

Energy Outlook 2021

The pandemic reduced energy demand in 2020, but the energy markets will bounce back in 2021 as the global economy recovers



Executive summary

The European wind and solar markets are expected to provide solid growth of 8% and 13% in 2021 in terms of capacity additions, which require €60 billion of investment. On the supply side, wind and solar continue to benefit from policy support for green local power systems. On the demand side, we expect power demand to increase by 3% in 2021, although the extension of lockdown periods and delays to the vaccine rollout could lead to stagnation.

Wind and solar energy are expected to gain cost competitiveness over fossil fuel and nuclear power in 2021. It's getting increasingly cheaper to add new wind and solar capacity compared to new fossil fuel power plants or nuclear power plants. The anticipated 35 GW addition of wind and solar capacity is likely to add to price volatility in European power markets in 2021 as large scale power storage facilities, such as batteries and electrolysis, remain relatively small.

European utilities showed resilience in 2020 on the back of the Covid-19 pandemic, however they were not immune from declines in power and gas consumption and company financials felt the impact. European utilities should be able to return to growth in 2021 and many are maintaining their ambitious capital expenditure plans. Overall, we anticipate a +5.5% increase in investment from utilities. This will lead to additional needs for financing as the sector's cash flow generation in 2021 will not be sufficient to cover

the higher level of investment. We expect utilities to be printing €40bn of bonds in 2021 of which €20bn will be green bonds.

Gas markets had a volatile 2020, with prices initially coming under pressure from both the hit to demand and ramping up of LNG capacity. However, a rallying Asian LNG market has dragged the whole natural gas complex higher. We believe that the spread between Asian LNG and European prices will continue to support spot cargoes to flow into Asia rather than Europe.

The tightening in the oil market is expected to continue over 2021, which suggests further upside for oil prices. Bear in mind though, that there is still plenty of uncertainty due to Covid-19, the rollout of vaccines and future supply cuts from OPEC+

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