

QUARTER 4 - 2020

ENERGY BUDGET OPTIMISATION REPORT



HELPING YOUR BUSINESS ACHIEVE COMPETITIVE ADVANTAGE



RECORD VOLATILITY

Will a coronavirus second wave impact markets?



GOING INTO WINTER

Will energy prices remain subdued this winter?



ENERGY SERVICES

Electric vehicle market continues to grow.



SUMMARY

How can your business get ahead?



WELCOME TO THE ADVANTAGE UTILITIES ENERGY BUDGET OPTIMISATION REPORT Q4, 2020

Here we take a detailed look at the current International and UK market drivers. These are the factors that will dictate the trading opportunities in 2020 and ultimately the cost of energy over the next 12 months.

Uncertainty and volatility are always present in the energy market. This means it is important to be informed about what could affect your energy budget as we like to think that more information drives smarter decisions.

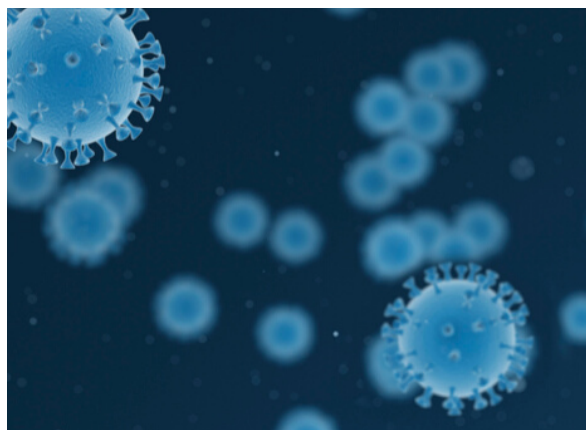
ISSUES COVERED IN THIS REPORT:

- 1. Record Volatility**
- 2. Going into Winter**
- 3. Energy Services**
- 4. Summary**

1. RECORD VOLATILITY – CORONAVIRUS UPDATE

WHAT WILL THIS MEAN FOR MARKETS?

As it has been well documented, the UK government announced another round of lockdown measures to combat the “second wave” of Covid-19. As in many other countries around the world, the UK has seen a rise in virus cases and the rate of infection surpass 1. As a result, the virus’ alert level has been upgraded to a level 4, meaning that cases are high or exponentially rising.



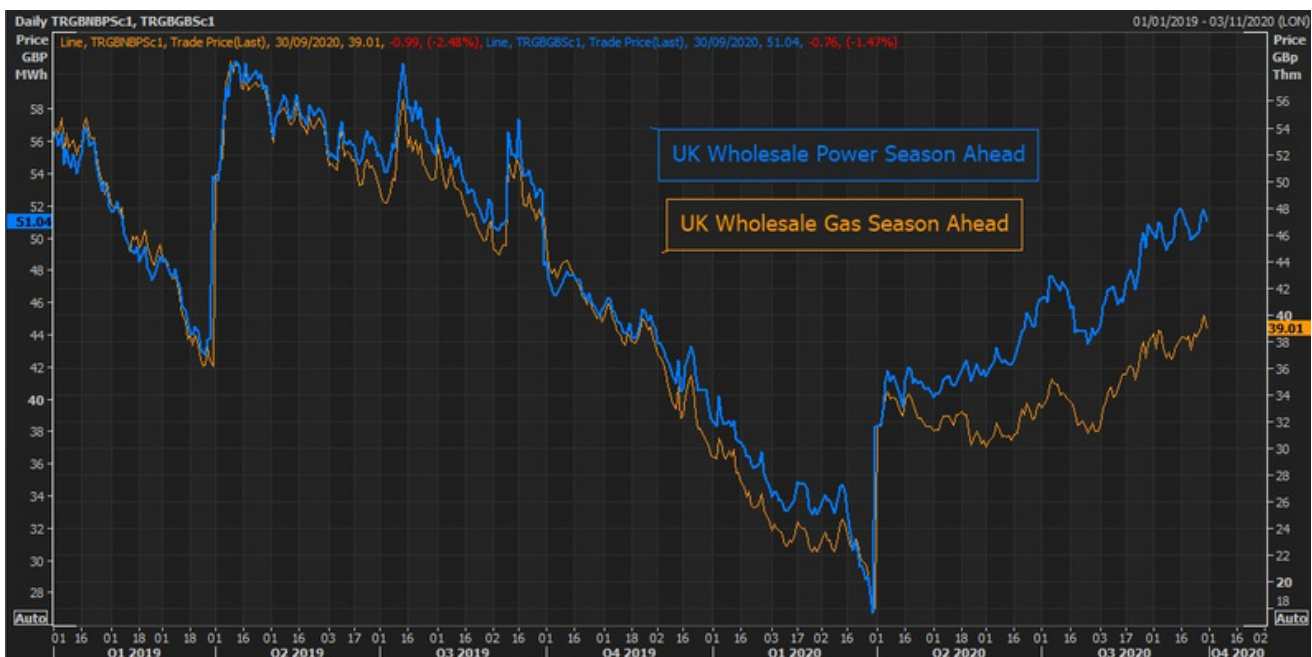
Although Scotland and Northern Ireland have announced stricter measures than the rest of the UK for the moment, the latest course of action is by no means a full lockdown as we saw earlier this year and many industries and parts of life will carry on as they have been since measures were relaxed. The latest rules however will still have a significant impact on daily life, businesses and the economy. People have been advised to work from home if they can, business events have been cancelled and restrictions have been placed on the hospitality sector. These directives are likely to impact numerous industries including the hospitality, travel, automotive, leisure and retail sectors, as recovering demand in the country falls once again.



IMPACT ON ENERGY PRICES

Gas and power prices have been increasing since April, as seen in the graph below, as demand started to return and global markets began to recover. Although perhaps not as severe, this fresh round of measures will likely cause another drop off in demand considering that less people will be travelling, less people will be going out and certain businesses will be operating on a smaller scale.

Gas and Power Wholesale Prices Jan 2019 - End of Sep 2020



*Source: Reuters

In most countries around the world, electricity demand for June and July was around 5-10% below previous years during the same period. In August more and more countries relaxed lockdown restrictions and we saw electricity demand return close to levels seen last year for the same period. However, it does not look like we are out of the woods yet as the virus continues to spread and cause disruption. There is also the possibility of further lockdown restrictions being enforced.

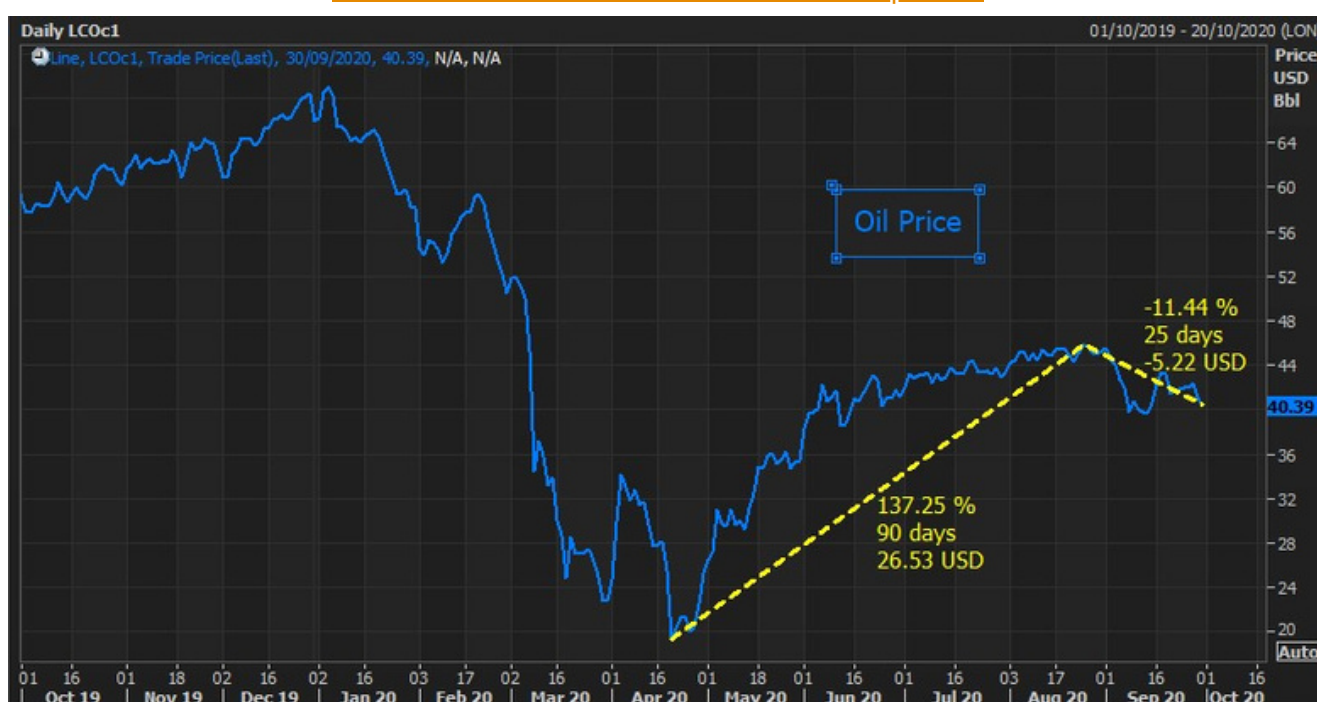
Of course the extent of the impact on gas and power demand will depend on the severity of the virus and how it develops. Many are suggesting that we could see larger increases in virus cases during the winter as it spreads a lot easier in cooler temperatures, while others say we are past the worst of it; there are also talks of a vaccine being introduced and rolled out. Regardless of how big the impact, we are likely to see some reduced demand and this will put downward pressure on energy prices in the UK going into winter. However, there will be a lot of other factors at play and a harsh winter could easily see demand increase in the coming months, alleviating some of the effect of the second wave.



OIL MARKET

Oil prices have been finding resistance in Quarter 3 of this year as fears over a second wave of coronavirus and its impact on global demand weigh on the market. As seen in the graph below, Brent crude has struggled to push on and is still some way off pre-Covid-19 levels. The U.S is seeing spikes in new cases with the highest number of new cases recorded in a day since mid-August recently, whilst mainland Europe is also seeing increased cases with France recording the highest number of cases in a day since the virus began.

Wholesale Oil Price: Oct 2019 - End of Sep 2020



*Source: Reuters

Although OPEC + have curbed output to help lift prices during the last few months, the worry is that demand is floundering once again and inventories could start building up again as we saw earlier in the year. Chinese oil stockpiles are near record highs, whilst U.S stockpiles have been mixed recently. OPEC will be meeting again in December to discuss cuts and action, which will be crucial for the oil market and will likely drive prices as we get closer to the end of the year and more information becomes available.

Added to this, Libya has recently lifted a blockade on its oilfields and exports, which had been in place since January due to a civil war. Supply is expected to increase from Libya as we head towards the end of the year while they ramp up supply and are exempt from OPEC output cuts. Iran has also seen oil output increases during the month of September, which suggests over-supply is also weighing on oil prices.



CARBON PRICE

Carbon has been somewhat volatile in recent weeks. The virus and fears over the second wave have been weighing on prices as industries such as air travel, automotive and power generation have seen demand fall and thus require less carbon permits. However, the EU has recently announced that it plans to bring forward emission reduction targets from 40% by 2030 to 55 - 60% by 2030.



This has been driving prices higher as polluters would have to cut more emissions than expected and less permits would be available, providing long term upward pressure for prices. Despite this, the EU requires all 27 member states to agree unanimously before anything is put into law and the Czech Republic have already voiced their opposition to a 55% goal. So this will likely develop in the coming weeks before it is put into legislation and continue to drive carbon prices. The coronavirus pandemic continues to be the main driver and is weighing on carbon pricing as lower demand hampers recovery.

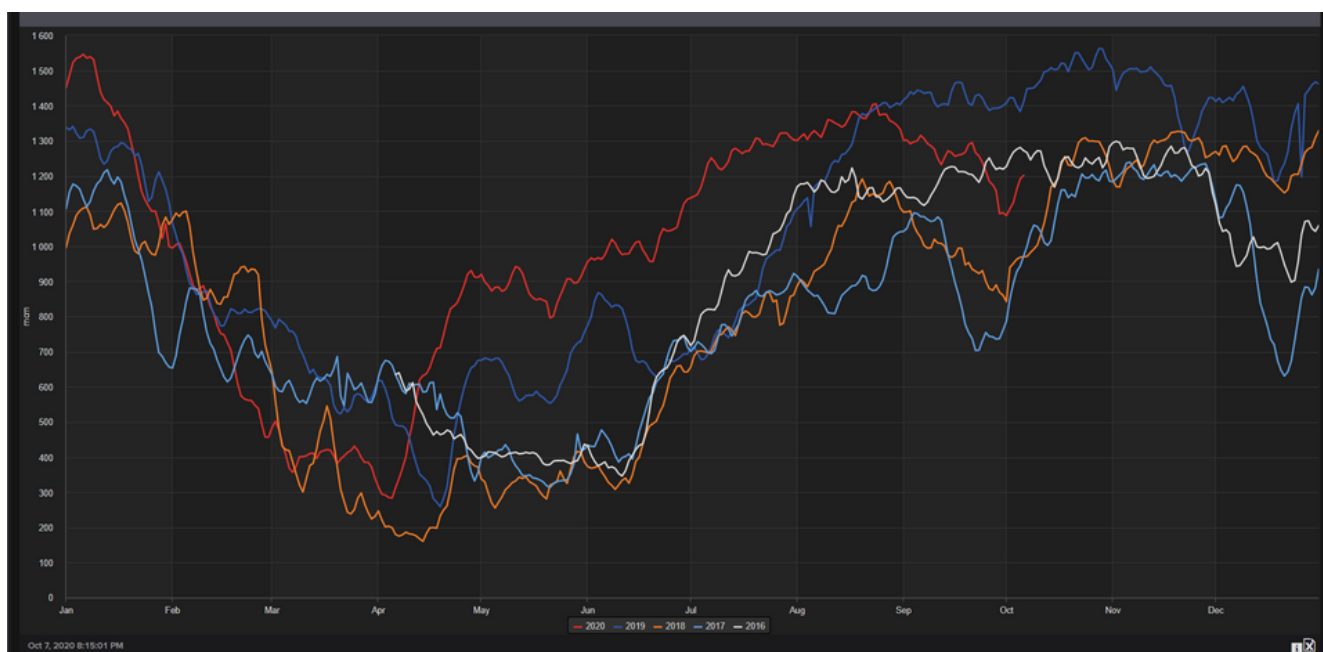
2. GOING INTO WINTER

COULD HEALTHY GAS STORAGE AND LOW DEMAND KEEP ENERGY PRICES SUBDUED THIS WINTER ?

Gas storage going into winter is at healthy levels in the UK. As demonstrated in the below graph, storage levels are currently similar to 2018 and below last year where we saw very high levels for this time of year. The demand drops that we have seen during the summer in the UK as a result of coronavirus have allowed more natural gas to be injected into storage and as seen in the graph, storage levels were higher than last year up until August. This should ensure ample supply during winter, particularly if demand is lower than previous years. However, if there is an especially harsh and cold winter, this could cause increases in demand and storage levels to drop quicker than expected. Storage on the continent is at healthy levels too, which should provide security to the UK and keep a lid on prices this winter. But of course, volatility is still possible with less LNG arrivals than last year predicted already, a further drop off in shipments could limit supply and cause storage levels to diminish. A no-deal Brexit could also still cause problems and the situation will have to be monitored in the coming weeks.



Medium Range Gas Storage UK – 2016, 2017, 2018, 2019 & 2020.



*Source: Reuters

Much of the winter period will also depend on how the virus develops and whether the government will have to impose stricter restrictions or whether cases won't increase significantly and measures can be relaxed. We have already seen some instances of localised lockdowns and these could continue to disrupt demand in certain areas, but keep the majority of the country operating.

The impact of the virus can be felt in the economy and this could still continue to influence global markets and prices. Unemployment has been rising in the UK and reached the highest level in two years and is expected to rise further this year according to the Bank of England. We have seen the biggest ever collapse in GDP with the economy shrinking 20% in Q2 this year and although GDP should recover quite quickly, there are still worries about the second wave, which could hinder this recovery. It is a similar story for other major economies around the world and these economic worries could also further impact demand as we head towards the end of the year.

3. ENERGY SERVICES

ELECTRIC VEHICLE MARKET CONTINUES GROWING. – GET YOUR BUSINESS AHEAD BEFORE THE DUST SETTLES

The Electric Vehicle market is growing rapidly with the registration of EVs increasing 57.4% in Europe during the first quarter of this year. More and more EV charging ports are being installed and even during the current pandemic in the second quarter of 2020, 300 public EV charging ports were installed in the UK.



The EV market is expected to continue to grow exponentially in the coming years as the UK has announced a ban on the sale of petrol and diesel cars from 2035 and the National Grid predicts there will be 11 million electric vehicles on UK roads by 2030.

Although this is a challenging time with the uncertainties and unknowns that the virus has brought about, it is often the people that act during this period of precariousness that benefit the most when the dust has settled. EV charging ports can future proof your business; providing an additional revenue stream, as well as attracting more customers to your business and becoming greener and more sustainable. In addition to EV charging points, Advantage also offers solar installations, CHP units, battery storage and more that can reduce your business' energy spend and help your business become greener in the process.

4. SUMMARY

WHAT COULD THIS MEAN FOR YOUR BUSINESS?

Coronavirus continues to have a profound impact on energy markets and global markets in general. The adverse effect on global demand has weighed on energy prices as recovery has been stalled by second waves. This coupled with healthy gas storage in Europe and the UK points towards a winter of lower or rangebound energy prices. In the wider energy complex, oil prices have been finding resistance for some time and have been struggling to recover despite OPEC + limiting output. Carbon has been showing volatility, but the virus has been keeping a lid on prices. However, there are still many other factors that could still play a part in the near future with Brexit talks, the US presidential election and the ongoing virus developments likely to dominate proceedings.

Although this is a challenging time for business, there is plenty of opportunity to get ahead, whether it be securing energy contracts while prices are low or by saving on long term energy costs and efficiency through installing some of our energy services that we offer. These decisions can future proof and secure long term stability for your business at a time when others are sitting back.

BULLISH

- Weak Pound
- OPEC Oil Cuts
- LNG Shut Ins



RANGEBOUND

- Coal Prices
- US/China Trade War Resolution
- Brexit



BEARISH

- UK/European Gas Storages
- Global Economy/Demand
- Covid-19
- Oil Prices
- Carbon Price



ADVANTAGE UTILITIES

YOUR **COMPETITIVE** ADVANTAGE

Should you have any questions or queries regarding energy contracts, renewable energy products and services, energy management or water, waste and telecoms then please do not hesitate to contact your account manager or a member of our team on 0207 371 5360.

We wish all of our clients and prospects a healthy and speedy return to normality during this difficult time, and rest assured we are here to serve your accounts with business as usual.

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ABOUT US:

Advantage Utilities is the consultative partner that considers every technology and finance option to help its clients achieve their goals. Backed by our simple motto – Procure, Reduce, Manage – Advantage Utilities is a one-stop shop that helps businesses to achieve their sustainable energy ambitions while adding value, reducing costs and meeting legislative compliance.

Advantage Utilities champions a consultative, customer-centric approach. We get to know our clients inside out - their needs, priorities and goals, so that we can develop, implement and manage a tailored solution to match.

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