Five Factors Driving Energy Volatility

Global interconnectedness has created a complex web of factors that affect energy prices, leading to constant volatility – both good and bad – as prices rise and fall.

What should you keep an eye on to stay on top of energy volatility to mitigate risk and create opportunities?

Five things to consider

1

Geopolitical unrest

Prices increased and Europe shifted dependence

In 2022, the Nord Stream natural gas pipelines,

to liquefied natural gas (LNG) imports but is competing for supplies with China.

owned 51% by Russia, were damaged by unknown actors and went offline.

Growing tension between the U.S. and China could further shift energy supply and demand.

OPEC will likely continue to prevent increases in oil exports.

2

Extreme weather

Extreme weather will continue to increase with climate change.

Anticipation of one of the hottest summers on record in parts of the U.S. will increase demands and prices surges due to heavy A/C.

Extreme heat impacts renewable energy production as there's little wind, solar panels become less efficient in 100°F-plus heat, and nuclear generation turns down when river temperatures are high.

3

Clean/renewable energy initiatives

Growth in electric vehicles will increase

The Australian Capacity Investment Scheme will

electricity demand and the gas to create it.

unlock around $10 billion of investment in clean power.

Countries like Japan are investing heavily in renewables, including hydrogen.

Gaps in renewable energy technology mean gas is still fueling a large portion of electricity production.

4

Production challenges

An ageing French nuclear generation fleet is increasing pressure on European electricity transmission.

There is greater European competition of Nordic natural gas supplies.

The Groningen field in the Netherlands is being decommissioned due to depletion and safety issues.

China has faced safety and weather-related coal production challenges.

Shale production is flat in the U.S. and investment in those operations is limited and worsened by inflation.

Government intervention

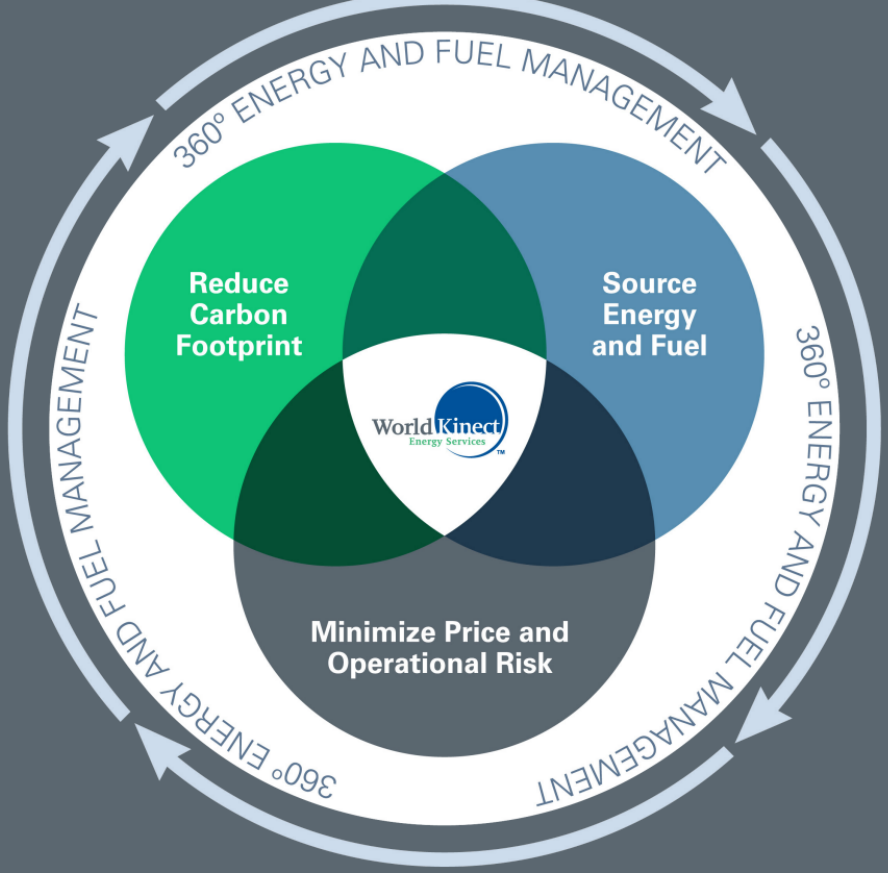
Price caps on gas and coal were approved by legislation in Australia.

The EU is now discussing a system of joint gas purchases to reduce prices for member countries.

European Government interventions on wholesale prices are creating artificial market fundamental drivers.

This is just a handful of the many global factors affecting energy volatility.

Keeping up with these complex and ever-changing conditions to create and enact an energy strategy that balances risk and opportunity requires a partner with both deep regional and global expertise who knows when and how to hedge against rising prices.



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