Spike in gas prices threatens big troubles for European economies

Wholesale gas prices are back to trading at close to a five-month high.

The price of British gas for immediate delivery is off 2.5% this morning but on Monday traded as high as 503p a therm – a level last seen in the immediate aftermath of Vladimir Putin's invasion of **Ukraine**.

Similarly, day-ahead prices are off by nearly 2% today, but on Monday traded as high as 505p a therm which, again, is a level not seen since early March.

Interest rates of 6-7% 'could be needed' – Cost of living latest

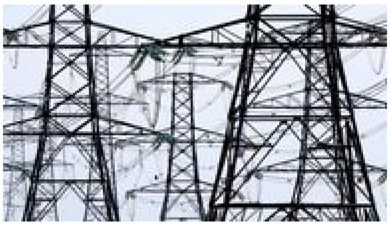
The immediate trigger for Monday's surge was news late last Friday night that **Russia** is to suspend supplies of natural gas to Europe via the Nord Stream 1 pipeline for three days at the end of the month for what it described as maintenance purposes.

No-one really believes that, given Moscow's increased willingness to weaponise gas supplies in response to European sanctions against it, but the impact is the same.

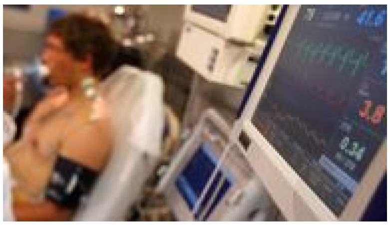
The concern is that, after the three-day maintenance period is over, Russia will not resume supplies.

More on Cost Of Living

Parents using junk food to make up for not being able to afford holidays and days out, research finds



National Grid doubles emergency planning exercises amid concerns over energy supplies



Medical students forced to cut back on food, clothes and heating as cost of living crisis bites

Related Topics:

- Cost of living
- Energy Crisis

The development comes at a time when European countries are scrambling to fill up their gas storage facilities ahead of the winter in anticipation of a possible complete cut-off of Russian gas, but also at a time when, due to the recent heatwave, heavier use of air conditioning systems has pushed up energy demand across Europe.

That scramble for gas means European countries are now bidding more aggressively for cargoes of liquified natural gas that might previously have been bought by countries, like the UK, which only bought very small quantities of gas from Russia.

Adding to the tightness in supplies is the fact that Gassco, the Norwegian gas pipeline operator, has been reducing supplies in recent days.

Read more:
What happens if you can't pay your energy bills
What is the energy price cap and why are bills rising so sharply?
UK inflation to top 18% as gas prices soar, banking giant Citi forecasts

The expectation is that prices will remain at elevated levels for some time – although it is worth noting that gas consumption in continental Europe has been unusually low this summer as big industrial users, such as the German chemicals sector, have not been using as much gas as they were this time last year.

It seems likely that such demand as there has been, then, has been due to European countries filling their gas storage facilities.

Subscribe to the Daily podcast on Apple Podcasts, Google Podcasts, Spotify, and Spreaker

The good news is that Germany, the biggest consumer, is making unexpectedly good progress in filling its facilities and is currently in line to hit the targets it has set itself for this winter.

Germany has also succeeded in reducing its gas use quite significantly in recent months – down by nearly one-third since the spring – by reopening coal-fired power stations.

It is also worth bearing in mind that, just because the price of wholesale gas is currently at elevated levels, it does not follow that customers are buying at these prices.

That is certainly the anecdotal evidence from energy markets.

This raises the concern that gas buyers, particularly big industrial users and household energy suppliers, become short of the commodity further down the line because they are delaying buying now in the hope of price reductions in the near term.

That could spell big problems for European economies next year.

In the meantime, proof came today that Germany in particular is already hurting, with “flash” purchasing managers index survey data for August suggesting that Europe’s biggest and most important economy is contracting.

While the UK is now expected to enter recession later this year, there is a growing body of evidence that Germany is already in recession, which will have a knock-on effect across the continent – including the UK.