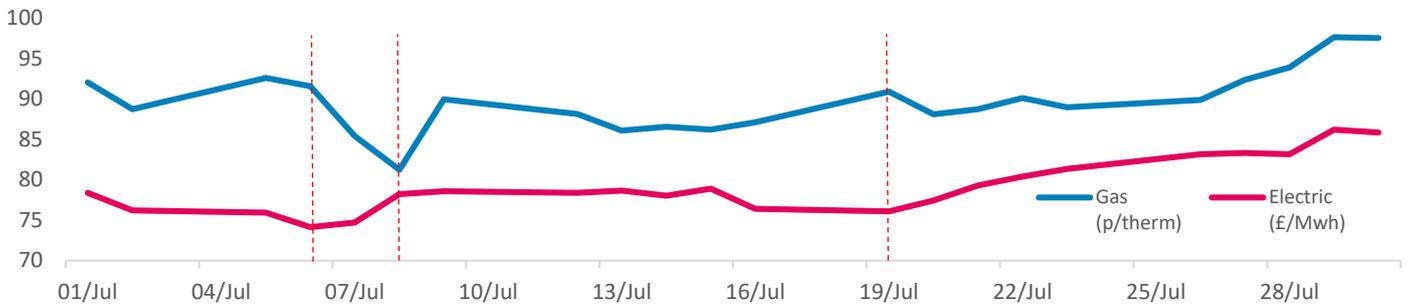


ENERGY MARKET UPDATE

July 2021

YEAR AHEAD WHOLESALE GAS AND ELECTRICITY PRICE



July began with volatility across the energy complex, supported by the news in June of Russia not booking any extra gas transit capacity to Europe for the delivery month of July. Strong Asian demand for Liquefied Natural Gas (LNG) cargoes, limiting European deliveries, also added to the supply concerns.

UK gas storage levels began the month at 16% full, well below the 5-year average of 49%, continuing fears that UK storage may not be able to cope with a cold winter.

However, on the 6th, gas prices turned bearish (downward), in response to weakening Carbon and Oil prices. The downturn was short-lived though due to the fundamentals of continued low gas storage.

Mid-month saw a two-week period where energy pricing remained relatively steady, thanks to sunny weather driving strong renewable output. This also allowed for injections into storage and by the 20th UK storage levels had risen to 29%.

From the 20th the market turned bullish (upward) again, with weaker renewables in the final week of the month and planned maintenance in Norway and Russia leading to higher gas for power generation. UK Gas storage was also withdrawn from again, ending the month back down at 23% full, well below the 5-year average of 67%.

Carbon bucked the trend of the energy complex in the final week with UK and EU allowances losing value, amid mounting concerns about the spread of the delta variant globally.

BRENT CRUDE OIL

The Organization of the Petroleum Exporting Countries (OPEC+) met on the first day of the month to discuss increasing oil production and easing supply restrictions. OPEC+ members failed to reach an agreement at this meeting. Saudi Arabia and Russia were pushing to end supply restrictions. However, the UAE refused as they felt the proposed output quota was unfair, considering the production sacrifices they had made during the pandemic. The uncertainty from this dispute created volatility in the Oil market for the first two weeks of the month.

On the 19th OPEC+ finally agreed to increase production by 400k barrels per day each month until the end of the 2022. Oil prices declined sharply in response to the decision. This decision coincided with heightened fears over the spread of the Covid-19 delta variant worldwide threatening the already stumbling demand recovery outlook.

Brent crude reached its lowest level for July on the 21st, as it fell below \$70/barrel. However, the market quickly returned to bullish (upward) as crude stocks were reported as low and oil supply was tightened towards the end of the month.

