

# Energy Market Insights

Twice Monthly Independent Market Analysis

## ELECTRICITY

### RECORDS SMASHED AFTER SNAP CRASH



Prices across the front six UK power months have had a very volatile fortnight, first crashing lower by up to 12% on Russian gas hopes, before rebounding with extra force and reaching new heights as these were dashed, and as winter supply panic tightened its grip on the market again and short-term prices spiked. Many periods have hit new record levels— e.g. front annual prices breaking above £100/MWh for the first time ever, helped by gas and carbon markets surging to record highs, while Day-ahead prices were rocketing to £250/MWh at the time of writing.

Gains of more than 3% in a day have become commonplace across all periods out to March. Winter '21 UK power has breached £127/MWh, pushing October '21 Annual to nearly £105/MWh – £10/MWh up on the previous record it achieved last month. All periods out to Q1 '22 have witnessed an unprecedented move above £124/MWh. Prices for next summer and beyond have also rallied, but by much less, causing inter-annual differentials to resume their widening, with October '21 Annual's premium to April '22 Annual swelling to over £20/MWh.

Traders returning to their desks after summer breaks appears to have increased the focus on the coming winter and fears of a gas supply squeeze, as Asian buying continues to rage, storage sites remain emptier than normal for the time of year and infrastructure glitches choke physical supply – on top of the retreating Russian rescue optimism. Persistently low renewables output has also continued to chip away at forward supply confidence.

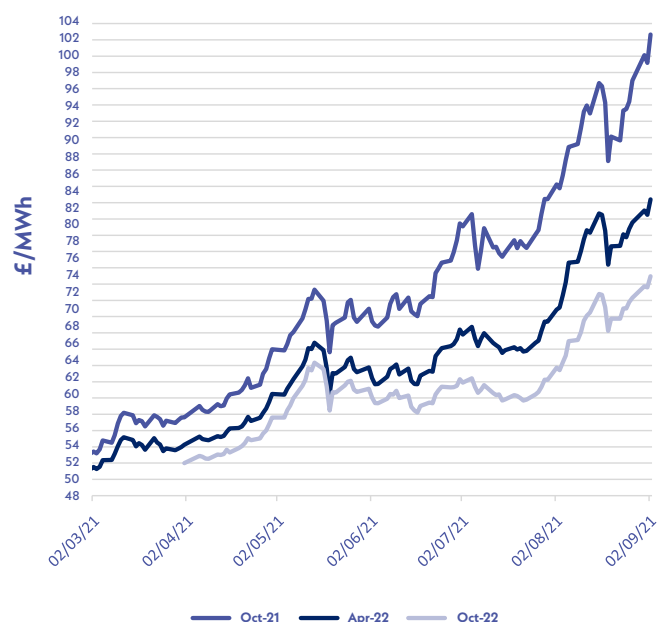
Forecasts of low wind levels early next week, amid a sudden unscheduled outage at the Hartlepool 2 nuclear reactor, other outages, strong demand and exports and rallying short-term gas prices caused Day-ahead UK power to spike to £250/MWh at the time of writing, £50/MWh above the previous record price it reached in January this year. Month-ahead prices have meanwhile nudged £125/MWh, a fresh 13-year high.

Forward carbon emissions allowances have at the same time rallied strongly, amid still-low state auction volumes and renewed speculative buying, with 2021 EUAs powering to a new record of almost EUR 62/TCO<sub>2</sub>, and 2021 UKAs rising above £53/TCO<sub>2</sub> for the first time (and periodically edging above EUAs).

Meanwhile the coal market has seen Month-ahead prices hit 13- year highs of \$160/tonne and Year-ahead levels break above \$118/tonne – their highest since 2011. Indian government calls for an urgent ramp-up in coal imports, as power station stocks there have fallen nearly 70% below last year's levels, have added bolster to a market which continues to suffer several global supply issues.

Year-ahead electricity prices in France and Germany – at EUR 90/MWh and EUR 93/MWh respectively – are now in line with the all-time highs they reached September 2008.

UK Annual Power Prices (6 Month View)



## ELECTRICITY: OUTLOOK



Accelerated fuel rod corrosion found in three French nuclear reactors, which the French nuclear regulator ASN has called “unprecedented”, has forced one of the units to operate at reduced capacity for a year. If similar corrosion is found at other reactors then they might also have to reduce output, ASN says.



### VOLATILE MARKETS

Markets remain volatile, reaching new heights after a brief dip



Record net power imports were recorded coming into Britain just after midday on August 20th – 5847 MW, helped by Ireland unusually exporting and test flows coming through new Norway-UK NSL interconnector, according to analysis/data firm EnAppSys. Britain is set to remain a significant electricity importer for the next few years, EnAppSys says, as indigenous power is more expensive than continental European power, due to the Carbon Price Support levy and “regulatory differences on transmission and balancing charges that embed a price advantage to EU market players”.



### CONTRACTS

Prices for contracts starting in the near term are trading at a significant premium compared to 2022



Testing has started on the new 1 GW UK-France ElecLink interconnector through the Channel Tunnel, although the operators have refuted analyst suggestions that this may bring forward its mid-2022 start date. Construction work is said to have advanced more quickly than expected due to the pandemic reducing train traffic through the tunnel.



### RENEWABLES

Low renewables output eats at supply confidence

#### 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
104.65	9.70	84.40	4.10	124.75	17.61	144.68	39.12	89.68	7.90	92.48	8.29

#### KEY OTHER INDICATORS:

Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	EUA '21 (€/TCO2)	chg	EUA '22 (€/TCO2)	chg	EUA '23 (€/TCO2)	chg
118.25	15.00	70.45	-0.63	61.35	5.90	61.66	5.85	62.36	5.88

All changes (chg) are compared to last report

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## GAS

### RUSSIAN GAS OUTLOOK THROWS MARKET



Gas price records have been broken daily over the last few days, with a statement from Russian gas giant Gazprom that the commissioning of the new Nord Stream 2 pipeline is unlikely to boost its net exports this year becoming one of the latest bullish thrusters to market talk. Reports that Gazprom was planning to send 5.6 BCM of gas through the pipeline this year and false test flows indications in the pipe had triggered a heavy but brief sell-off on August 19th, with Winter prices shedding more than 10% in value within hours, and 15% overall.

Prices for the Winter have since rebounded by 30%, to 135 p/th, 18 p/th higher than the previous record reached in mid-August. Month-ahead meanwhile has rebounded by the same amount, to over 131 p/th, also an all-time high. All periods out to February are now above 130 p/th. While prices from next Summer have returned to being much less bullish again – Summer '22 itself failing to rebound to mid-August levels – October '21 Annual has pushed up to nearly 105 p/th, the first time a front annual has reached triple digits.

Further Asian LNG gains – with Winter prices leaping to \$20/MMBTU, low LNG deliveries into Europe, ongoing European storage concerns, unplanned infrastructure outages tightening physical supplies, persistently low renewable power production, record carbon prices and fast-rising coal prices have all added to the Russian nerves to create a “perfect storm” bullish cocktail, which appears to have been further fueled by Hurricane Ida temporarily disrupting US gas production and exports as well as traders returning to their desks from holidays.

Ida and low US oil inventories have also helped bolster oil price talk, although any gains have been tempered by OPEC+ pressing on with production increases, and with prices down on where they were in July the oil market has become little more than a sideshow for gas market players.

Multiple unplanned offshore outages – at the Oseberg, Troll, Kårstø, Nyhamna and Gullfaks fields and facilities off Norway, as well as at Cygnus – the UK's biggest producing field, and the Barrow terminal, have helped tighten physical supply, amid strong generator demand, driving Day-ahead above 131 p/th, its highest level since the “Beast from the East” cold snap in early 2018.

European gas storage facilities are now at 67% fullness, compared to 91.5% at this time last year, according to data from Gas Storage Europe, the storage operators' association.

UK Annual Gas Prices (6 Month View)



## GAS: OUTLOOK

 Gazprom is scrambling to fill Russia's own domestic storage sites, which were heavily depleted after a hot summer followed a cold winter, limiting its ability to increase exports, according to reports, with Bloomberg suggesting it has two months to top up the sites, and requires about 280 mcm/day of gas to do this, 80% of its current export volumes to Europe.




### COAL


Coal market hits 10 year highs



### IDA

Hurricane Ida reduces US gas production, boosting prices

 UK gas and oil capital investment last year was the lowest since 1973, at £3.7 billion, according to OGUK, the producers' association. £3 billion of investment has been pulled or deferred and 35,000 oil and gas industry related jobs have been lost as a result of the pandemic, it said.

 "If you can't attract supply the only alternative is to cut demand to balance the market," Cassim Mangerah, Head of Trading at Centrica told the Financial Times. If prices rise further "some gas-dependent businesses in the UK and Europe may simply decide not to produce," he said.



### CARBON

Carbon markets hit record highs

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
103.57	10.26	76.70	2.28	129.00	16.37	131.14	23.37	34.30	2.28	70.45	-0.63

All changes (chg) are compared to last report

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