ADVANTAGE UTILITIES

YOUR COMPETITIVE ADVANTAGE

QUARTER 1 - 2024 ENERGY BUDGET OPTIMISATION REPORT

CONTINUED MARKET UNCERTAINTY
Is it time to secure for the longer term or go flex?

ONGOING CONFLICTS & SUEZ CRISIS II
Effects on the energy market

AUTUMN & WINTER WEATHER
Supply/demand and El Nino

DYNAMIC INFLATIONARY MARKET MOVEMENT
Risks examined

HELPING YOUR BUSINESS ACHIEVE COMPETITIVE ADVANTAGE

Welcome to the Advantage Utilities Energy Budget Optimisation Report Q1, 2024

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 2024 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 stay informed about what could affect your energy budget as more information drives smarter decisions.

ISSUES COVERED IN THIS REPORT:

- Continued Market Uncertainty
- Ongoing Conflicts & Suez Crisis II
- Autumn & Winter weather
- Dynamic Inflationary Market Movement

Continued Market Uncertainty

The forecast for the next quarter sees us covering the same old ground. Why, you may ask? Well, the main drivers that were affecting markets then, still exist at large and have the biggest potential to create sizeable risk by remaining in play. As to how long they remain is an unknown quantity, which is why we feel the need to reiterate these issues.

We are presently experiencing two ongoing major conflicts, with a potential third one looming. Conflicts have already impacted markets, but should they escalate further, we could see a significant negative bearing on world energy prices. This is at the forefront of our outlook as we head into 2024 and how we see the markets moving, as well as the benefit in securing longer term contracts, including flex ones.

Ongoing Conflicts & Suez Crisis

Russia/Ukraine: As was mentioned in our last quarterly report back in October, the conflict between Russia and Ukraine appears to have gone quiet, with minimal news on the latest situation. That's not to say that nothing is happening, but to the West, it appears quiet! Well, it had been until the very end of 2023, when Russia carried out airstrikes on Ukraine. However, we are yet to see how this recent escalation in the conflict will affect the markets. We have already seen how the energy markets reacted at the onset of the conflict and then again at other points, such as the Wagner Group coup, where the markets rose. We also saw similar market movement after hearing about sabotage to pipelines and cables being attributed to Russia. On 2nd January, Russia fired further missiles and drones at the Ukrainian capital Kyiv as well as Kharkiv, killing and wounding dozens. In this instance, the markets were not really adversely affected; given that much of Europe has already found alternative provisions for their Russian gas, the impact was somewhat limited.

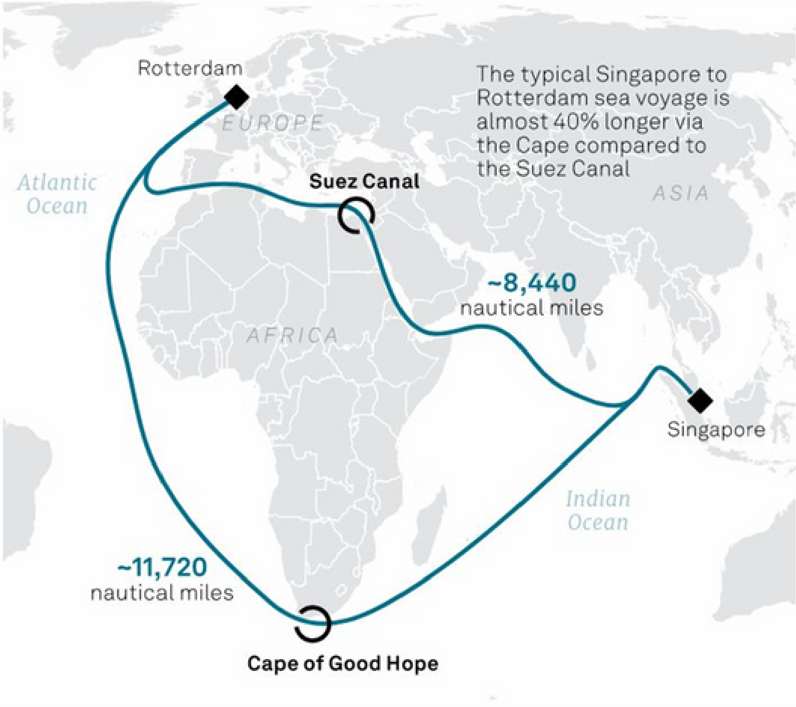
Europe sought alternative sources to Russian gas after the onset of the conflict in early 2022, but is this a long-term solution? Can Russian gas come back into the fold for Europe? This will depend upon what happens with the current conflict, but it is unlikely to be any time soon. This keeps the supply-side in check for now, but this is a continued loss of a major gas source for Europe. Natural gas supplies to Europe by Gazprom were down 55.6% in 2023, according to Reuters calculations. Russia's gas exports to Europe were once its primary export market. But can this be sustained and for how long?

As stated, given that the conflict is still present, then it is this scenario that's continuing to hold the sword of Damocles above the heads of the energy markets! Any given moment could see the conflict erupt again, impacting prices, but perhaps softer than back in February 2022 when Russia invaded Ukraine.

Middle East: Following the recent escalation of the situation between Israel and Hamas, a second major conflict arose again, one that precariously impacts the energy markets. This time the fears over energy supplies come from the 'wider and fringe players' such as Iran and the Houthi militants, where supplies and supply routes could be impacted, the latter of which is already happening through the Red Sea region.

Although prices rose following the initial attacks, by late October we saw them plateau before dropping away to new yearly lows. Lows that date to pre-Russian invasion of Ukraine levels. This has mainly been brought about by the milder temperatures and healthy European storage levels.

Suez Canal vs. Cape of Good Hope shipping routes



Source: Global Maritime Hub, S&P Global Commodity Insights

On 18th December, following a spate of attacks on ships in the Red Sea by Iran-led Houthis, we saw a sizeable price jump on the wholesale markets. Q1-24 gas jumped by 13% at one point, whilst Brent Crude rose by nearly 5%. BP announced that they would temporarily pause all shipments of oil through this region, whilst other freight companies began to sail around Africa, adding additional costs and delays. Off the back of this news, the Brent Crude oil price rose over $3/bbl. If more companies divert their ships and if the disruption lasts more than a week or two, prices could increase further.

This highlights the precarious nature of global events in the energy markets. These are especially prevalent at this current time where two conflicts, both of which have significant ties to oil and gas resources, have moved global energy markets in an upward trajectory. This in turn leads to our gas and power wholesale prices leaping. A cautionary word of warning for those that are waiting for future prices to drop as low as they can……we just never can tell when the next upward 'bullish' driver is around the corner.

China/Taiwan: One of the key geopolitical events coming up in early January is the parliamentary election in Taiwan. Indicators point to the current “tense” status quo being maintained, despite recent threats from China. Taiwan is the world’s largest producer of semiconductors, so any military actions in Taiwan would lead to a technological crisis, likely to cause a global economic collapse.

China’s President Xi Jinping is insistent that Taiwan is part of China and as such Taiwan is concerned that China may attack, also as a way to distract attention from domestic issues. It is also reported that purges of top officials have added to a sense of instability. A prediction has been made that Xi is stripped of some or all of his powers in an internal Communist party revolt. (reported by Rupert Jones – Observer).

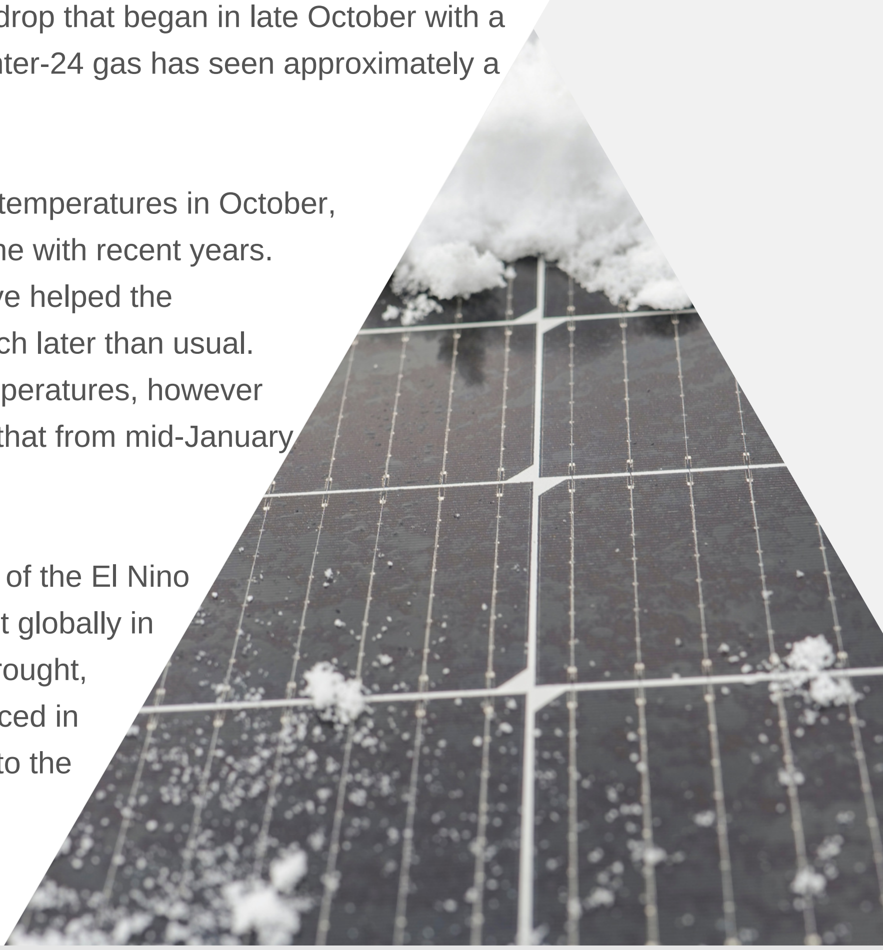
With yet a further conflict in the world looming, could this also impact the global energy markets? In short, yes. But how and to what extent is yet to be determined.

Autumn & Winter Weather

It would appear that due to a relatively mild autumn and start to winter, there’s a surplus of gas. Europe had its warmest October and November based on records dating back to the 1880s. This has pushed the gas market into a sizeable surplus position, which in turn has led to a drop in wholesale prices. A drop that began in late October with a further significant drop in late November. Winter-24 gas has seen approximately a 38% drop since late October, over 50p/Thm.

Europe has experienced near to record high temperatures in October, however, temperatures in November fell in-line with recent years. These warmer than normal temperatures have helped the replenishment of the gas storage season much later than usual. The Christmas period saw relatively mild temperatures, however as we move into January, forecasts suggest that from mid-January a colder spell is expected.

We also need to monitor the potential events of the El Nino weather phenomenon and its potential impact globally in 2024. Extreme events such as heatwaves, drought, wildfires, heavy rain and floods will be enhanced in some regions, with major impacts according to the WMO (World Meteorological Organization).



Continued warming of the central-eastern equatorial Pacific until April are forecast, leading to El Nino events. For businesses, this is a cause for uncertainty. When such events occur, they can be extreme, so precautionary measures are advisable.

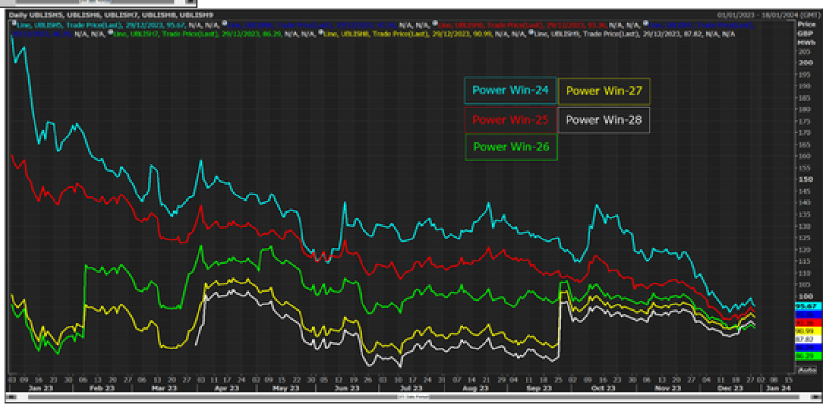
Dynamic Inflationary Market Movement

As previously discussed in the last quarterly report, the ongoing Russia/Ukraine conflict, the effects of El Nino and potential increases in Asian market energy demand all remain, however, we can now throw additional concerns into the mix of uncertainty. We will wait to see how the Middle East conflict plays out along with any key players who may be brought into the fold, along with the impact that it could have upon the markets.

Since our last report in October, where volatile prices were the ‘order of the day’ for most of the summer, we have subsequently seen a significant drop-off in prices. Clients have taken advantage of this by signing up to longer-term flex contracts, allowing traders to hedge the volume in small tranches further out, thereby covering volume whilst continuing to further monitor the market. If prices do then increase and further trades are made, the overall weighted average price would not be as high as any new price.

We continue to see backwardation of certain products. Looking at winter gas and power for Win-23, Win-24 and Win-25, we can see that Win-25 prices are level with Win-23 prices. This aligns with the view by many commentators that energy prices may remain at current levels for a good few years.

Gas: Win-24 to Win-28



Power: Win-24 to Win-28

HOW CAN ADVANTAGE HELP?

Our sustainability department continues to offer an ever-increasing range of products and technology aimed at reducing energy consumption and associated costs as well as driving down carbon emissions. We will of course continue to keep you updated about these initiatives, but please do reach out to your designated point of contact should you wish to explore your options in this regard.

In terms of procurement, we will continue to monitor markets with a view to helping customers navigate the unprecedented circumstances and ascertain when constitutes the best time to seek a contract extension.

Our popular flexible procurement options continue to be an option for an increasing number of clients on either a standalone basis or as part of a grouped basket. This often facilitates access to day/month ahead trading markets which have proved to be particularly beneficial to many clients over the winter period.

LET'S WORK TOGETHER!

Regardless of whether you are an existing client or have recently come across us, please do reach out to discuss how we may be able to help.

info@advantageutilities.com

BULLISH

- UKRAINE WAR - RUSSIA SABOTAGE
- ISRAEL/HAMAS CONFLICT
- POTENTIAL CHINA/TAIWAN CONFLICT
- INCREASE IN ASIAN ENERGY DEMAND
- POLITICAL & ECONOMIC INSTABILITY AND UNCERTAINTY
- COLDER WEATHER
- EL NINO EFFECTS

RANGEBOUND

- VOLATILITY & UNCERTAINTY
- OIL PRICES
- CARBON
- HEALTHY RENEWABLES GENERATION

BEARISH

- HEALTHY EU GAS STORAGE LEVELS
- PLENTY OF LNG CARGOES UK BOUND
- ABOVE SEASONAL AUTUMN & START TO WINTER WEATHER
- HIGH NORWEGIAN GAS FLOWS
- HIGH WINDS FOR POWER GENERATION
- GLOBAL RECESSION

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