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Market update

On March 10th I wrote about 3 'look ahead' scenario's:

Scenario 1: (most favourable, conflict last up to 2 weeks)

Lasting ceasefire is agreed. LNG gulf flows resume in short order so EU summer storage refill impact is limited. Prices are likely to fall into range driven by supply fundamentals though risk premiums may be higher.

Scenario 2: (conflict last up to 2 months)

LNG gulf flows are suspended so we will see high prices & possible constraints on supply. EU summer storage refill impacted & needs to play catchup before winter. Hedge prices likely to be high until a ceasefire is declared. After that prices should fall as Qatar comes back on-line (assuming infrastructure is still in place).

Scenario 3: (worst case, conflict prolonged)

LNG gulf flows are suspended with no end in sight. Qatar LNG removed from the market for foreseeable future. Summer LNG storage injection rates fall way behind. This means we are in bad shape for next winter with supply tightness. This implies sustained high prices for gas & electricity for a lengthy period. Possible government intervention.

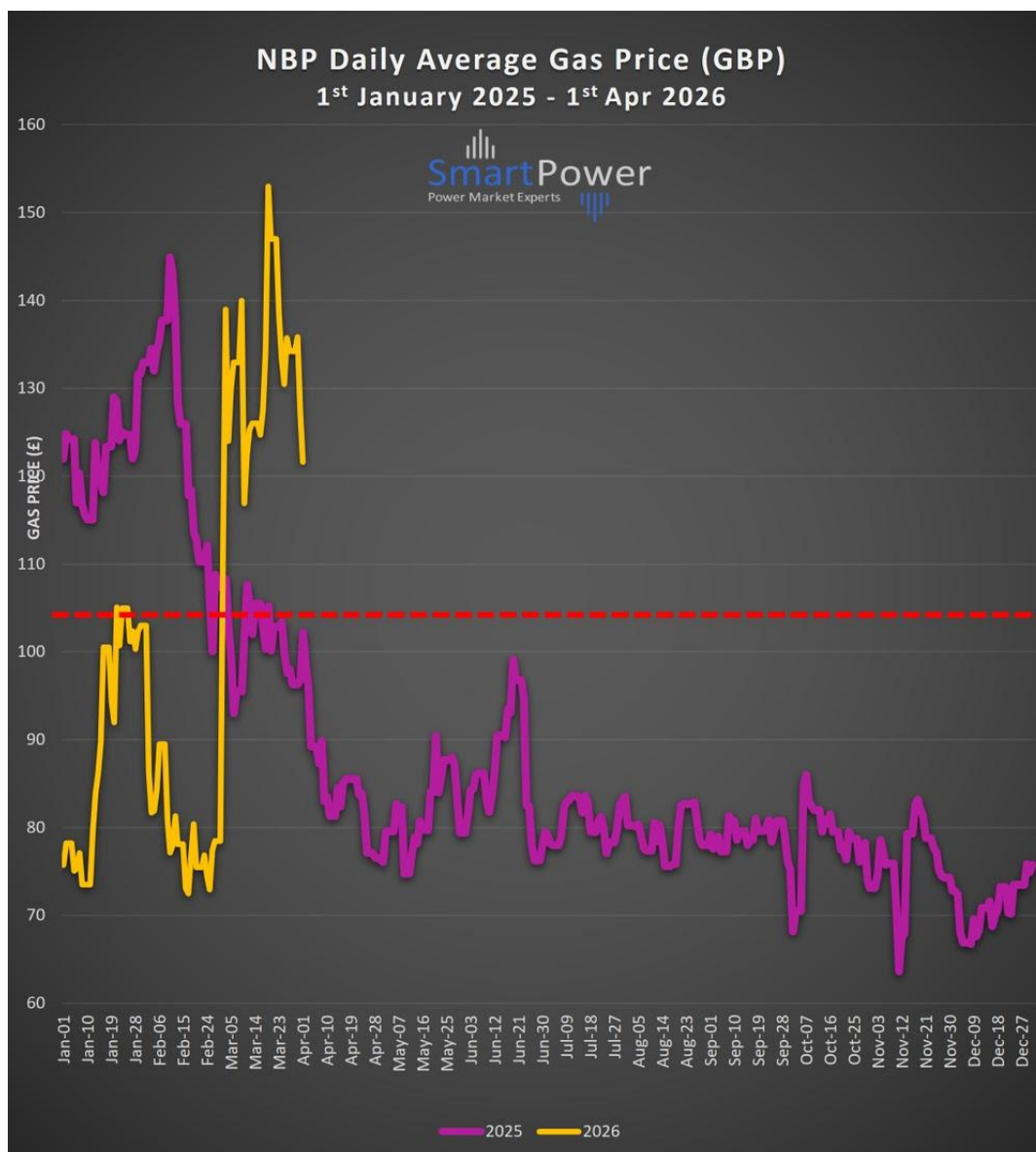
Well, we did not get scenario 1. Based on the latest Trump comments – 'he vowed to leave Iran in weeks', it looks like Scenario 2 is most likely outcome at this point. We are seeing a fall in oil &

gas prices this morning plus the overall muted price action suggest the market is buying the outcome. The caveat of course is that these comments may come to nothing. The wildcards here are both the Israeli's and the Iranians, both of whom remain militant.

If we do get a ceasefire with Qatar LNG production getting back to normal in the coming weeks, then the damage to worldwide LNG supplies can be contained. It is likely that prices will then get back to levels only slightly above the pre-war levels and the pre-war forward curve (we will need to keep a close eye on the European summer storage gas refill numbers). If Trump's comments come to nothing (also lots of counter rumours he is planning a ground invasion to seize key Iranian infrastructure) then we are back to scenario 3 with serious macroeconomic effects in addition to high energy prices.

Regardless, I am sticking with my recommendation to take more risk off the table going forward. This is a much more uncertain geopolitical world now than the previous two decades warranting a more cautious approach to energy hedging.

As always, the effects of these prices moves on your individual bills including the cost of hedging can be seen in the SmartPower projection tool.



NBP Daily Average Gas Price (GBP)

1st January 2019 - 1st April 2026

SmartPower
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