



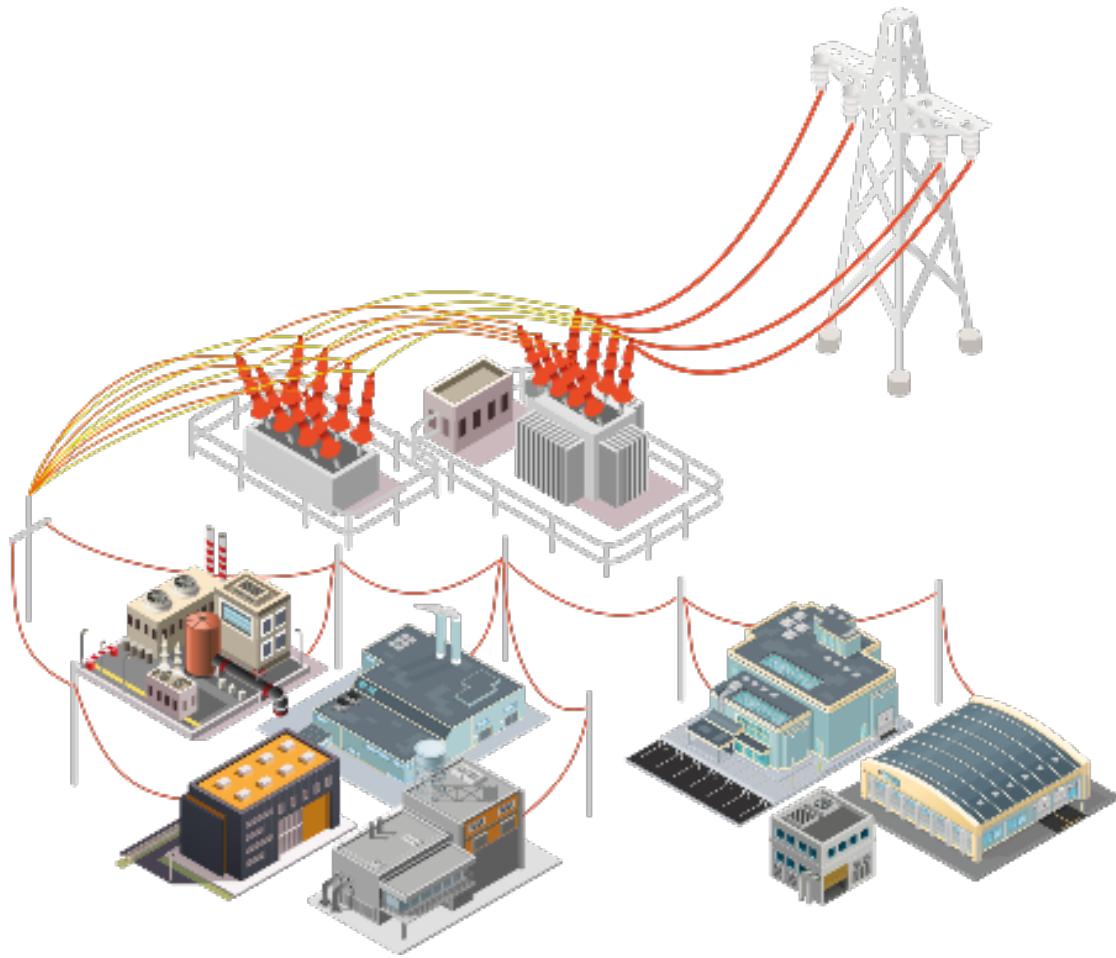
Energy market report

July 2023



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The forecast for electricity prices in 2024 has increased by 9.6% and again exceeds €100/MWh



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Grupo ASE Analysts

- » Spanish electricity is no longer the cheapest in Europe, after 16 consecutive months.
- » Electricity generation fell by 10% in July due to increased imports and decreased demand.
- » The level of gas reserves in Europe exceeds 85%, reducing its short-term price.
- » ANALYSIS: The industry is the big forgotten entity in the energy crisis; its demand does not pick up despite the drop in energy prices.

The daily electricity price has dropped slightly by 2.74%

The daily price of the Spanish wholesale (POOL) market in July closed at €90.47/MWh. It is a slight 2.74% decrease compared to last month and is 64.9% cheaper than a year ago.

Daily electricity market price (OMIE)

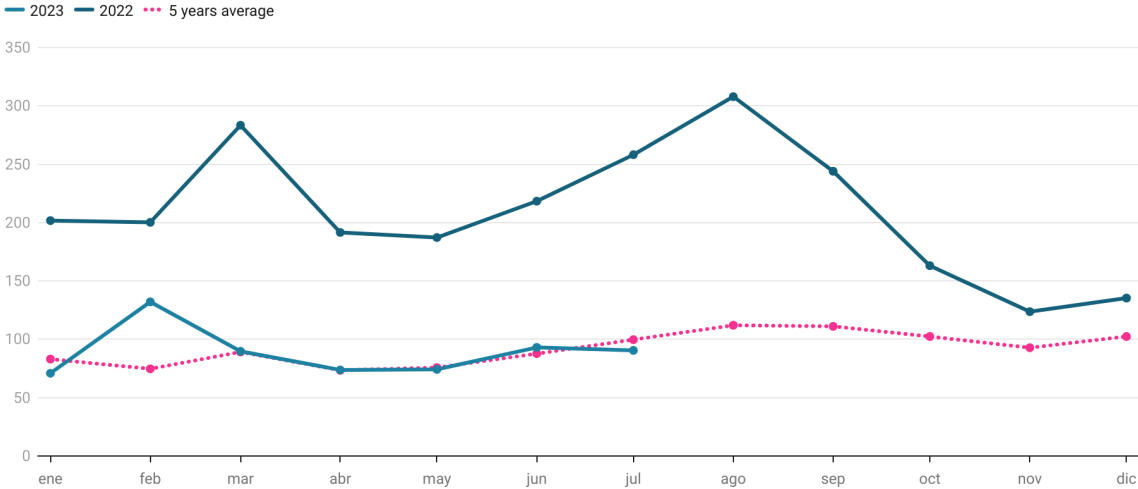


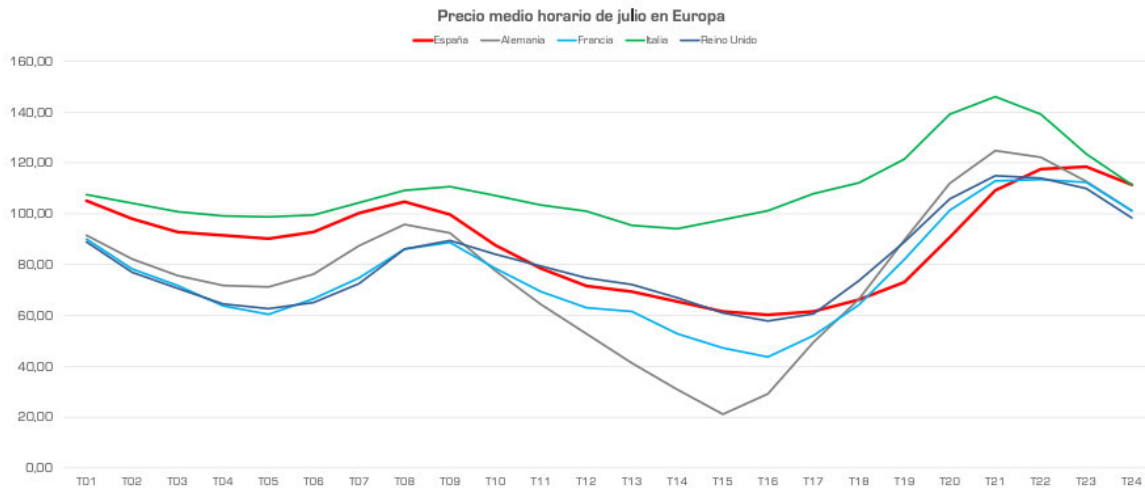
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Negative prices in Germany and France beat the Spanish market in July

The average Spanish electricity price has ceased to be the most competitive among the major European economies, after 16 consecutive months, since March 2022.

Prices have plummeted in Germany during the central hours of the day. Many days have registered negative prices due to the combination of low demand and high solar generation during those hours. In fact, on July 2nd, negative prices in the Netherlands, Germany, and Austria reached -€500/MWh, the minimum according to European Union regulations.

Although this is not a new phenomenon, its scope and duration are indeed increasing, highlighting the growing demand flexibility deficit in Europe. In Germany, the lack of flexibility in its coal fleet and the high installed solar capacity (58.9 GW) pose a challenge to its electrical system.



Negative prices are not allowed in Spain, and we have also not seen “zero” prices in July. High temperatures in our country lead to an increase in demand during the central hours, which can be 30% higher than during the same time span in spring, which “neutralises” the strong solar generation. Indeed, it is in spring when the most favourable weather conditions in Spain are seen for “zero” prices, which we have already seen in April and May.

Electricity generation drops by 10% and photovoltaic grows by 32%

This month, photovoltaic generation has been 32% higher than a year ago and has taken the third position in the mix, after nuclear and combined cycles. In contrast, wind generation has decreased by 13%.

Total electricity generation has been 10% lower due to the significant reduction in exports (-78.3%) and the drop in demand (-3.8%). As we pointed out in our fortnightly advance, the disappearance of the gas price cap and the increase in French nuclear production have led to a shift in the balance with our French neighbours from exporter to importer.

Combined cycle gas (CCG) plants have seen the greatest reduction in their production (-42.5%). Despite this, the CCGs have occupied the second position in the mix, contributing 19.5%, only lower than nuclear (20%). The significant presence of CCGs during the central hours of the day, due to lower wind generation, has prevented the price of electricity from falling further in July.

Average hourly production in July 2023: Wind vs CCG (MWh)

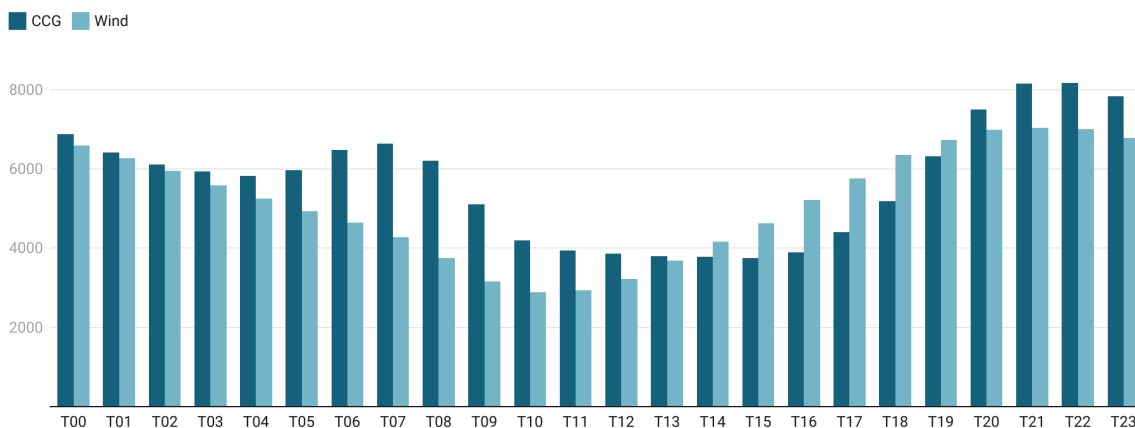


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European gas reserves exceed 85% and pressure drops in the short term

In Europe, gas prices have again shown decreases due to low demand because of the warm weather, the return of Norwegian supply, and the fact that gas reserves reached 84.5% of their capacity on July 28th.

This high level of storage suggests that the 90% target set by the European Commission for all member states by November 1st will be met much earlier than expected. By the end of the month, the price for the winter 22/23 product has dropped to €45/MWh, down from €52.7/MWh in June.

TTF gas WIN 23 (€/MWh)



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The state of gas inventories and the increase in pipeline imports from Norway are offsetting the drop in liquefied natural gas (LNG) imports in recent weeks. This month they have increased by about 5.3% compared to June, but are 18.9% lower than in July of the previous year.

European gas imports (mcm)

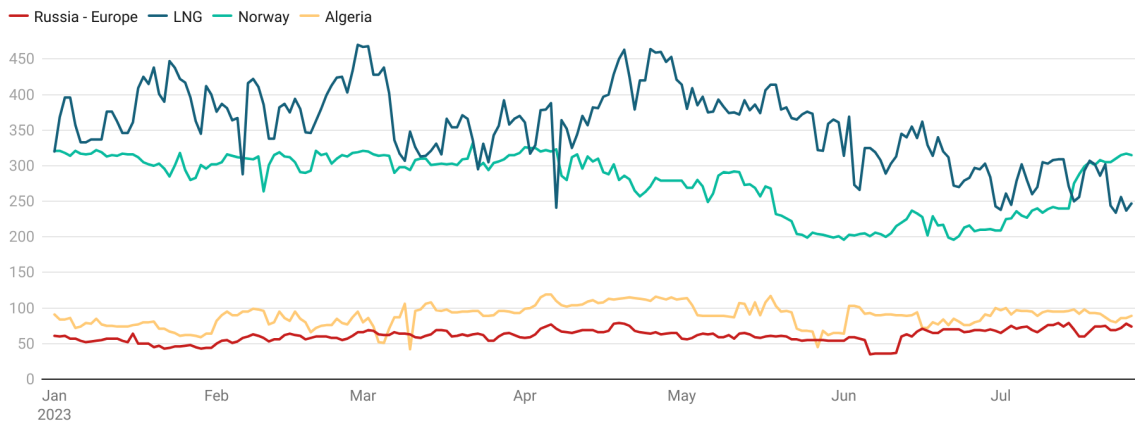


Chart: Grupo ASE - Created with Datawrapper

Over the coming months, European LNG buyers will have to offer a premium to attract gas carriers as competition is growing. Asian buyers are increasing their activity in the spot LNG market as their demand for gas for cooling is increasing due to high temperatures.

In addition, countries like India or Thailand are taking advantage of the lower prices at this time, compared to what is expected when the winter demand cycle begins.

GNL Price

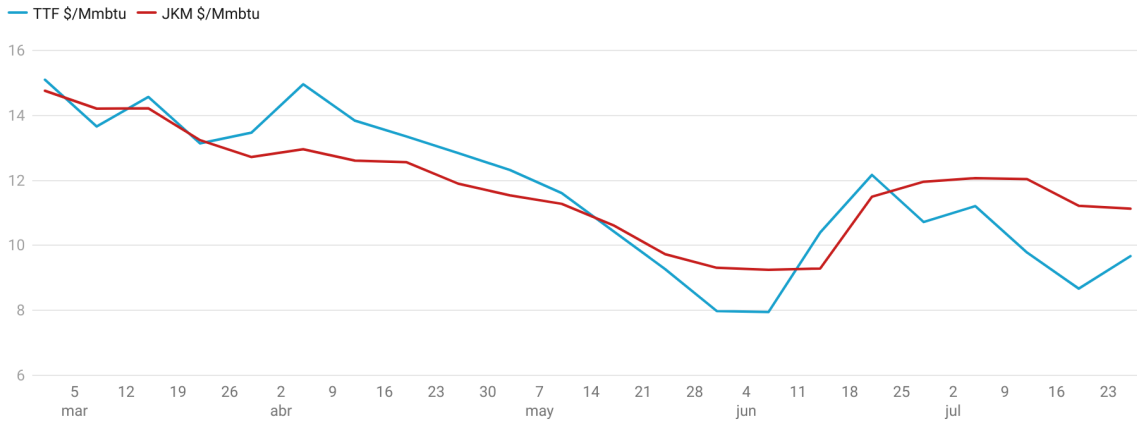


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The price of electricity in Spain for 2024 again exceeds €100/MWh

The Spanish Yr-24 electricity product has once again risen above the €100/MWh barrier and closed at €101.25/MWh, having increased by 9.6% compared to the close of June. On the other hand, the German Yr-24, a reference in Europe, is at €143.13/MWh.

Although the good condition of European gas inventories has helped reduce short-term prices, there is still high uncertainty for 2024. Last year the winter was mild and allowed Europe to cope with the high demand season for gas. However, if the upcoming winter is cold, the situation could rapidly worsen, leading to a return of supply shortage concerns

Electricity and gas futures markets

Product	Futures OMIP (Spain)	Dif (*)	Futures MIBGAS (Spain)	Dif (*)1	Futures TTF (Neederlands)	Dif (*)2
Q4-23	115,00	-3,00	40,28	-13,00	41,20	-17,20
Q1-24	116,00	2,90	50,37	-2,60	50,27	-8,60
Q2-24	84,90	11,70	49,38	1,00	48,20	-6,70
Q3-24	97,00	4,80	49,85	2,00	48,85	-5,40
Yr-24	101,25	9,60	50,94	3,70	49,90	-6,00
Yr-25	77,00	5,50	45,29	6,40	45,25	1,70

(1) Differential compared to the last quote from the previous month

Tabla: Grupo ASE • Creado con Datawrapper

Industrial energy demand does not pick up despite falling energy prices

Industrial energy demand has fallen again in July and shows no signs of recovery, despite the significant drop in prices compared to last year.

The electricity demand from large companies has contracted by 9.9% in the last 12 months. During this period, the electric consumption of large companies has reduced its share in the total electricity demand, from 48.8% to 46.6%. In terms of its gas consumption (excluding the electricity and refining sectors), it has seen a cut of 23.4%.

The metallurgical sector, which accounts for 24.5% of the electricity demand in the industry, has reduced its consumption by 10.7% in the last year. It is followed by the chemical sector (-9%) and paper manufacturing (-8.8%). The overall drop in the industry has not been greater due to the automotive sector, whose demand has grown by 6.8%.

Metallurgy also takes the first place in the cut in gas consumption, with a setback of 20.5% in the last year. In second place is paper manufacturing (-14%), and in third place the chemical sector (-6.9%).

Grupo ASE analysis

Industry is the forgotten one

We have long been warning that the decrease in industrial energy demand in Spain is alarming. High gas prices are affecting more intensive industries such as metallurgy and chemicals.

Compared to last year's highs, amidst a crisis caused by Russian supply cuts, the reference prices for gas in Spain and Europe have plunged by approximately 90%, and electricity prices have fallen by about 60%. However, the current levels almost double those of the average for the period 2019-2021.

Some sectors with intensive energy consumption are questioning whether it makes sense to produce in Europe. This is the case for the chemical sector, in which Europe has already lost up to a quarter of its production. The German multinational BASF closed several plants in its large Ludwigshafen center earlier this year and plans to cut up to 2,600 jobs.

In addition to the energy costs they are facing, another factor for large multinational companies to consider when deciding whether or not to maintain their industrial plants in Europe are the investment costs required for their "decarbonisation."

The European industry is going through a crisis due to three factors: the drop in demand for goods, increased international competition, and the increase in the cost of credit. The most industrialised countries are already feeling it. Germany, whose industrial sector accounts for 27% of its GDP (compared to 15% in Spain), has entered a recession.

During the energy crisis, most of the measures taken by governments have sought to reduce the impact on household bills. In contrast, Spanish and European industry continues to demand specific energy policies that help increase the efficiency of their production processes, maintain their competitiveness, and tackle the reduction of their CO2 emissions.



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