ADVANTAGE UTILITIES

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INTERIM ENERGY REPORT

Israel-Hamas war impact on global energy prices

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HELPING YOUR BUSINESS ACHIEVE COMPETITIVE ADVANTAGE

Israel-Hamas war impact on global energy prices

As with many conflicts or unforeseen events, global markets are invariably impacted by sudden price surges due to the uncertainty of the event and speculation around how it could further unfold. This was no different following the recent escalation of the situation between Hamas and Israel.

During early October the markets increased significantly, and we saw Brent Crude oil prices jump 4%, before hitting a high of a 9% increase. The same was borne out in the gas market. Winter-24 future price jumped 6% upon opening on Monday 9th Oct, before moving up to a 20% increase by 23rd Oct.

Egypt has been experiencing blackouts due to increased domestic gas consumption as a result of the Israel-Hamas conflict. They are reliant upon gas imports from Israel and the shutting of the Israeli Tamar field has been a significant factor in causing this disruption. LNG exports from Egypt are likely to be zero this winter, worsening the outlook for EU energy security.

The Middle East is less important for global oil exports than it was 50 years ago, accounting for around 30% of supply, down from 37% in the 1970s, though 30% is still a large share. Despite this, the World Bank said the global economy was in a better position to withstand a supply shock than in October 1973, when Arab members of OPEC cut exports to the US and other countries that supported Israel during the Yom Kippur War, quadrupling crude prices.

Since late October, European prices have steadied and subsequently retraced the gains experienced in early-mid October. However, the market still remains on edge, just as it does with the Russia/Ukraine conflict, given the uncertainty over which scenarios may take place in future.

Israel has become a significant gas producer and regional exporter. While not huge by international standards, Israel's gas resources have regional and geopolitical importance. It is a potentially attractive source of non-Russian gas for Europe, which could lead to increased gas supplies for Europe leading to relaxed prices and less volatility with an improved security of supply.

Risk scenarios should conflict widen

There was talk that crude prices could rise to more than $150/bbl if the conflict escalates and if key producers cut supplies, according to the World Bank leader. A prolonged conflict could drive big rises in energy and food prices in a “dual shock” for commodity markets still reeling from Russia’s invasion of Ukraine.

Given the Middle East is a major producer of oil and gas, any disruptions to the region’s energy supply will impact the global energy market. The UK’s energy supply could be disrupted by supplies through the Strait of Hormuz. Should Iran become involved, then we would likely see markets react negatively, with prices surging. We saw this occur back in 2019 when drone attacks on refineries in that very region increased oil and gas prices, with the customary knock-on effects.

The World Bank offered 3 risk scenarios depending on the levels of disruption in the region:

- A "small disruption" scenario, equivalent to the reduction in oil output seen during the Libyan civil war in 2011 of about 500,000 to 2 million barrels per day (bpd), would drive oil prices up to a range of $93 to $102 a barrel in the fourth quarter, the bank said.

- A "medium disruption" scenario - roughly equivalent to the Iraq war in 2003 - would cut global oil supplies by 3 million to 5 million bpd, pushing prices to between $109 and $121 per barrel.

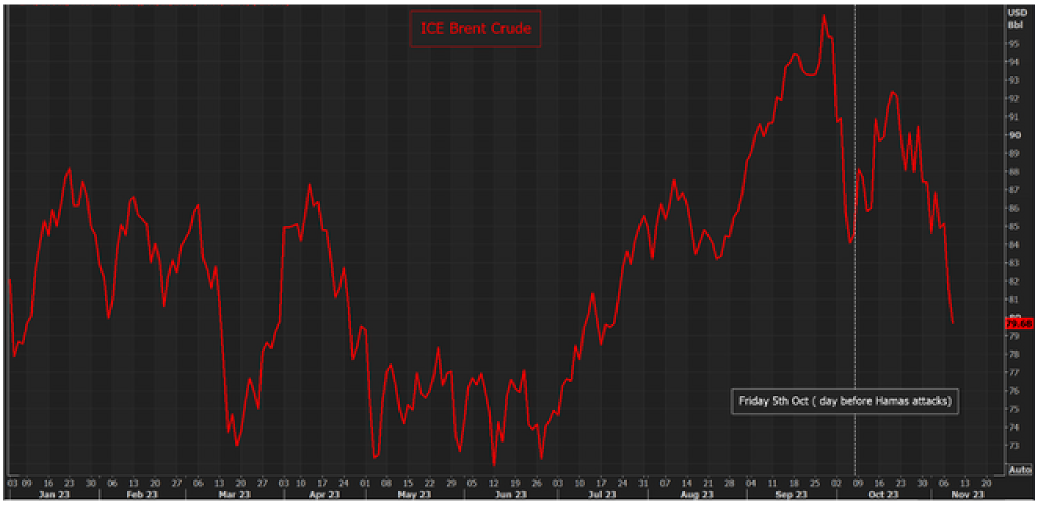
- A "large disruption" scenario approximates the impact of the 1973 Arab oil embargo, shrinking the global oil supply by 6 million to 8 million bpd. This would initially drive up prices to $140 to $157 a barrel, a jump of up to 75%.

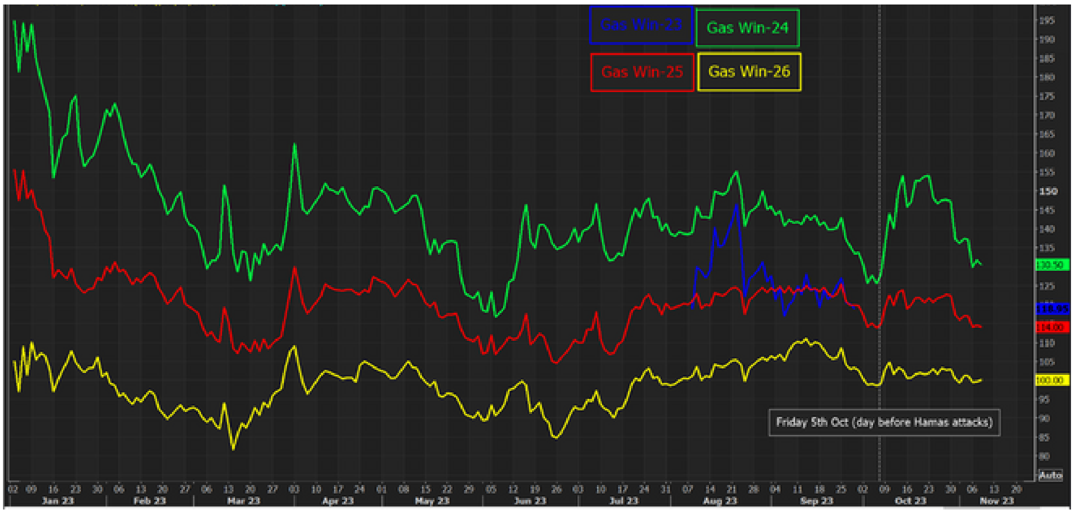
MITIGATING FACTORS TO PROTECT AGAINST VOLATILITY

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 on 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 to help 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.





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With a growing team of over 40 highly skilled industry experts, Advantage Utilities is home to the complete end-to-end business energy and sustainability solutions.

If you'd like to learn more about our services and how we can help your company, please don't hesitate to get in touch with our team of experts!

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