

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

NEW GAINS ON WEATHER AND ECONOMY



Prices across all UK power periods have pushed higher again over the last fortnight, as colder, less windy weather and tightening gas supplies have boosted short-term levels while post-vaccine global economic optimism, carbon prices hitting a new record and firmer forward gas and LNG prices have helped lift longer-term levels.

Day-ahead prices surged to £95/MWh this week (hourly peak auction prices hit £300/MWh), as wind levels dropped – pushing wind power output to less than 1.5% of daily supply, its lowest share in many months, and as sub-zero night-time temperatures returned across the country.

Prices have since eased, but in the low £70's still remain elevated. Outages at conventional power plants and reduced French and Dutch interconnector capacity were also cited as supportive factors.

With sub-seasonal temperatures set to continue in the UK and across Europe (German forecasters are predicting the coldest April there in 24 years) Month-ahead prices have also risen, May breaking above £60/MWh at the time of writing, its highest price tag for the time of year since 2008. Concerns over gas storage levels, as withdrawals continue when normally the injection season would be well underway by now, have contributed.

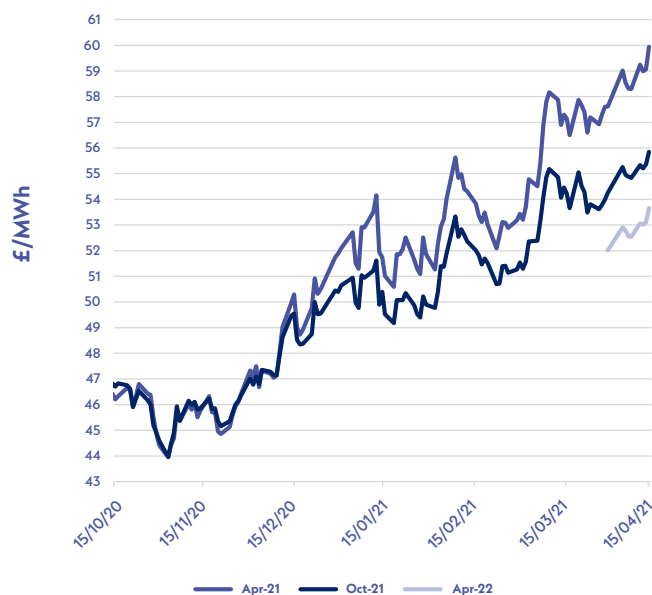
EUAs (EU emissions allowances that generators factor into costs) have reached a new record high this week, of over EUR 44.5/TCO₂, bolstered by late compliance purchases ahead of an end-April deadline to surrender allowances as well as continued speculative buying interest. This has nudged forward electricity prices up across Europe, with German Year-ahead levels notably pushing to a nine-and-a-half year high - above EUR 58/MWh.

The UK front annual, October '21 Annual, has at the same time gained almost 4% since the month-start, reaching a new long-term high of £60/MWh, while future annuals – which sagged at the end of March – have been scooped higher again in the general upswell, April '22 Annual nudging £56/MWh now.


Coal prices buckled in the second week of April as Australian and South African supply concerns waned, but have since rebounded along with the rest of the global energy complex, also helped by strong Asian buying and a reported tightening in Chinese coal mine regulations. Year-ahead European coal has just tripped above \$74/tonne, for the first time since April 2019.

Oil too has rallied strongly this week, rising almost \$4/barrel – to reach \$67/barrel, as forecasts of global oil demand growth were revised upwards and as unexpectedly large falls in US oil inventories were recorded.

UK Annual Power Prices (6 Month View)




ELECTRICITY: OUTLOOK

 US crude oil output is expected to fall by 2.5% this year, according to the US's Energy Information Administration (EIA). Meanwhile both the IEA (International Energy Agency) and OPEC have raised their oil demand forecasts for this year, with the IEA saying oil market fundamentals look "decidedly stronger".



PRICES RISE

Prices continue to rise, highest since September 2019

 Plans to build the world's first 100% hydrogen-fuelled power station in the UK have been announced by SSE and Norwegian state energy company Equinor. The 1.8GW plant, at Keadby in Humberside, to be built alongside a new 900MW gas-fired plant with associated CCS (Carbon Capture and Storage), could come online by 2020.

Record incidences of negative short-term prices were seen in many European power markets last year, with increased renewables output and lower demand due to the pandemic contributing, according to the European Commission's latest quarterly market report. 1,600 hours of negative prices were seen, double the amount of the previous year, with the all-Ireland market witnessing the most – 382, followed by Germany with 298 hours.


More than 40 industry associations have written a joint letter to the UK government and European Commission, calling for them to link the UK and EU emissions markets.

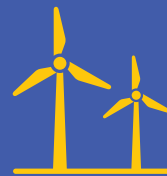
National Grid has been fined £1.5 million by regulator Ofgem for publishing inaccurate seven-day power demand forecasts over a five-month period in 2017.



CARBON

Carbon prices hit new record prior to end of April deadline to purchase

 "We expect some continued impact on demand patterns due to COVID-19, with minimum demands forecast to be low again in 2021 but not as low as during the national lockdown of April and May 2020," National Grid says in its Summer Outlook.



WIND GENERATION

Lowest wind generation in several months

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
59.95	2.35	55.85	1.88	59.63	1.63	72.73	17.42	57.28	0.47	56.45	0.20

KEY OTHER INDICATORS:

Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	EUA '21 (€/TCO2)	chg	EUA '22 (€/TCO2)	chg	EUA '23 (€/TCO2)	chg
73.65	1.40	66.73	2.87	44.16	1.61	44.55	1.66	45.10	1.71

All changes (chg) are compared to last report



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GAS

ALL SUMMER MONTHS ABOVE 50p



Although LNG deliveries into the UK and Europe have been strong, with the supply bottleneck caused by last month's Suez Canal blockage now having fully eased, UK gas prices across all periods have ramped higher again over the last fortnight - short-term prices gaining as much as 10%, Month-ahead 7% and Annuals up to 4.5%. Unseasonably cold weather, Norwegian outages, strong generator buying, storage concerns and further gains in forward global LNG prices amid improving economic optimism have all played their part in the bullishness.

October '21 Annual has just broken above 50 p/th – the last time it was at this level was in September 2019. Other annuals have also ramped higher, by progressively smaller amounts, with all annuals out to 2023 hitting new long-term highs too. Inter-annual spreads have widened as a result, with April '22 Annual's discount to October '21 Annual widening to 3.5 p/th, from 2.5 p/th at the start of the month.

On the short-term market, meanwhile, Day-ahead price tags have reached above 56 p/th, their highest level since early February, amid strong heating demand from end-users, significant generator demand as wind speeds dropped to negligible levels and constrained supplies from Norway, as unplanned glitches exacerbated the impact of ongoing scheduled maintenance shutdowns.

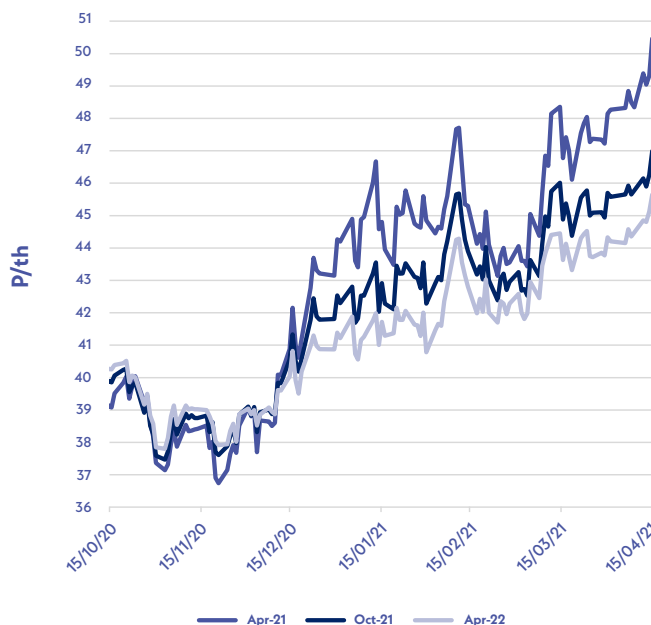
Amid continuing withdrawals from European gas storage sites to satisfy demand (when normally the injection season starts at the beginning of April) – and concerns of more to come, amid forecasts of lingering unseasonably cold weather in northwest Europe – prices across the months have pushed higher too, with greater replenishment buying expected across the summer. Some forecasters are also suggesting cooler temperatures into May and beyond.

Overall European gas storage capacity has now dropped to under 30% fullness — compared to 58% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.

May has pushed above 51 p/th as a result, a new three-year high for Month-ahead at this time of year, while all summer months have been lifted above 50 p/th.

Forward LNG prices into the dominant Asian market have also lent a bullish hand to talk, as have rebounding oil prices and another record carbon price. June and Q3 '21 Asian LNG prices have rallied by more than 10% since the start of April, while prices for next winter have gained 7%. Resilient regional buying amid colder forecasts and an improved economic outlook have bolstered discussion, as have reports of issues at the Corpus Christi LNG export terminal in the US.

UK Annual Gas Prices (6 Month View)



GAS: OUTLOOK



Further gains in LNG, carbon and/or oil prices could continue to drive UK gas prices higher, particularly if economic/vaccine optimism grows and short-term levels remain supported by outages and unseasonably cold and windless weather lingering.



VACCINE OPTIMISM BOOSTS PRICES



“High pressure conditions will characterise the weather over the UK. A cut-off low over continental Europe will push some cold air masses which are expected to keep temperatures below their norm, in particular over southern England. However, as time progresses, temperatures will gradually climb, with the warmest and driest signal still on the northern sectors of the UK,” says Marex Spectron’s meteorology desk.

Europe’s hydrogen pipeline network could reach 11,600 km by 2030 and 40,000 km by 2040, according to Europe’s grid operators. The 2040 figure would comprise an estimated 69% of repurposed existing gas pipelines and 31% of new pipelines, requiring a total investment of up to EUR 81 billion.



UK gas demand this summer is set to be 2% lower than last year – National Grid says in its Summer Outlook.

US LNG exports are expected to rise 2% this year – according to the US’s EIA (Energy Information Administration).

Oil demand could start falling from 2023, with oil prices dropping to \$40/barrel by 2030 and as low as \$10/barrel by 2050, if global climate change mitigation initiatives are accelerated in line with the Paris Agreement, according to consultants Wood Mackenzie.

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
50.48	2.33	47.00	1.29	50.08	1.35	55.25	6.59	18.38	0.27	66.73	2.87

All changes (chg) are compared to last report

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