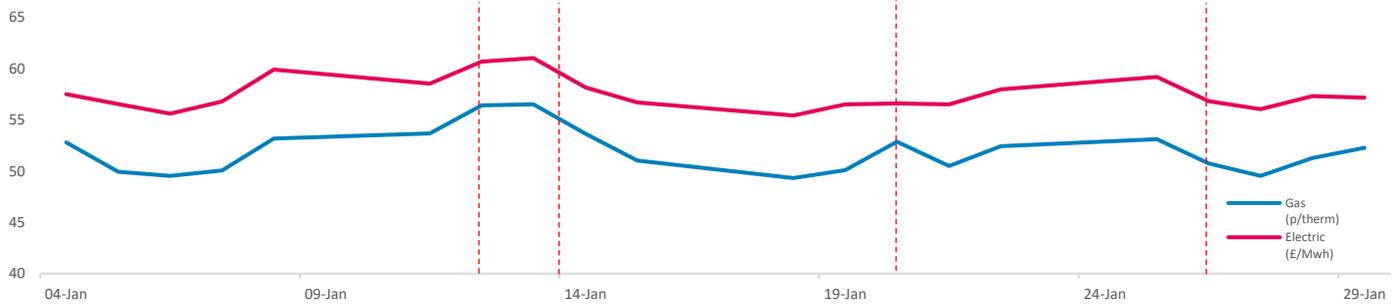


ENERGY MARKET UPDATE

January 2021

YEAR AHEAD WHOLESALE GAS AND ELECTRICITY PRICE



January started with a slight downturn as the Prime Minister announced a 3rd lockdown in the UK, reducing the demand outlook for the near future. Prices quickly returned to bullish (upward) as below seasonal normal temperatures put a strain on an undersupplied system, putting upward pressure on pricing.

The market was also supported early in the month as OPEC (Organisation of Petroleum Exporting Countries) announced more production cuts, helping to keep oil prices above \$50/barrel.

Both gas and electric markets saw price increases on the 12th of January as the UK experienced strong demand as temperatures remained under seasonal norms and were expected to stay that way for the next week. Short term gas prices increased drastically around this time, with the front month gas contract reaching its highest valuation since 2008 at 83p/therm.

Prices quickly returned to bearish (downward) on the 14th and the 15th of January as revised weather reports predicted milder temperatures towards the end of January, alleviating fears of continued high demand.

Markets remained relatively stable until the 20th of January which saw a small increase caused by a rising oil price resulting from escalating discussions around the possibility of a US financial stimulus package being agreed by the incoming US president.

The 26th of January saw gas and electric prices fall as a revised weather forecast put temperatures above seasonal norms.

Overall, January saw volatility in both gas and electric markets however the month closed with prices similar to the open.

LIQUIFIED NATURAL GAS (LNG)

Early January saw LNG spot prices reaching record highs in Asian markets, up 400% on September, as prolonged cold weather led to increased demand. This has also been worsened by a campaign in Japan encouraging businesses to keep windows open to slow the spread of the Coronavirus, further increasing demand for heating.

The higher prices in Asian markets has led to a lack of LNG in European markets. Following the unloading of one LNG cargo on the 11th of January, the UK had no active LNG cargoes expected to arrive in the UK for the rest of the month. The UK has become increasingly reliant on LNG deliveries and any disruption to the previously regular intakes can cause prices to rise as supply security becomes a concern, especially during the Winter months.

However, towards the end of January milder weather in Asia led to prices decreasing, reducing the incentive to send cargoes to Asia. As a result, the UK received 3 previously unexpected cargoes before the end of the month, temporarily helping to halt the decline in LNG storage and ease those supply concerns.

UK LNG Stock Level in GigaWatt hours

