

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

ANNUALS HIT 2-YEAR HIGH



Over the first eight to nine days of February — in the lead-up to Storm Darcy and Arctic conditions hitting the UK — all UK power prices ramped higher, with Day-ahead prices running up from £56/MWh to £81/MWh and Annuals climbing by as much as 8%, to reach two-year highs. Despite even colder conditions gripping parts of the UK since, with temperatures plummeting to 25-year lows in places, prices have slumped lower over the last seven days, with high wind levels and falling gas prices first applying pressure, and then milder temperatures adding to the bearish cocktail.

At the time of writing Day-ahead was trading beneath £48/MWh and Month-ahead beneath £53/MWh – their lowest values since November. A cluster of brief outages at several plants over the last week and delayed refuelling at the Heysham 2 nuclear plant has failed to offer much price support, while supply has been helped by the resumption of imports through the BritNed interconnector on February 10th following two months of cable repairs (although there have been more glitches in the new IFA 2 France-UK interconnector).

Forward prices were helped higher by a further leap in EUAs (carbon emissions allowances that generators factor into costs), which broke above EUR 40/TCO2 for the first time – continued speculative buying and high European coal-burn during the cold snap being key drivers. However reports that the European Commission is considering introducing caps on EUA speculative activity have caused prices to buckle by EUR 2/TCO2 this week.

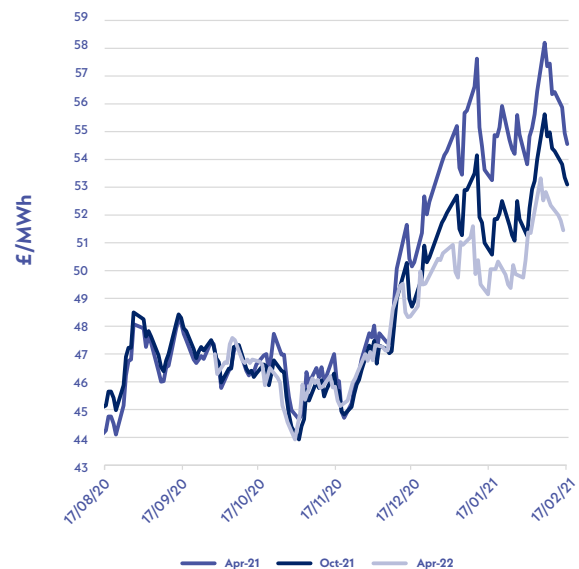
A powerful rally in oil prices – from \$55/barrel to over \$65/barrel, their highest level in a year – also bolstered forwards talk. Economic optimism amid global vaccine rollouts, a rare snowstorm across Texas and the southern US reportedly affecting up to 40% of US crude oil production and increasing expectations that a \$1.9 trillion US stimulus package will be approved by Congress have been key bullish factors, while new Saudi Arabian production cuts have also started to bite.

But the weaker short-term UK power and gas market sentiment has rippled forward and counteracted the impact of this over the last few days. April '21 Annual UK baseload, having reached a peak of over £58/MWh, is now back beneath £55/MWh. October '21 Annual's discount to it has shrunk by a pound, to £1.5/MWh, while April '22 Annual is now trailing it by £3/MWh.

Coal meanwhile also rallied as the latest "Beast from the East" hit Europe, gaining \$3/tonne — as it broke above \$68/tonne, although it has since shed \$4/tonne and dropped to a two-month low, despite supply issues in Russia, Colombia and Australia. Having ramped up to provide more than 7% of UK power supply, coal-fired output has slipped back to negligible levels, largely on account of the much higher wind levels (with wind power supplying up to 40% of daily demand and 49% of hourly demand in recent days).

While power prices across the coming months have similarly ramped up and down in mainland Europe, as the cold has come and gone, Year-ahead prices there have been more reluctant to move lower, registering just shallow losses, with continued EUA and oil strength appearing to have more of an influence – and keeping German Year-ahead electricity near its highest level since the end of 2018.

UK Annual Power Prices (6 Month View)



ELECTRICITY: OUTLOOK



Until the reestablishment of efficient interconnector capacity allocation between the UK and Irish markets “extreme pricing events are likely to be more frequent,” data analysts EnAppSys say. The decoupling of the two markets since the UK left the EU has meant capacity in the link (and other interconnectors) is no longer allocated via a common auction process, which has contributed to short-term price spikes this year. A new power market coupling arrangement between the EU and the UK, including implicit capacity auctions, is expected to be operational by April 2022.



“EXTREME PRICING EVENTS”

likely until reestablishment of efficient interconnector capacity between UK & Ireland



EUAs could remain jumpy – knee-jerking higher and lower – until new permits are issued later this year, analysts suggest.

Crown Estate Scotland has paused the auction of seabed plots for offshore wind farms after “unprecedented” bidding, which saw bid prices reach five times expected levels, the Guardian reports.

Germany’s parliament has approved the construction of the 1.4 GW NeuConnect interconnector between Germany and the UK, which is expected to come onstream in the mid 2020’s.

South Korea has announced plans to build the world’s largest offshore wind farm — a goliath 8.2 GW, \$43.2 billion project — by 2030.



EUAs

could remain jumpy until new permits are issued later this year

Extra snow was reported in a 10-kilometre radius around the Cattenom nuclear plant in eastern France last week, severely limiting access to the power station, as steam from its cooling towers condensed to form an unusually large amount of “industrial” snowflakes.



Commissioning of a new 1.4 GW electricity interconnector between Norway and the UK is set to start earlier than expected – with Norwegian grid operator Statnett announcing a date of October 1st. This is likely to increase power imports into the UK next winter (Q4 ’21 UK power prices are currently more than double Q4 ’21 Nordic prices.)



1.4GW

electricity interconnector between UK & Norway

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr '21 Annual	chg	Oct '21 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	Germany Cal	chg	France Cal '22	chg
54.55	-0.28	53.10	0.85	52.62	-4.27	47.94	-8.12	52.15	1.70	53.15	1.39

KEY OTHER INDICATORS:

Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	EUA '21 (€/TCO2)	chg	EUA '22 (€/TCO2)	chg	EUA '23 (€/TCO2)	chg
64.05	-2.58	60.17	2.49	38.09	3.35	38.40	3.21	38.84	3.32

All changes (chg) are compared to last report



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GAS

PRICES MELT AS FREEZE ENDS



As the anticipated “Beast from the East” swept across the UK in the form of Storm Darcy in the first few days of February, prices across all gas periods pushed higher, with short-term levels rallying by up to 23% — but falling far short of the heady highs seen in January, and Annuals gaining as much as 9%. However since then all periods out to Summer '22 have more than shed any gains they made, many slipping back to levels not seen since early December.

The general downtrend has paused over the last couple of days as freezing weather in the eastern and southern US has lent some support to global LNG (and oil) prices and unscheduled cutbacks have been seen at Norway’s biggest gas field, Troll – affecting 27 mcm/day of output.

Warmer, windier weather has been the main driver of the general price tumble, curbing both end-user and generator demand, while rising LNG send-outs into the grid (accounting for almost 25% of UK supply) and the calling-off of a Norwegian strike — which was set to affect 20% of gas output there — have also played their part.

A further slight reduction in Asian LNG demand and prices over the last week, helped by the Chinese New Year, has also weighed on forwards discussion. An earthquake off the coast of Fukushima in Japan (where there was a nuclear plant disaster in 2011 following an earthquake and resultant tsunami) on February 13th caused some market jitters as several plants there were shut down, but these passed quickly as the units were soon restarted.

April '21 Annual, which reached almost 49.5 p/th in the early February run-up, is now back below 45 p/th, while October '21 Annual – which reached a 15-and-a-half-month high of over 47.5 p/th – is now back around 44 p/th.

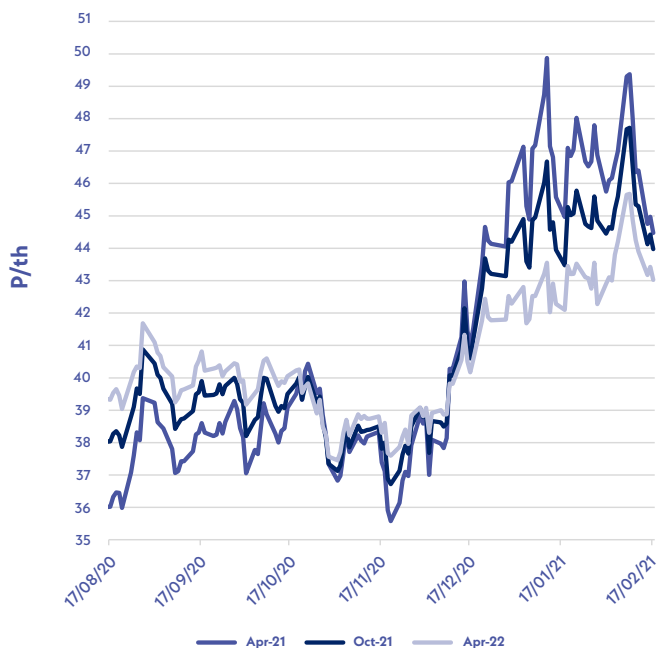
A new record high in EUA carbon allowances – which rose above EUR 40/TCO2 for the first time on continued speculative buying, and a robust new rally in oil prices –

which have surged 18% this month, to a 12-month high, on an improved US demand outlook and Saudi production cuts, contributed to the early gains. However the influence of oil’s continuing upwards trajectory over the last few days due to the US winter storms has been largely overridden by the slump in short-term gas prices.

Day-ahead UK gas rallied as high as 58 p/th, but has since tumbled to 42 p/th – a two-month low, amid good supply in the face of few unscheduled outages, alongside reduced demand. Month-ahead, meanwhile, rallied to 53 p/th before dropping as far as 41.5 p/th – a two-month low.

European storage capacity is currently at 41% fullness — compared to 66% fullness at this time last year, according to Gas Storage Europe, the storage operators’ association.

UK Annual Gas Prices (6 Month View)




GAS: OUTLOOK

 Output at the giant Groningen gas field in Holland could be cut by more than 50% next gas year (starting October 2021) – to 3.9 BCM – its final year of output, according to Dutch authorities. Production at the field, once Europe’s most productive, is being phased out to stop extraction-related earthquakes in the region.



50%

potential cut in output from Groningen Gas field next year


 “The next 7 days will see a mild trend amplifying for the UK, with temperatures well above the norm of the period. This will be accompanied by unsettled conditions, which are expected to be more visible moving further north,” says Marex Spectron’s meteorology desk. “It will be drier and potentially cooler for the following week, although the uncertainty of the forecast increases considerably,” it adds.

Once the current US freeze ends LNG prices may come under pressure again. US LNG exports are expected to increase by 30% this year and double by 2030, according to the US EIA (Energy Information Administration).



40%

increase in output by 2026 from North Fields biggest ever LNG project in Qatar

 Qatar has given the go-ahead for the first phase of the North Field LNG expansion, the world’s biggest ever LNG project, which will boost its LNG output by 40% by 2026.

India is to account for 25% of global energy demand growth by 2030, when it will overtake the EU as the third biggest energy consumer in the world and its gas demand will double (from 2019 levels), according to the IEA (International Energy Agency).



NEXT 7 DAYS

temperatures will be well above the norm of the period in the UK

KEY GAS INDICATORS:											
Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '21 Annual	chg	Oct '21 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2022:	chg	Oil (Brent) \$/bbl:	chg
44.48	-1.63	43.98	-0.67	42.48	-0.68	42.26	-7.93	16.69	0.24	60.17	2.49
All changes (chg) are compared to last report											

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