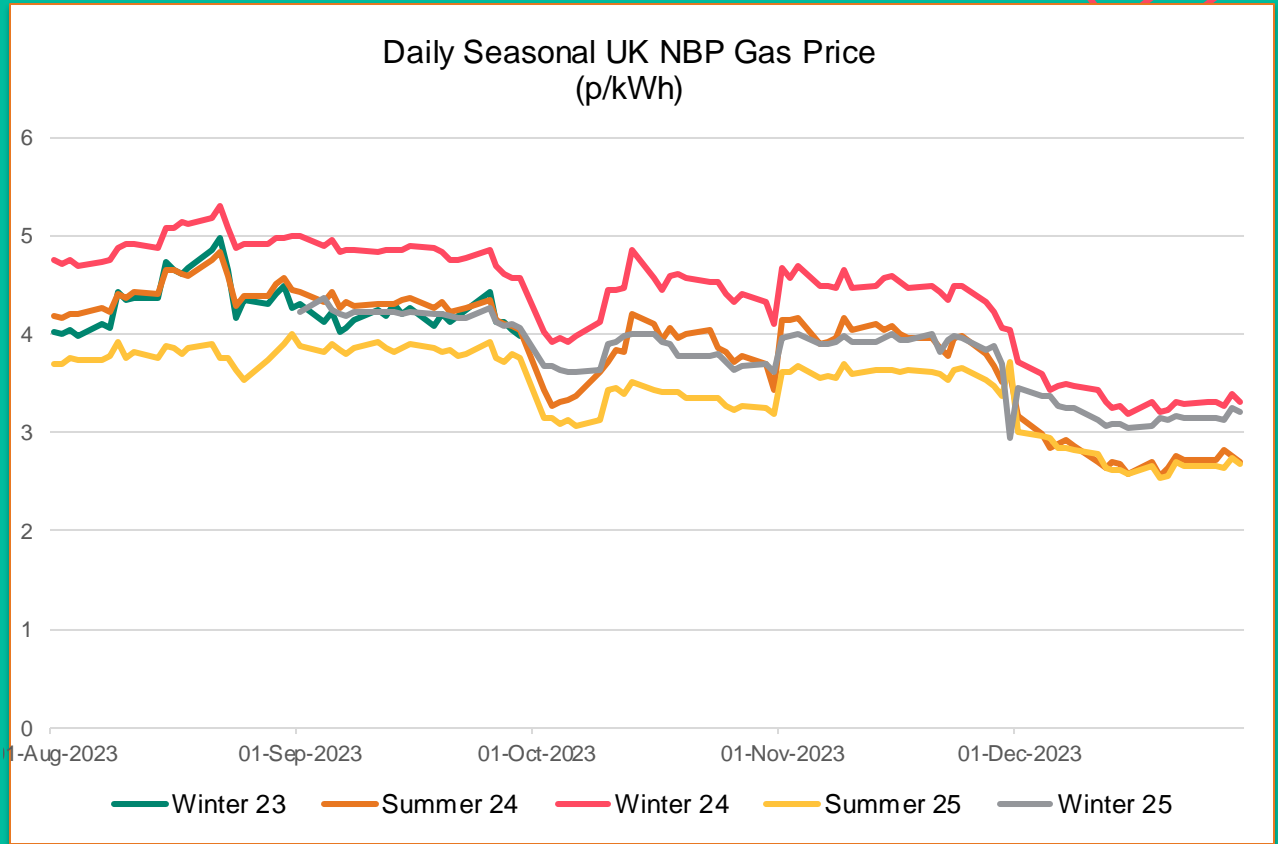
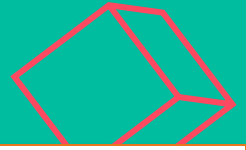
- The first half of month witnessed a sharp downturn off the back of strong fundamentals.
- Norwegian flows, LNG arrivals, and North-west Europe storage were all in a very healthy state.
- A short cold snap early in the month had little impact due to the strong supply position.
- BP were followed by several other firms when they announced a temporary pause in all shipments through the Red Sea amidst concerns regarding rebel attacks in the area which caused markets to spike, in some cases 10%, very briefly.
- In a matter of hours markets settled back down due to the realisation that this would lead to delays rather than loss of supply. Also, several western nations stepped in to provide security in the area creating calm in the market. Further attacks later in the month again failed to disrupt the market.
- North-west Europe gas storage ended December at 87% which is around 13% higher than the 5-year average.

In other news

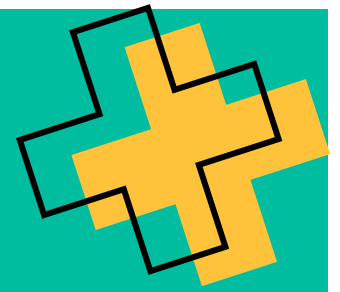
At COP28, held in Dubai during December an agreement was reached which has been called the “beginning of the end” of the fossil fuel era. The ground was laid out for a swift, just and equitable transition which will be underpinned by deep emissions cuts and scaled-up finance.

Critics claimed the language used was grossly insufficient, incoherent, and did not go nearly far enough to meet the challenge faced.

Seasonal Prices



Price Table



During December prices dropped significantly off the back of strong supply and storage creating a fundamental backdrop to drive bearish price movement. Front season prices are now between 50-70% higher than 2019, the lowest they have been for a long time.

		Month End Prices			
		Fuel	Dec-23 (p/kWh)	Nov-23 (p/kWh)	Month-on-Month Difference
Spot Prices	Gas (NBP)		2.68	3.64	-26%
	Power (UK Baseload)		5.94	14.18	-58%
Front Month	Gas (NBP)		2.76	3.53	-11%
	Power (UK Baseload)		8.65	9.09	-5%
Front Season	Gas (NBP)		2.76	3.60	-23%
	Power (UK Baseload)		7.89	9.15	-14%
Annual Price (Oct-23)	Gas (NBP)		3.17	3.90	-19%
	Power (UK Baseload)		8.88	10.10	-12%
Historical Comparison	2019 Average Front Season Price (p/kWh)		% Increase to Dec-23		
	Gas (NBP)	1.64	69%		
	Power (UK Baseload)	5.10	55%		



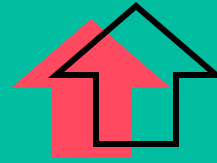
Outlook

As we edge further into winter without any extreme cold weather the storage outlook for the end of March continues to be very positive. We are now at the point where even with a “beast from the east” type scenario storage levels should be extremely healthy. This provides clear bearish pressure on prices. However, geopolitical events or infrastructure disruption could still provide bullish signals.



Bearish signals

- NWE gas storage forecast to continue to remain at record high at end of Jan '24.
- Norwegian exports on track to hit historical highs with high output expected to continue in January.
- LNG arrivals to NWE are expected to increase further in January.
- Demand destruction across domestic and industrial sectors set to continue.



Bullish signals

- Further escalation or widening of the conflict in the Middle East.
- Weather forecasts could be revised lower.
- Lower prices could lead to increase in industrial demand.
- Unplanned outages or disruption to supply infrastructure.



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