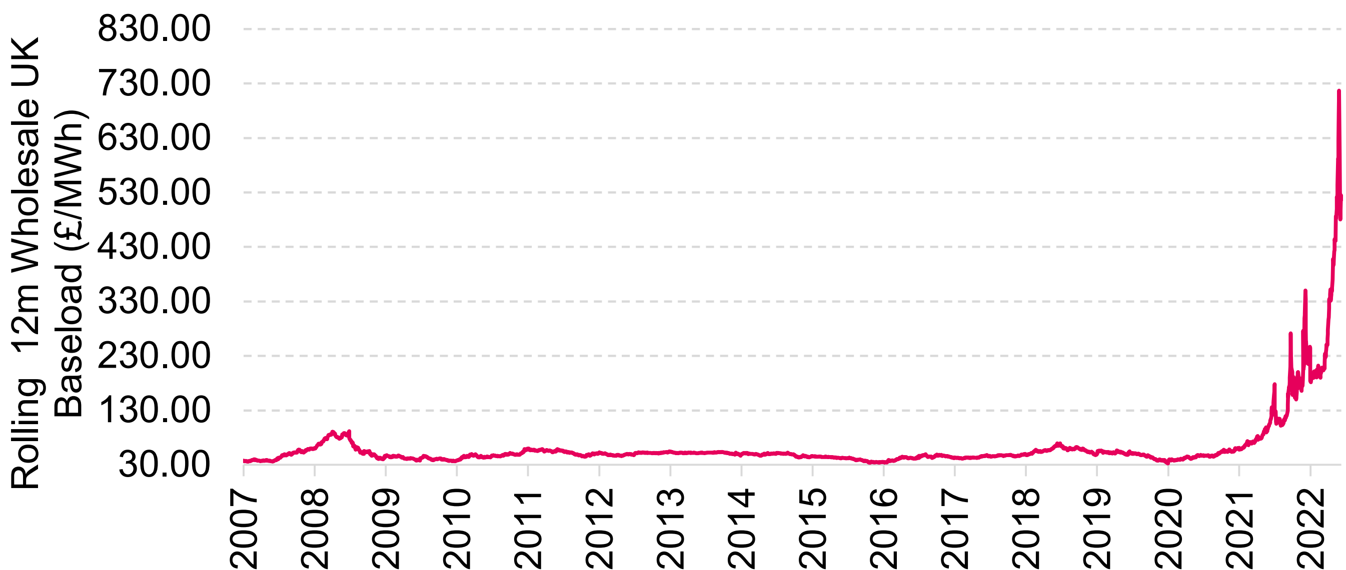
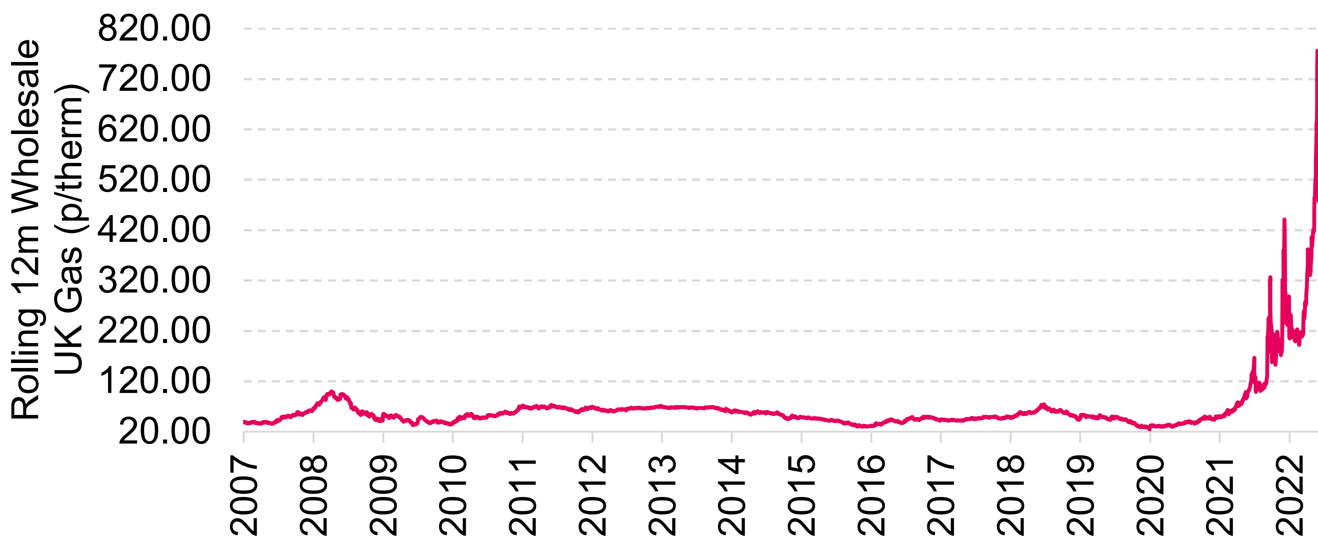
**Market summary and projections produced by Inspired Energy**

**Summary**

Near curve gas contracts have continued to be exposed to strong upside since the Russian invasion of Ukraine, with fears of Russian retaliating to Western sanctions being realised in the form the gas supply cuts into Europe. In early September, Gazprom halted flows through the Nord Stream 1 (NS1) pipeline and reduced flows to France. This has led to heightened fears over European gas supply over the coming winter as Russia has historically been Europe's biggest gas provider. The EU announced earlier this month that it had met its 80% gas storage target well ahead of the November deadline, somewhat easing supply concerns ahead of the coming winter, all be it with storage being filled at great expense due to elevated prices. Previously, it was feared that tight gas supplies would not have allowed Europe to replenish gas storage at anywhere near the required rate ahead of the expected reductions in Russian gas flows. However, the UKs gas storage capacity is not at the standard seen across Europe, leaving us more exposed to wholesale gas price fluctuations.

Price action in near curve power markets has continued to be strongly correlated with gas markets in the recent months as natural gas accounts for around 50% of power generation in the UK and Europe. French Nuclear output is forecast to be reduced for the remainder of 2022 and 2023, with many major nuclear power reactors being taken offline for maintenance. Historically, France has been a net exporter of power to the UK and the rest Europe. This has usually led to decreased reliance on gas-fired generation, but this will not be the case over the coming winter, exacerbating fossil-fuelled generation. The coal benchmark moving to the upside over recent months also looks to provide further bullish pressure as coal looks set to become more prevalent in the UK power stack in the short-term to counteract tight gas markets






**Projections**

Looking ahead, price action is likely to be exposed to bullish pressure as we head into the Winter months. Throughout Sep-22 Norwegian gas flows are likely to remain restricted following planned maintenance at multiple Norwegian gas facilities. This is for maintenance that was due earlier on in the year, however due to the reduced Russian flows maintenance was pushed back, although this is now a necessity to avoid further disruptions from potential accidents. However, once this maintenance has been completed Norway remains on track for record gas exports into Europe throughout the remainder of Winter-22. This is likely to provide bearish signals to UK and EU markets as it somewhat alleviates gas supply concerns and increases supply security. This would ease concerns surrounding the halt in flows via the Nord Stream 1 pipeline. The news was announced on 2nd Sep-22, citing an oil leak in one of the remaining active turbines, when the pipeline was due to return to 20% capacity, the capacity it had been operating at for some time, on the 3rd Sep-22. The news was followed by over a 30% price rise due to the weaker supply security, with no signs of when flows will return, which is providing additional bullish pressure as we head into the winter months.

The UK and Europe has looked to offset the loss in Russian supply by importing more Liquefied Natural Gas (LNG) from further afield, with Germany constructing two temporary floating terminals to process LNG cargoes. However, the US freeport LNG facility outage has now been extended to Nov-22, restricting the number of LNG cargoes from US. Furthermore, Asian LNG spot prices have been on the rise, demonstrating there will likely be greater competition for LNG cargoes as we move into Winter-22. In contrast, following the return of the Freeport facility in Nov-22, this would likely start to provide downside with more LNG cargoes available to be purchased by the UK and EU.

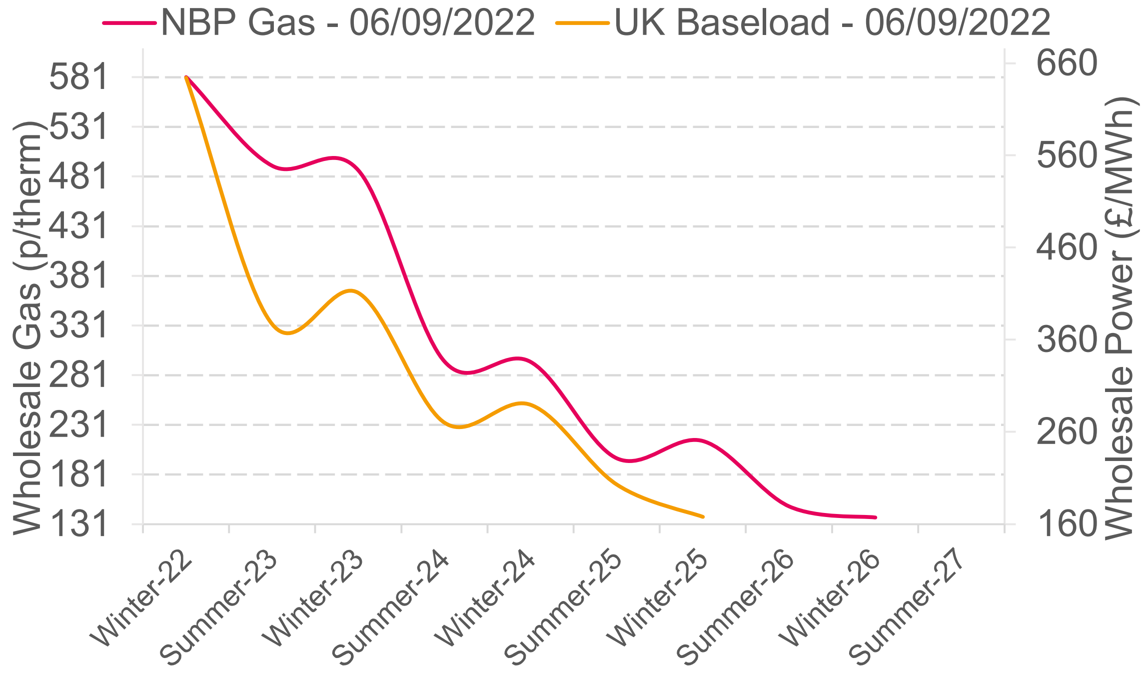
The European Commission has also announced that it intends to intervene directly in European energy markets to tackle the persistent high prices. An attempt to de-couple power prices from gas prices is likely to be made so that the cost of cheaper renewables can be reflected in the market. They also indicated a structural reform of the power markets is in the works. Although this alludes to EU energy markets, it is likely to put pressure on the UK government to act in turn. The response from markets is likely to be bearish as governments across Europe will be intervening directly to bring prices down.

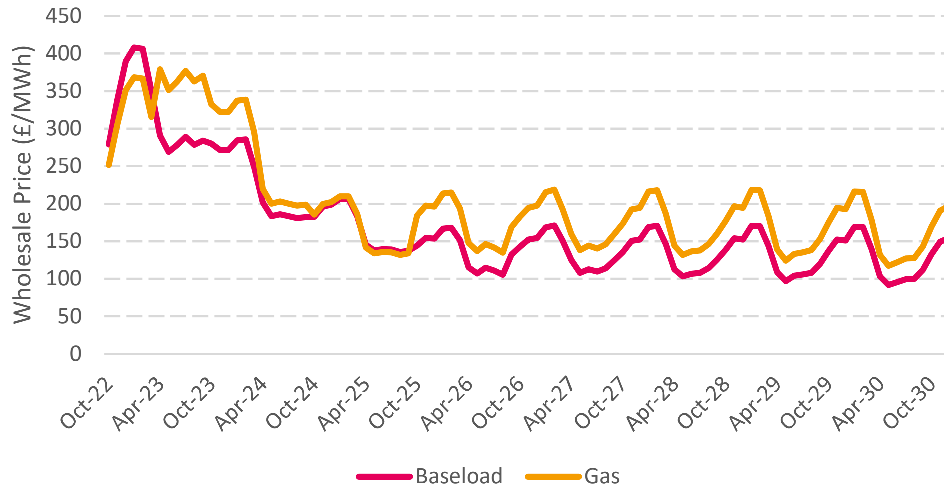
Looking further ahead, The S-23 contract has been exposed to similar drivers as the near curve and W-22 contract, with concerns over gas supplies bleeding into 2023 and beyond. To counteract this, the UK government has sanctioned the reopening of the Rough gas storage facility in order to boost gas storage capacity, therefore leaving the UK less exposed to wholesale gas markets over the winter. The facility, which is owned and operated by Centrica, accounted for 70% of the UKs gas storage before its closure in 2017. Although increased storage will ease supply concerns in the long term, it is likely to provide bullish pressure to the S-23 as a result of increased storage injection demand. In addition, Europe will continue with its plans to further diversify away from Russian gas and will continue to import more LNG from further afield. However, LNG is typically more costly than pipeline gas due to shipping costs and is also bought on a global marketplace, meaning we are often competing against Asian hubs with strong gas demand.

This comes at a time of rising global gas demand due to commitments to phase-out (or down in some cases) coal from nations globally, with gas largely seen as a transitionary fuel away from coal. This raises competition for LNG cargoes, which unlike pipeline gas do not have geographical limitations; cargoes can largely be sent to any nation willing to pay the highest price. Despite these bullish drivers, increasing signs of a recession in western nations, indicated by high levels of inflation and contracting GDPs in some nations, could provide a limit to the upside. A recession could see domestic demand limited as consumers cut back on spending, whilst the impact on industrial demand could be similar as higher commodity and energy costs incentivise a slowdown in industrial activity.

Low nuclear output from France's EDF, following the lower output revision for 2023 like with 2022, is likely to exacerbate this demand for fossil-fuelled generation at a time of elevated fossil-fuelled premiums. Whilst growing signs of a recession could have a similarly bearish impact on power markets as they have on gas markets, it could also provide some bullish signals to these later-dated contracts. This stems from the elevated levels of commodity inflation, which could limit investment into new renewable capacity, with costs associated with new wind and solar rising around 30% since this time last year. Renewable generation is typically amongst the cheapest forms of generating power, with lower renewables on the system likely to add bullish pressure to markets.

The impact of tight gas markets and the potential suppression of investment into renewables could be heightened due to the ageing state of UK nuclear reactors, with capacity set to decline in coming years. Should there be a slowdown in renewable installations coming online, the capacity shortfall is likely to be met by gas-fired generation, leaving power markets more susceptible to gas market dynamics. The impact of tight gas markets and the potential suppression of investment into renewables could be heightened due to the ageing state of UK nuclear reactors, with capacity set to decline in coming years. Should there be a slowdown in renewable installations coming online, the capacity shortfall is likely to be met by gas-fired generation, leaving power markets more susceptible to gas market dynamics.


NBP Gas - 06/09/2022
UK Baseload - 06/09/2022
Wholesale Gas (p/therm)
Wholesale Power (£/MWh)
581
531
481
431
381
331
281
231
181
131
660
560
460
360
260
160
Winter-22
Summer-23
Winter-23
Summer-24
Winter-24
Summer-25
Winter-25
Summer-26
Winter-26
Summer-27


Wholesale Gas and Power Price Forecast
Wholesale Price (£/MWh)
450
400
350
300
250
200
150
100
50
0
Oct-22
Apr-23
Oct-23
Apr-24
Oct-24
Apr-25
Oct-25
Apr-26
Oct-26
Apr-27
Oct-27
Apr-28
Oct-28
Apr-29
Oct-29
Apr-30
Oct-30
Baseload
Gas