Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

TURBULENCE HIT AS FRONT-END THRASHES

While the long-term rally extended into the first few days of July, with short-term and mid-term UK power and gas prices reaching new highs, sentiment suddenly swivelled on the 6th, with prices crashing lower...before rebounding again sharply, but again briefly, a couple of days later. Prices have been thrashing up and down since.

The initial flash-crash, during which Month-ahead UK power slumped 11%, and the coming winter and front annual jettisoned 10% in value, came as gas and LNG markets buckled amid signs of slowing Chinese demand and profit-taking after recent gains swept through energy and carbon markets, with thin liquidity appearing to exaggerate the move.

Winter '21 UK power levels had just nudged £100/MWh as the rug was pulled, and have since swung between £89-97/MWh; they were curling back up to £93.5/MWh at the time of writing. October '21 Annual has in turn flailed between £76.5/MWh and £82.5/MWh. Once again there has been much lower volatility further out, with October '22 Annual, for example, moving in a tighter £2.5/MWh price range, and edging gradually lower – to under £60/MWh by mid-July.

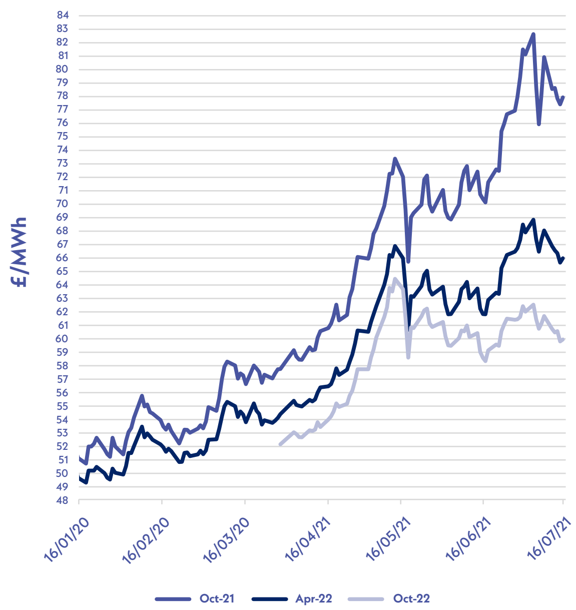
Carbon emissions allowance markets have been volatile either side of the EU officially launching "Fit for 55" proposals (which were largely leaked last month) to reduce current emissions caps, tighten allocation criteria for free allowances and extend current Market Stability Reserve rules (under which surplus allowances are set aside).
Having briefly hovered around all-time highs of EUR 58/TCO2, 2021 EUAs tumbled 9% to EUR 53/TCO2, and have since oscillated either side of this level. 2021 UK allowances meanwhile also shot lower but have since slipped further, to just above £43/TCO2 (and a steeper EUR 3/TCO2 discount to EUAs).

Coal has at the same time continued to power to new highs despite corrections on other markets, with Year-ahead prices pushing to a new two-and-a-half year high of over $92/tonne, up 6% over the last fortnight (as Quarter-ahead coal has reached $119/tonne, its highest level since October 2011). Relentlessly strong buying from Asian countries (particularly China), exports from South Africa dropping to minimal levels as civil unrest there has disrupted port operations, Australian and Russian export issues and low global inventories have all ratcheted up the bullish sentiment.

Day-ahead UK power prices have been simmering between £90-£95/MWh for the most part, helped by generally low wind levels (even below 1.5% of overall daily generation at times) and high short-term gas prices, although they did dip down to £85/MWh mid-month as wind levels picked up.

Year-ahead electricity prices in France and Germany, having reached fresh 13-year highs on the 5th, of EUR 77 and 75/MWh respectively, are now off more than 6% from these levels.

UK Annual Power Prices (6 Month View)



Refuelling outages have been announced at the Heysham 2 and Torness nuclear reactors in Q4, tightening the supply outlook for the beginning of winter.

Fears of South African unrest spreading in the mining sector could continue to shore up coal prices.

PRICES LOWER

Prices for future periods remain lower than those for closer

MARKETS REBOUND

Market crash before rebounding

UK power trading volumes were down 21% year-on-year in the first half of 2021, according to LEBA (the wholesale brokers association). Mainland European OTC power volumes meanwhile were down 24% overall, with French volumes down 41%.

WIND

Almost 3,000 MW of new wind capacity is due to come onstream this year

COAL

Coal continues to reach new highs due to unrest in South Africa

Almost 3,000 MW of new wind capacity is due to come onstream this year (3 times more than last year), increasing the potential output from renewables as blustery weather picks up again in the Autumn/Winter.

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Oct '21 Annual	chg	Apr '22 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	Germany Cal '22	chg	France Cal '22	chg
77.88	-3.20	65.88	-1.93	87.70	-3.66	92.75	0.50	70.45	-3.10	71.50	-4.00

KEY OTHER INDICATORS:

Coal ($/MT) '22	chg	Oil (Brent) $/bbl	chg			EUA '21 (€/TCO2	chg	EUA '22 (€/TCO2)	chg	EUA '23 (€/TCO2)	chg
92.30	5.15	72.88	-3.07			53.20	-4.30	53.59	-4.32	54.36	-4.44

All changes (chg) are compared to last report

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GAS

FRONT-END WHIPSAWS

Since stretching to yet new highs on July 5th, gas prices for the next 8-12 months have whipsawed down, up and then down again, with wavering views on Russian supplies and Asian demand, significant profit-taking across markets, changeable weather forecasts, outages and economic uncertainty all playing a part.

October '21 Annual is now pegged at 73.5 p/th, down from its 12-and-a-half year high of 78 p/th but still up from the 70 p/th low it reached just two days after hitting that level. All the mid-winter months – December, January and February – having breached 100 p/th at the peak, are now comfortably back in the low to mid 90's p/th.

The market remains jittery, with an outage in the Nord Stream pipeline between Russia and Germany contributing, as has speculation as to when the new Nord Stream 2 pipeline will begin operations. Wobbly Asian LNG demand forecasts and prices have also been a key factor, with winter prices there swinging between $13-15/MMBTU. Low liquidity has also led to some gappy trading on forward periods.

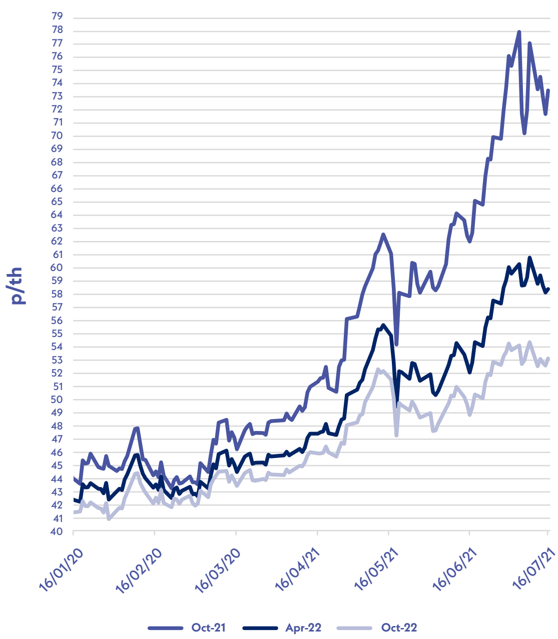
Injection rates of gas into European gas storage facilities have been strong again, with sites at last breaking above the half-full threshold – now at 52% fullness, compared to 84% at this time last year, according to Gas Storage Europe, the storage operators' association.

Unplanned new outages at the Bacton Seal terminal and in the Osberg and Åsgard fields have at the same time helped tighten physical supply at times, against a backdrop of scheduled summer maintenance outages. This has come in the face of sporadically strong generator demand when wind levels have been low, with gas-fired power stations accounting for as much as 50% of UK daily power output. LNG send-outs into the network have dwindled, with LNG accounting for around 5% of UK supply, down from 20-25% in the second half of June. Interconnector exports meanwhile have increased – to around 24 mcm/day, accounting for around 15% of demand.

From a high of 93 p/th, Day-ahead slumped as low as 81 p/th in the general sell-off, before rebounding most of the way and then swerving lower and high again since. Month-ahead meanwhile has also eased back from its 15-and-a-half year high of 93 p/th, oscillating wildly between 79 and 90 p/th over the last 10 days.

Oil meanwhile has seen two run-ups above $76/barrel, its highest level since October 2018, over the last two weeks, amid OPEC+ infighting and an improving demand outlook, although it has now slid back towards $73/barrel, as the UAE and Saudi Arabia appear to have reached an agreement on raising output.

UK Annual Gas Prices (6 Month View)



Asian LNG prices have rebounded swiftly and strongly from two slumps this month, suggesting some resilience in underlying buying demand. If this continues it will continue to support prices in Europe and the UK.

HEATWAVE

Reduced expectations of a heatwave in Europe dampen prices

OIL

Oil passes $78 per barrel, its highest level since 2018

A large explosion caused by a mud volcano in Azerbaijan's gas and oil belt in the Caspian Sea had no impact on any oil and gas infrastructure, according to the government there, while another headline-grabbing "Eye of Fire" underwater blaze caused by a gas leak off the coast of Mexico similarly had little impact on local production or global markets.

The last time prices saw a similar rally and high prices – in the summer of 2018, when storage fears also dominated after a very cold end to the winter depleted stocks – prices crashed lower weeks later (although that rally didn't start until much later in the season.)

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Oct '21 Annual	chg	Apr '22 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2022:	chg	Oil (Brent) $/bbl:	chg
73.53	-1.88	58.35	-1.18	85.50	-3.85	86.30	-7.15	25.08	-0.63	72.88	-3.07

All changes (chg) are compared to last report

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