

The Energy Shock that Wasn't

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Whilst the market is currently focussed on what some ingenue investors are calling “analogue Bitcoin,” that’s gold bullion to you and me, the price of the black stuff has been steadily falling all year. The price of Brent Crude is down 18% in the last 12 months.

This has obvious positive implications for inflation.

More fundamentally, since a high cost of energy is a key barrier to new investment, falling energy costs support broader economic growth. In an increasingly energy intensive world, think of the energy consumption of all the computer servers underpinning the emergence of AGI (artificial general intelligence), a low cost of energy is a clear net positive in a fractious world economy.

This perhaps explains some of the “complacency” in financial markets as somewhat counter-intuitively both “yellow gold,” the classic “risk-off” asset, and equities, the classic “risk-on” asset, make new all-time highs simultaneously.

The picture with respect to Gas markets is not quite so rosy; natural gas prices are up around 18% in the last 12 months. Indeed, prices troughed in early 2024 at less than \$2 per MMBtu (million British thermal units) and they now trade at just under \$3MMBtu.

However, that recent price action should be seen against the impact on energy prices when Vladimir Putin invaded Ukraine. Gas prices peaked at over \$9MMBtu – the current price representing 1/3 of that peak price.

In many ways this underscores the failure of the Russian incursion to inflict collateral damage on the European and wider world economy via higher energy costs. At the time we thought that the Russo-Ukraine war would have a serious and long-lasting impact on energy markets. However, these price pressures simply and unexpectedly haven’t emerged, removing at least one threat to wider prosperity.

The conflict emphasises the geo-strategic importance of maintaining a diversified array of energy sources. The Western economies have proved remarkably fleet-footed in achieving significant, if not total, independence from Russian oil and gas.

Interestingly amidst the perennial gloom about the UK economy, this is also exactly what the UK has done, perhaps, even more so.

According to the National Grid, though still high, the use of fossil fuels in the domestic energy mix has been steadily declining whilst the use of renewable energy has been steadily increasing. In fact, in the second quarter of 2025 more than half of the electricity consumed by Britain and distributed by the Grid was derived from domestic renewable energy sources with solar contributing a record 11% share of all electricity produced.

UK total domestic energy consumption is actually falling as warmer global temperatures reduce the need for domestic heating whilst the country is not yet hot enough to encourage the widespread adoption of electricity intensive air conditioning.

The report from which some of this data is obtained is issued by HM government, specifically from the Department for Energy Security and Net Zero. It is interesting that the Energy Security mandate of the department is now eclipsing the Net Zero mandate despite the outcome being the same: lower carbon emissions with stronger security of energy supply.

The more important point is that in invading Ukraine, Russia has forced the developed Western nations to improve their energy supply and protect their energy security at the same time. Both are clearly pro-growth and, it's fair to say, probably not what Mr Putin intended.

Many of us remember the impact of the energy shocks of the 1970s. Today the world economy is much less exposed to that risk. That's real progress.

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