Hedge fund manager Tor Svelland warned about the energy crisis - even more worried now: - Serious

The energy system has nothing to go on, and the exacerbated situation with high prices in Europe will probably last for at least two more years, believes the former Fredriksen top.

High energy prices and a tense situation in Europe for at least two more years? - I am reasonably sure of that, says hedge fund manager Tor Svelland.
It was at a time when it was still rare to hear big words like "energy crisis" about the high electricity, gas and coal prices in Europe. Tor Svelland, who had just stepped down as CEO of billionaire John Fredriksen's management company and returned to managing his own hedge fund, blurted out:

- We are going straight into an energy crisis, he told Dagens Næringsliv in mid-September.

In the three weeks that followed, gas prices in Europe ran wild, rising almost 70 percent to new records. In December, it completely took off again, with new records again. Electricity prices both on the continent and in Norway have done the same, and the authorities have put in place crisis packages to help consumers pay their bills.

Svelland, who has more than 25 years of experience in raw materials and energy trading, is no less worried now – quite the contrary.

- Now the seriousness is really starting to set in, he says in an interview in Oslo just before New Year's.

Stops coal exports

The reasons for what has since autumn been referred to by more and more precisely as an energy crisis are complex. Last winter was extra cold and long, and European gas stocks have been at a much lower level than they usually are in recent months, while supplies from Russia have been low. Gas is the largest source of electricity production in Europe.

For large periods it has also been less windy than usual, which has resulted in less wind power and a greater need for gas and coal. In Norway, it has rained less than usual with lower water levels as a result, while European electricity prices have also spilled over into the Norwegian market through power trading.

What Svelland now means to see is that this picture is tightening even further.

Last week, the world's largest coal exporter, Indonesia, came out and said it would stop supplying abroad in January because the authorities fear that domestic power plants will run out.

- We have been saying for a long time now that there are too few supplies, because there is not enough investment on the supply side, neither in metals nor oil. But now we're onto something new: Now suddenly the country says it can't export. The demand is still there, but the supply is gone. This is extremely serious, says Svelland.

- Dramatically

In the global oil and gas industry, investments have fallen sharply after the oil price collapse in 2014-2015, in a period where business-related cost-cutting has turned into a more existential crisis that is about a green transition and a shift in investment towards renewable energy. But at the same time, the International Energy Agency (IEA) predicts that oil demand will return to pre-pandemic levels already this year, with approximately 100 million barrels per day.

At about the same time that Indonesia throttled coal exports, the government of Mexico, which produces as much oil as Norway and exports two-thirds, said that the country will stop exporting oil in 2023. Recently, there have also been major cuts in oil production in Libya, and the political unrest has escalated in the oil country of Kazakhstan.

The oil producer alliance OPEC+, led by Saudi Arabia and Russia, is increasing production , and in theory has more than five million barrels per day in spare capacity according to the IEA. But Svelland believes that the capacity is actually less than the market believes.

- If you go further up to 102 million barrels, you will draw dramatically on stocks that are already empty. If you get up to 104, we are faced with a situation that we can describe as dramatic, he says.

The price of oil has recovered strongly after it plunged below 70 dollars at the beginning of December due to the fear of the consequences of the new corona variant omikron. Given the strong demand and limited supply, Svelland does not believe that it can fall much below 65 dollars for a long time to come, unless there is a full, global shutdown like in 2020.

At breaking point

Svelland believes that the European and global energy system has simply reached a point where there is little to go on.

- Imagine if you have a natural disaster or something like that? Now there is no room for anything, he says.

Svelland believes that the energy debate in Norway and Europe has become more "sober," especially when it comes to the challenges of obtaining enough renewable capacity to cover energy needs in the short term. The European Commission has proposed that both gas and nuclear power should be considered sustainable in a transition phase - but Svelland notes that there is no agreement on this among the EU countries yet.

- Everyone should go green, and that's fine, I also want to get rid of coal. But then we have to go for gas. The Norwegian continental shelf is important for Europe and the world, he says.

- A primary need

Right now it is difficult to see the end of the energy crisis, Svelland continues:

- We have to base ourselves on the fact that it is more windy and that the solar parks produce more. If that doesn't happen, there will be problems. That we will have problems in any case for the next two years, I am reasonably sure of that. The investments required are long processes.

Svelland has also caught up with the debate surrounding power exports in Norway. He does not believe that it must be stopped, but that the market must be regulated more than now.

- Conceptually, I believe that electricity is a primary need, and that it must be the state's responsibility to control it. Letting the free market control the flow of the people, you can't do that.

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Tor Svelland

- A surprising statement from someone who has built his career on commodity and energy trading?

- A marketer, yes. But you can't do that. That's why I'm provoked by the idea of shutting everything down when there aren't enough renewables to take over. It is completely irresponsible. Who loses from that? It's the man in the street. There must be stable conditions.

Good return

Svelland himself has so far been well paid for the bets he has taken on what is now playing out in the energy markets.

In September, his fund, the Svelland Global Trading Fund, had its second best return since its inception in 2017, with almost 15 percent. Last year was the best ever with a return of over 36 per cent, after around 30 per cent in each of the previous two. In that three-year period, the broad MSCI World index has had an average return of just under 20 per cent. Since its inception in August 2017, the fund has returned 130 per cent, double that of MSCI.

The fund, which now stands at around NOK 700 million, is invested both in raw material, energy and shipping derivatives, and the shares of companies within these industries. The goal is a 15 percent return per year.

In September, Svelland said that he was hunting NOK 2.5 billion in new capital for the fund by the end of the year. The management company is now in final negotiations with several investors, and expects to reach approximately NOK three billion in managed funds during the first or second quarter, he says.(Terms)