

# When is the best time to buy energy?

Buying energy can be challenging for organisations due to the volatility of the market which can mean significant price changes between the daily open and close of the market – and even within the space of a few minutes. As such, knowing the perfect time to buy energy is practically impossible, however, using thorough analysis and monitoring market fundamentals makes it much easier to identify favourable buying conditions. Our guide summarises some of the factors that impact energy prices.

## Fundamentals which impact the market

The energy market is frequently changing as traders alter their positions based on a number of factors, however, there are always core fundamentals which have a significant impact on energy prices. These fundamentals are something which can be monitored to develop accurate forecasts, helping energy experts keep track of the market.

These core fundamentals are outlined below:

### Supply, Demand and Storage

Like all markets, energy is dictated by supply and demand – when consumption levels are low, the price drops and when consumption increases, so does the price of future energy contracts. Public and residential consumption is a significant factor in the cost of gas and electricity and the price of energy contracts will increase when pressure on the grid grows. Gas and energy networks can also experience more strain when renewable sources, such as wind, solar and hydro are low, increasing reliance on gas and fossil fuels, such as coal.

Industrial demand is also likely to grow and decline depending on the state of the economy. Production levels typically increase across the country when the economy is on the rise, having a direct impact on the price of energy. This also applies to consumer markets, as a stronger economy can result in increased demand on the transportation and retail sectors, for example.

Low storage levels can offer significant support in the winter months, forcing the nation to purchase expensive foreign imports. Storage levels build up over the summer months when heating demand is low, ready to support the system in the colder months. However, unseasonable weather during traditionally warmer months can deplete storage levels, leaving the system undersupplied later in the year.

Planned and unplanned maintenance at facilities in Norway and the UK Continental Shelf can also result in a sudden increase in pricing, resulting in reduced flows reaching the UK and putting pressure on other sources.

### Commodity and Financial Markets

Energy markets often correlate with movement on wider commodity and financial markets, with intra-day trading resulting in constant shifts in price for gas, electricity, coal, oil and carbon allowance contracts.

For example, oil markets can be influenced by the release of the weekly inventory report published by the International Energy Agency which provides an update of builds and drawdowns in crude storage levels – this allows traders to predict whether the price of crude oil will move up or down.

As nations across Europe attempt to reduce carbon emissions and lessen their impact on the environment, carbon allowance contracts have been imposed which now have a strong level of control on energy markets.

A Carbon Allowance Certificate permits an organisation, such as a large-scale factory to emit one tonne of carbon dioxide. These certificates are purchased via carbon markets in the EU and now via the new UK equivalent following Brexit. The price of these certificates can fluctuate depending on demand and the strength of economies.

Likewise, the strength of a particular currency also dictates energy costs. A stronger British Pound makes it cheaper to purchase energy from nations which use the Euro and vice versa, which means strong movements on either market can result in a flurry of buying.

Meanwhile, a weaker Dollar can reduce the cost of oil, while strengthening of the Chinese Yen can result in rising demand for commodities in Asia and result in high market volatility.

## Political Events

Political events can have a huge impact on energy costs as they directly affect the economy and demand. The recent presidential election in the United States is a great example of this as, during his tenure, Donald Trump made it much easier to obtain permits for oil drilling on federal land and any connected infrastructure that goes with it. Meanwhile, it is likely that Joe Biden will stop any new drilling in the country, resulting in higher oil prices as production levels in the country will decline. [Read more about that here:](#)

Brexit and the uncertainty that surrounded it was also a disruptive factor in terms of energy prices in Europe. Prices experienced prolonged volatility due to unknowns regarding the carbon markets, access to pipelines and doubts over whether nuclear and offshore wind projects would go ahead.

Recently, conflict in the Middle East has also had an impact on global oil and LNG markets as tensions between Saudi Arabia, Yemen and Iran could result in a halt in transit. The waters in the region are some of the world's busiest shipping routes and any closure could result in a supply shortage.

## Changes to the way energy is generated

The rapid growth in clean energy and the deployment of renewable energy technology has changed the way networks are operated and has reduced reliance on fossil fuels, taking away some of the influence offered by commodity markets.

Periods of low wind generation result in a greater reliance on traditional generation methods such as natural gas and coal. This, in turn, tightens supply and potentially requires storage withdrawals and more imports from abroad.

It is hoped that new technologies such as demand side response and storage can help provide stability over the coming decades and reduce this volatility caused by low wind or solar availability, providing security to the grid and making the UK more independent in terms of its energy supply.

## The Weather

Following on from renewable generation, it is clear that weather conditions play a major role in terms of dictating the energy market –whether it be strong wind levels or cold temperatures, the forecast is a key factor.

Residential demand directly correlates with cold or warm weather, with heating demand rising considerably during the winter months. The grid was recently tested by this year's 'Beast from the East', bringing temperatures well below the seasonal norm.

Extremely warm weather can also offer support to power contracts when demand for cooling grows and office buildings, for example, use air-conditioning for long periods. Particularly sunny days also result in more solar power, although it comes as no surprise that the UK is less dependent on this energy source compared to some of its European counterparts, such as Spain.

## Buying Strategies

The volatility of the energy market allows suppliers to offer a number of different purchasing methods for the energy they supply. Different buying strategies mean taking on different levels of risk, with the benefits varying depending on specific industries and business types.

Buying Strategies include: Fully Flexible, Partially Flexible, Pass-Through, Fully Inclusive and Fully Fixed. [Read more about buying strategies here:](#)

## Conclusion

Based on the ever-changing fundamentals; political and financial factors, it is obvious that there is no perfect time to purchase energy. However, there are opportune times to lock in prices and secure best value rates for your business.

Constantly tracking and analysing the market is not viable for most businesses and organisations which is why many of them turn to the services of a professional energy consultancy to procure their gas and electricity.