

Chart of the Day

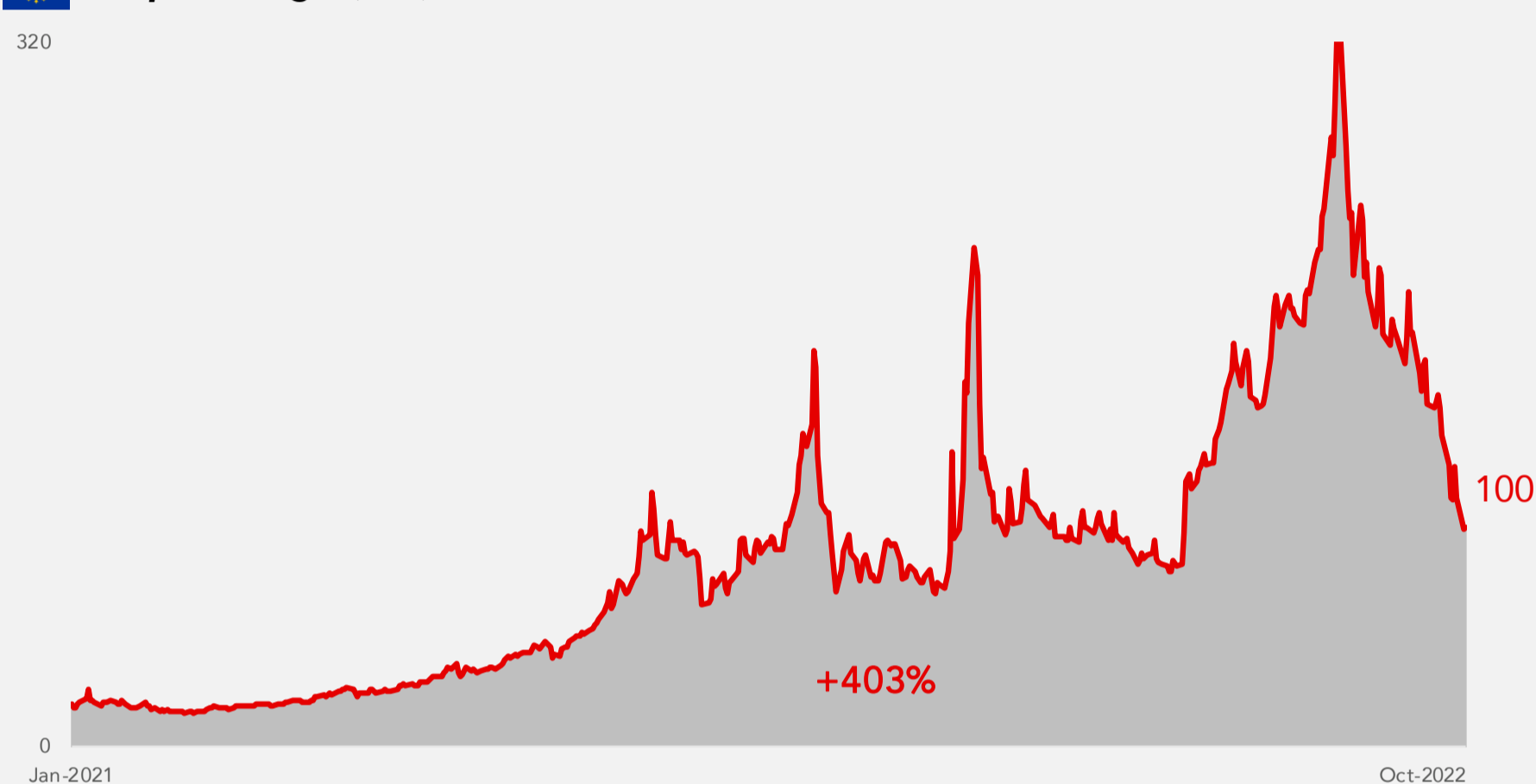
The Russia-Ukraine crisis is a reasonably “contained” military conflict between two large countries that has evolved into a broader geo-economic war with natural gas as the primary channel of contagion. Notably, natural gas is also the primary source of energy for the electricity grid.

Earlier this year, natural gas prices in Europe had risen more than 10x, though have since moderated significantly, thereby also driving electricity prices lower. To this end, the transformation of Europe’s political economy has been impressive, and contributed to a moderation in prices on the back of: (1) strength and speed of policy coordination across countries; (2) 50% increase in LNG imports; (3) rapid diversification of alternative energy sources including a 35% increase in coal imports; (4) increase of natural gas storage levels in Europe above 90% even as Putin shut down gas pipelines; and (5) announced policy initiatives from both the European Commission and at a nation-state level to mitigate the impact of the energy crisis and costs to the consumer and industry.

One critical variable for the long winter ahead: the weather! Will Europe have a cold or mild winter, and what will winter be like across the rest of the Northern Hemisphere (China, Japan, South Korea, the US) competing for limited supplies of LNG?

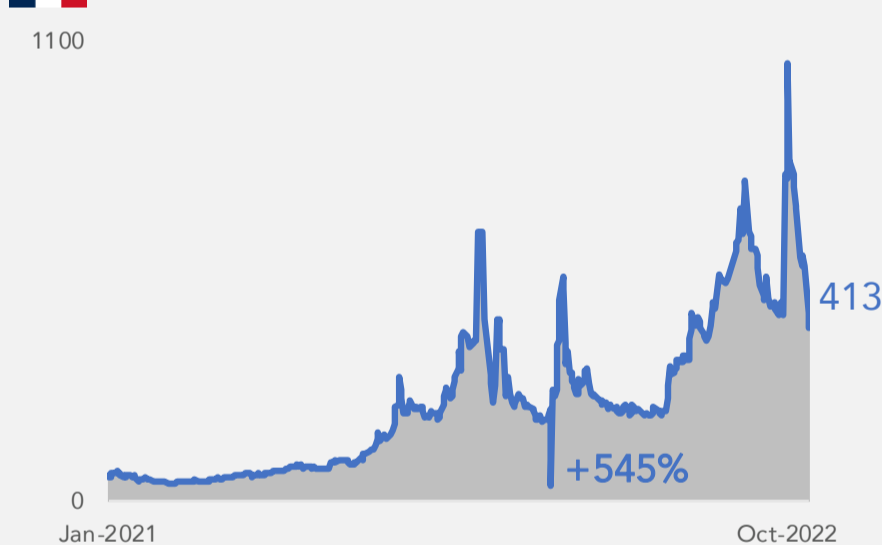
Even as Putin has shut-down gas supplies, the impressive transformation of Europe’s political economy over the last 8 months, and the build-up in European natural gas storage levels above 90%, has driven a moderation in European energy prices in recent months.

European nat gas (TTF)



Electricity prices, 1 month forward (EUR / MWh)

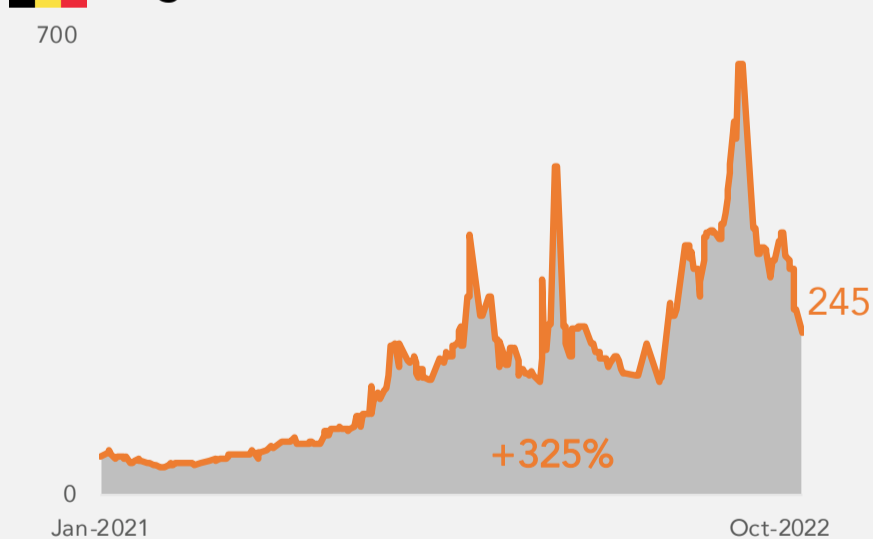
France



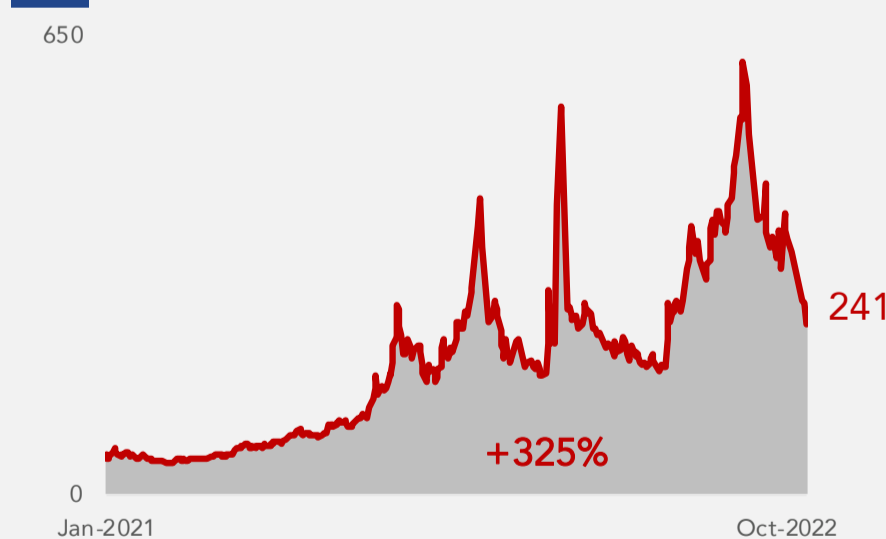
Italy



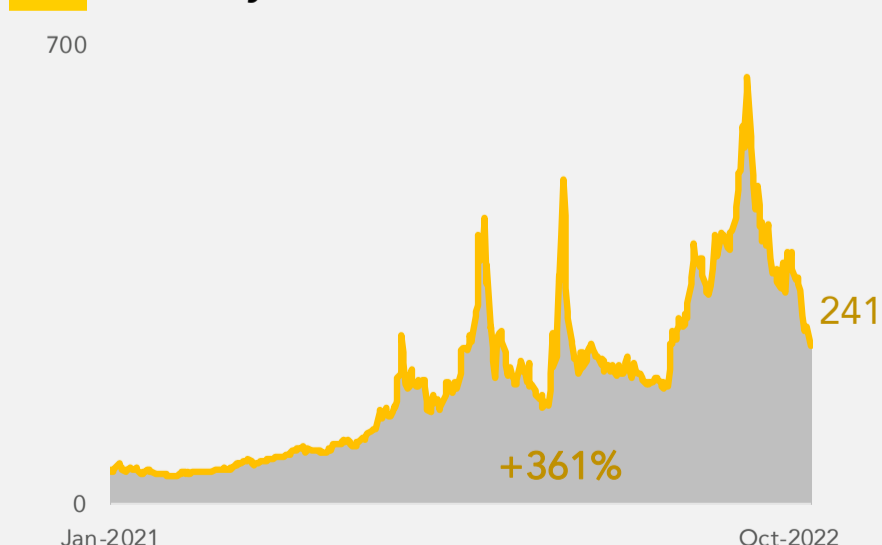
Belgium



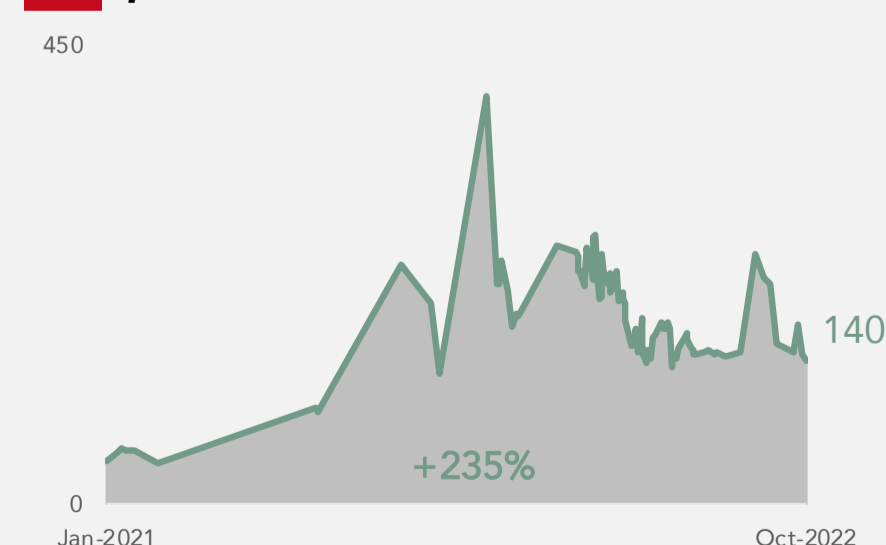
Netherlands



Germany



Spain



Source: (1-7) Bloomberg. Data as of October 25, 2022. Electricity is base load electricity prices.

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“Macro stability isn’t everything, but without it, you have nothing.”