



**ginger**  
ENERGY

# Energy Market Report

December 2022

6<sup>th</sup> January 2023



# Gas

**The first couple of weeks of December saw the first prolonged cold snap of the winter with temperatures remaining below freezing for around 10 days.**

**Prices trended up accordingly as the system balance tightened but strong storage and LNG supply mitigated the impact.**

**The cold snap was followed by the current period of mild, windy weather which has pushed prices to shed value across the curve.**

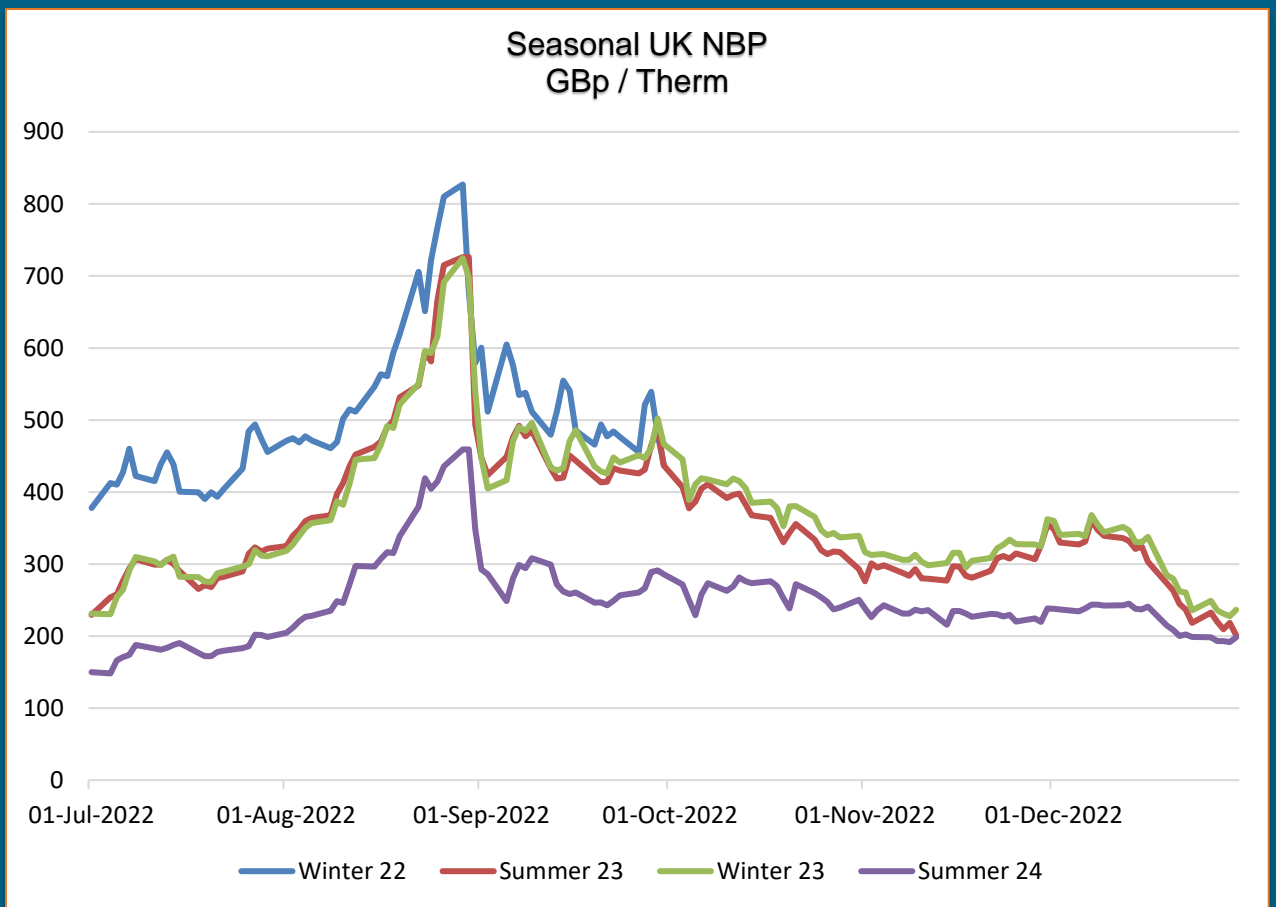
At the end of November the DA price increased more than double from c.150p/th to c.320p/th as the cold weather approached. Through the first two weeks of December it did reach as high as 380p/th but this was still some way off the peaks witnessed at the back end of August when Nord Stream 1 went offline (570p/th).

The mild start to the winter season meant that the storage position was very strong across NW Europe. The UK also saw a large number of LNG tankers arrive, keeping gas flows robust. Both of these factors blunted the impact of the cold weather on the market.

Following the cold spell, windy and mild (above seasonal normal) weather began around 20<sup>th</sup> December which has provided relief to the market and kept storage levels strong. The end of the month saw European wide storage levels increasing, a trend which has continued into the start of January, with levels rising to 84%. This meant by the close of December summer '23 gas prices were around 44% lower than last month and around 70% lower than the recent peaks, demonstrating the easing of pressure to fill storage ready for next winter as levels remain high.

Current forecasts are for the weather to remain above seasonal normal for at least the next two weeks and for LNG supplies to remain strong with Germany receiving a cargo at the first temporary floating terminal. This is the first of many terminals that has been constructed to combat the loss of Russian gas. Also, Freeport LNG is scheduled to receive the first gas to flow into the Texan export plant after ceasing its operations last August due to a fire incident.

Seasonal prices, although much lower than recent months, still remain at least 3x higher than pre-energy crisis levels but the risk of blackouts this winter due to lack of supply has decreased significantly. Regardless, a cold winter '23 could still provide supply challenges as Europe continues efforts to find replacements for Russian gas. A strong storage outlook and the expectation that a global recession will curb demand are positive indicators in terms of keeping future prices contained.



## Outlook Drivers

**Weather remains a key driver for the rest of winter but the demonstration early in December that a cold snap could be managed combined with the strong storage position will provide confidence to the market if/when colder weather does arrive.**

### Bearish signals



- Weather outlook for January is close to normal with no significant cold spells.
- Germany due to have two further floating regasification terminals operational in January.
- Freeport LNG terminal return imminent.
- Storage predicted to be well above five-year average by the end of January.

### Bullish signals



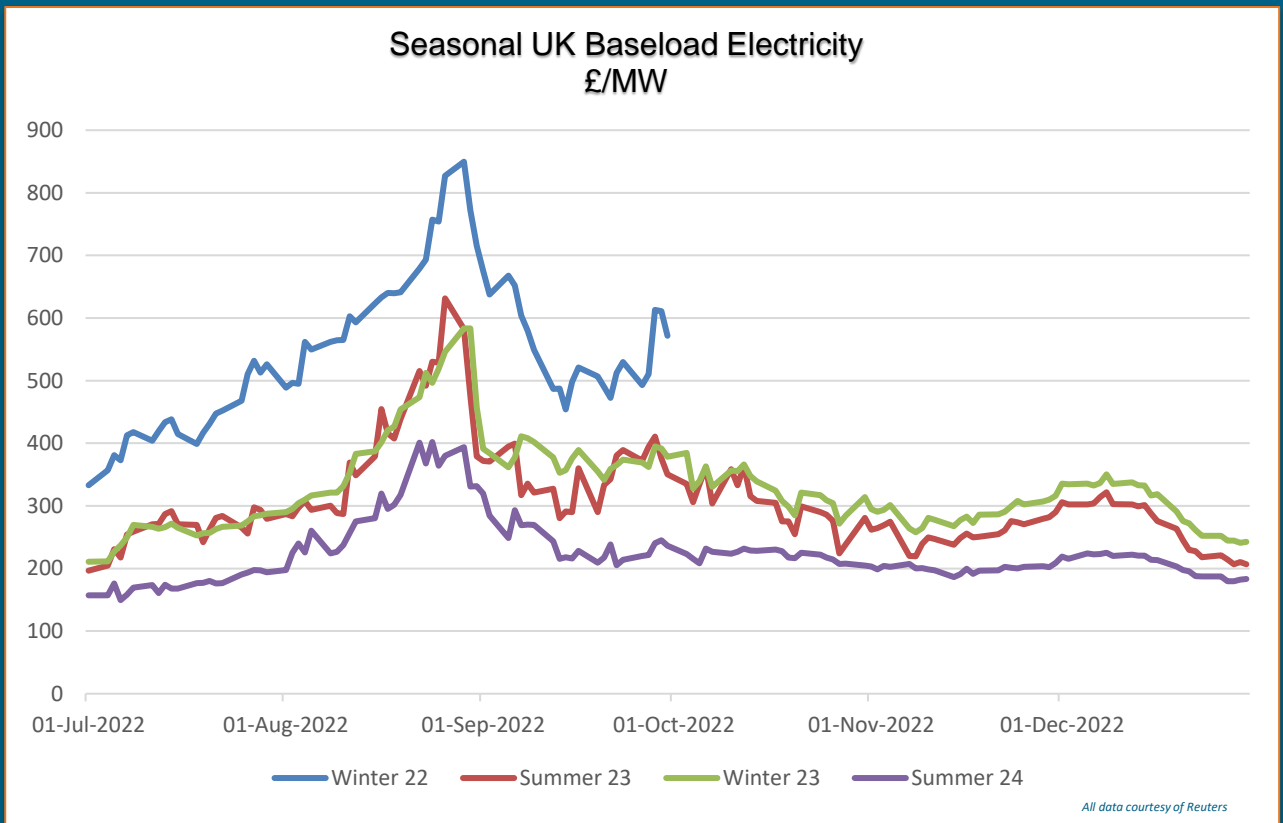
- Implementation of threat for Russian to cut or reduce remaining supply to Europe via Ukraine but risk is falling as we move through W-22.
- Changes in weather forecast to substantially colder could provide upside but would need to be sustained to dent strong storage.
- Risk of lower French nuclear output remains high with numerous problems continuing across the aging fleet.

# Electricity



December started with supply warnings amid cold weather, increased heating demand, and a lack of wind which increased gas for power demand causing National Grid concern.

However, like its gas counterpart, electricity prices dropped during the back half of December.



## Price context

Seasonal prices saw significant losses by the end of December to levels not seen since Q1 2022. They have dropped notably since last month with the mild weather and strong storage position across NWE being the main driver. Prices still remain roughly 3x higher than a pre energy crisis “average price”.

Elec	End December	Nov Report	End Dec Difference	Peak	End Dec Difference	Mid-Aug	End Dec Difference	Mid-July	End Dec Difference
S-23	204	311	-34%	575	-65%	375	-46%	255	-20%
W-23	234	334	-30%	587	-60%	389	-40%	267	-12%
S-24	183	220	-17%	395	-54%	279	-34%	166	11%
<b>Gas</b>									
S-23	201	357	-44%	730	-72%	448	-55%	304	-34%
W-23	219	361	-39%	714	-69%	443	-51%	304	-28%
S-24	196	240	-19%	457	-57%	296	-34%	190	3%



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