Early March 2021

# Energy Market Insights

Twice Monthly Independent Market Analysis

## ELECTRICITY

### DAY-AHEAD SURGES ABOVE £100 AGAIN

**While UK power prices across all periods softened over the second half of February, there was a significant gear change this week, particularly on the short-term market, which surged into triple digits again — in the face of less windy and colder weather as well as outages on both sides of the Channel. Forward UK electricity prices have been scooped slightly higher again in turn although gains have been tempered by an improved gas supply outlook going into the summer.**

National Grid issued a forecast for tight margins on Monday "due [again] to a combination of weather-related factors and unavailability of power sources over periods of the day with higher demand", as Day-ahead prices ramped up to a high of £106/MWh on March 2nd, their highest level since mid-January. (Ten days ago they slipped beneath £44/MWh, their lowest level since November.)

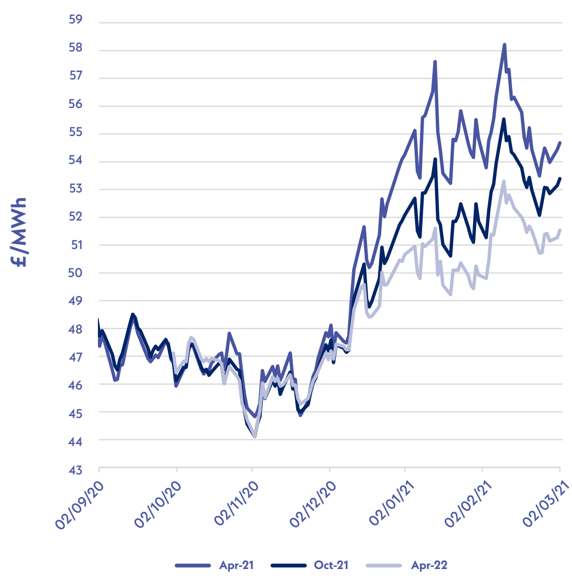
Wind power dropping below 2% of overall UK supply at times has been instrumental in propelling prices upwards, while new outages at several conventional power stations, including Great Yarmouth, Saltend and Lynemouth, as well as at the Heysham 1-2 and Hartlepool 2 nuclear reactors, also helped tighten the supply picture. New outages at nuclear power stations in France too (including at three reactors which were forced offline due to sediment build-up in their cooling systems) also stemmed imports from there, while exports to Ireland at the same time have risen. An uptick in UK solar power output and increased imports from the Netherlands have only marginally offset these factors.

Market prices for the coming days are however much lower, with price discussion for Thursday power output around £58.50/MWh, despite a forecast drop in temperatures, as wind levels are expected to improve. Month-ahead prices have at the same time softened, reaching their lowest level since November. April power is now valued just under £52/MWh – down 2.5% over the last fortnight.

Weaker gas and emissions markets have been bearish influences on forward UK power levels. UK gas prices have slipped as LNG supply optimism has ramped up following milder weather in Asia and the southern US. 2021 EUAs ($CO_2$ emission allowances), meanwhile, have dropped back as much as 6%, from EUR 39.5/TCO2 to nearly EUR 37/TCO2, as buying interest weakened following talk of the European Commission intervening to cap speculative trading in the market. The announcement that auctions of UK emissions allowances (UKAs) will start from May 19th also appeared to weigh on talk as February ended, amid expectations this could curb EUA buying interest from UK companies.

Oil and coal markets at the same time witnessed strong gains for most of the last fortnight. Despite the end of the freak freeze in the southern US (which temporarily knocked out oil production infrastructure and reportedly led to spot power prices in Texas reaching $9000/MWh), oil prices continued to move higher — briefly nudging $67/barrel for the first time since the end of 2019, amid economic/travel optimism, before fears that OPEC countries will increase output swiped $3 off prices. Coal meanwhile has rebounded again — Year-ahead rallying by more than 8% and almost reaching $70/tonne, as global supply disruptions (in Russia, Colombia, Australia and South Africa) tightened supply.

**UK Annual Power Prices** (6 Month View)



# ELECTRICITY: OUTLOOK

The rapid rollout of vaccines in the UK could stimulate a faster economic revival than previously thought, official Budget forecasts due this week will show, according to the FT. Further economic recovery optimism will help support forward energy prices.

## TRITON KNOLL

**New offshore wind farm coming on line will help stabilise prices**

The first auctions of UK emissions allowances – UKAs – will take place on May 19th, with rolling fortnightly auctions to follow thereafter. 83 million UKAs are to be auctioned this year. Details on how the UK government is to allocate free UKAs to companies are yet to be published.

EU carbon emissions meanwhile fell 10% last year due to the pandemic and lockdowns, according to the IEA (International Energy Agency). However it cautioned that emissions in December rose 2% year-on-year.

32 of France's 58 nuclear reactors should be able to operate for an extra ten years after undergoing safety modifications, French nuclear regulator ASN has said, after undertaking a review.

## VACCINE

**Rollout going well could push prices up**

The Triton Knoll offshore wind farm has started delivering electricity into the UK power network for the first time. The wind farm, which will have a capacity of 857 MW, is only partially completed – final commissioning is scheduled for next year.

## SHORT TERM PRICES

**Have been pushed down due to expectation of increased supply from wind**

**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 '22 | chg | France Cal '22 | chg |
| 54.75 | 0.20 | 53.43 | 0.32 | 51.60 | -1.02 | 105.33 | 57.39 | 52.70 | 0.56 | 53.69 | 0.54 |
| **KEY OTHER INDICATORS:** | | | | | | | | | | | |
| Coal ($/MT) '22 | chg | Oil (Brent) $/bbl | chg | | | EUA '21 (€/TCO2) | chg | EUA '22 (€/TCO2) | chg | EUA '23 (€/TCO2) | chg |
| 69.80 | 5.75 | 63.76 | 3.59 | | | 38.35 | 0.26 | 38.69 | 0.29 | 31.14 | 0.30 |

All changes (chg) are compared to last report

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## GAS

### PRICES CURL HIGHER AS MARCH STARTS

**After a generally bearish second half of February, in which short-term prices slipped 3.5% and Annuals shed over 2.5%, prices across all periods curled higher as March started — a drop in wind levels, colder forecasts and Norwegian production issues all contributing.**

Less dramatic gains were seen on Day-ahead UK gas than UK power though, which rocketed again. Day-ahead gas is now back above 44.5 p/th, a little higher than where it was in mid-February, and up sharply on the 40 p/th low it reached last week.

Month-ahead (April) UK gas prices have also been shored up by the forecasts of colder weather over the coming days, and been pulled back above 40 p/th, having slipped to a three-month low beneath this level last week.

Annuals have meanwhile edged only slightly up from their lows, with April '21 Annual pegged just below 44 p/th and October '21 Annual tracking it at a shrinking discount, now of just a quarter of a penny.

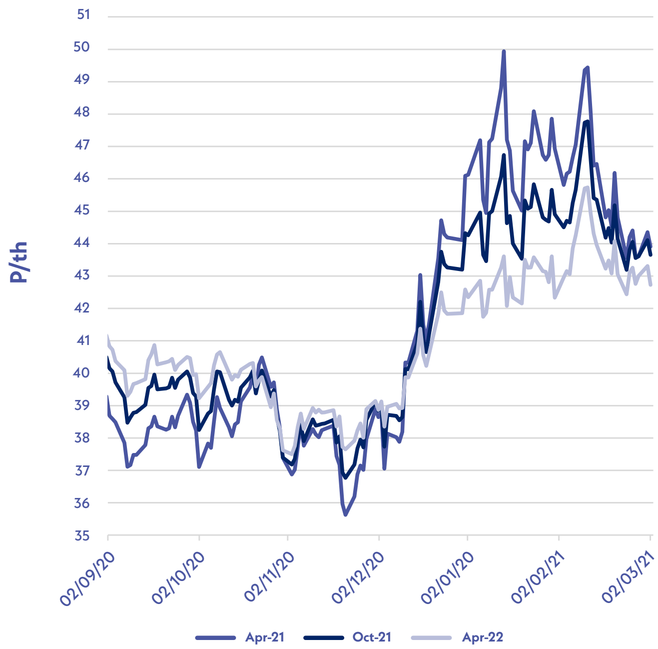
Shorter-term levels have been more influenced by an increase in generator buying to compensate for a drop in wind and nuclear power output, as well as unscheduled outages at the Skarv and Sleipner fields, which have affected Norwegian production. Solid LNG send-outs into the grid have helped prevent prices moving higher, with LNG continuing to account for around 22% of UK supply. Reports of a dip in Russian exports into Europe also underpinned gas discussion in mainland Europe for several days, although a revision in weather forecasts – suggesting early March will be less cold there than previously expected – has helped counteract the impact of this.

An improved LNG outlook in the face of a further slackening in Asian demand and prices (Q2 values there dropping another 6%) has weighed on discussion across the UK gas seasons and annuals over the last fortnight, helping counteract expectations of significant replenishment demand this summer as European gas storage inventories continue to deplete. Analysts suggest that up to 20 LNG cargoes may come to the UK this month, in line with deliveries seen last month. The end of the Texan freeze (which affected US output and led to the second largest ever withdrawal of US gas from storage) also improved the outlook, although US LNG exports may continue to be affected for a couple of weeks, while severe blizzards along the eastern seaboard of the US are now also being watched for any potential energy supply/ demand impacts.

European storage capacity is currently at 36% fullness — compared to 59% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.

Oil prices meanwhile hit a 14-month high of nearly $67/barrel – the approval of President Biden's $1.9 trillion US stimulus package by the House of Representatives (it now only needs Senate approval), and post-vaccine economic optimism providing further upwards propulsion – before slumping back beneath $64/barrel this week on fears OPEC+ states will increase production.

**UK Annual Gas Prices** (6 Month View)

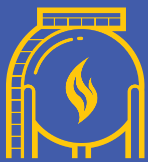


# **GAS:** OUTLOOK

European storage site capacity is set to end the winter at just 16% fullness, with 87 TWh of gas in storage, more than 70% down on the 307 TWh at the end of last winter, according to analysts at Refinitiv, who say this will lead to significant buying across the summer, supporting prices.

## LNG

**Reduced Asian LNG demand has pushed down gas prices**



**Limited gas volumes in storage across Europe is expected to increase demand into summer, pushing prices up**

Annual US gas production slipped by 1% last year, according to the EIA (US Energy Information Administration), as low prices led to a decline in drilling activity. This followed annual growth of 10% in each of the previous two years.

"The settled and dry weather will gradually be replaced by windy and rainy conditions, which will likely be the dominant pattern during week 10 (next week). Accordingly, temperatures are expected to drop below the norm of the period, although the chance for a significant cold spell is slim," says Marex Spectron's meteorology desk.

If OPEC+ states decide to increase oil production quotas at their meeting this week, it could push oil prices lower.

## UP 10%

**Prices softened in Feb but still up around 10% on December**

**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 |
| 43.85 | -0.63 | 43.60 | -0.38 | 40.64 | -1.84 | 43.75 | 1.49 | 16.46 | -0.23 | 63.76 | 3.59 |

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