

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

DAY AHEAD SPIKES ABOVE £500, MONTH AHEAD £200



The panic across UK (and European) power and gas markets exploded last week, with price records being smashed repeatedly on almost every period, and gains of more than 20% within a single day seen even on quarterly periods. From late Wednesday and into Thursday the spike began quickly unravelling, although prices have been pushing up again since Friday.

Day-ahead UK power prices witnessed a sustained super-spike in prices from Monday to Wednesday, trading as high £540/MWh (from a previous record of £250/month set at the start of September) and remaining above £440/month, before crashing beneath £200/MWh on Thursday... and then rebounding to £330/MWh on Friday. (Day-ahead hourly auction prices rocketed to a record £2500/MWh on Tuesday, for the 19:00-20:00 period). Month-ahead meanwhile broke above £200/MWh, helped by news of a fire forcing the closure of one of the France-UK interconnectors, with its operators initially saying it would be out of action until mid-October.

Prices across the rest of the winter also roared higher. Strikes by French power station workers, French outage extensions and a new Hurricane (Nicholas) forcing the closure of US LNG export infrastructure also contributed, adding to the slew of bullish factors that have been agitating supply nerves for the coming months, including UK power trips and outages, very low renewables production, relentlessly strong Asian LNG demand, constrained Russian gas supplies, North Sea gas production glitches and lower than normal gas storage volumes. Strong buying from end-users that could no longer hold off on covering their requirements for the coming months also appears to have added to the volcanic mix.

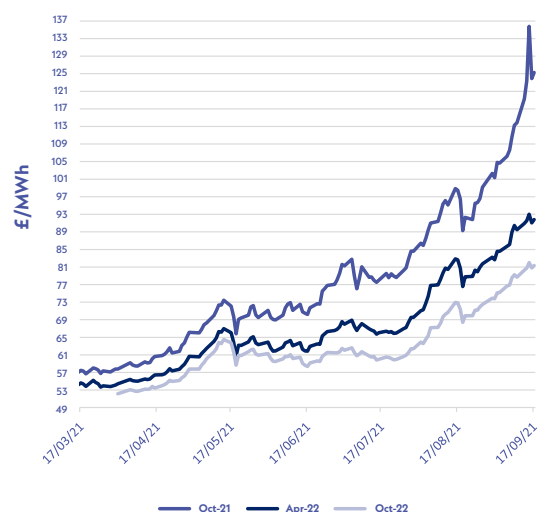
Winter '21 UK power breached £190/MWh as a result at one point, up 55% in value since the start of the month, pushing October '21 Annual towards £145/MWh briefly – up almost 38% over the same short time frame. But Winter and Month-ahead prices have since slumped as low as £155/MWh and October '21 Annual prices as low as £121/MWh, before edging higher again (prices in Summer '22 and beyond have been much less volatile).

An improved renewables outlook as wind and solar levels were forecast to pick up sharply, more coal units being brought online, weaker gas prices, scheduled daily test flows of 1.35 GW through the new NSL Norway-UK interconnector, the Britain-Ireland interconnectors switching to import mode from export mode, and clarification from National Grid that only half of the IFA1 France-UK interconnector will be down for an extended outage (although it will be until the end of March), all contributed to the softening, while a general sentiment correction and post-surge profit-taking also seemed to contribute.

The UK power volatility has been much greater than on other European power (or gas) markets, although they too have hit new all-time highs – Year-ahead electricity prices in France and Germany breaking above EUR 100/MWh for the first time – to EUR 103/MWh and EUR 108/MWh respectively, before buckling.

Carbon emissions allowances have meanwhile pushed, less dramatically, to new records, although while EUAs reached their high of EUR 63/MWh a few days ago and have since tumbled EUR 4/TCO₂, UKAs have kept rising, just breaking above £55/TCO₂.

UK Annual Power Prices (6 Month View)



ELECTRICITY: OUTLOOK



"Critically low" hydro power reservoir levels are possible in Norway by next Spring after one of driest summers/early Autumns in eleven years, unless there is a lot of snow over the winter, say Nordic power analysts Volue. With Norway 90% dependent on hydropower for its electricity, this could boost import demand through the new NSL UK-Norway interconnector, which starts commercial operations next month, drawing power out of the UK.



RECORDS SMASHED

Price records smashed day after day



"The northward position of the jet stream, which has brought settled weather conditions for most of the UK and NW Europe in the last weeks, is going to change. By the middle of next week and beyond, the shift of the jet stream to more southern latitudes will give way to a train of low-pressure systems coming from the Atlantic. The impacts of this will be felt especially over the north of UK, with more persistent rainfall and winds coming, heavy in places. Elsewhere in the country, sunny spells should persist," says Marex Spectron's meteorology desk.

Both reactors at the Hartlepool nuclear power station are scheduled to return online this week.



UK/FRANCE

UK/France Interconnector out of action until October applies further pressure



The selection process has started for companies to build the first commercial floating offshore wind farm in Europe, off the coast of Brittany. 10 potential candidate companies have been chosen by the French Energy Ministry to build the 250 MW project, scheduled to come onstream in 2029.



TROPICAL STORM

Tropical storm Nicholas shuts down US LNG exports

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
125.13	2.48	91.63	7.22	160.93	36.18	330.50	185.82	99.78	10.10	103.65	11.17

KEY OTHER INDICATORS:

Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	UKA '21 (£/TCO2)	chg	EUA '21 (€/TCO2)	chg	EUA '22 (€/TCO2)	chg	EUA '23 (€/TCO2)	chg
124.40	6.15	74.81	4.36	55.16	2.04	59.50	-1.85	59.84	-1.82	60.48	-1.88

All changes (chg) are compared to last report

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GAS

EXTREME VOLATILITY; NEW RECORDS HIT



UK and European gas markets have witnessed extreme volatility over the last fortnight, with prices across almost all periods screaming to new records earlier this week, before crashing, and then bouncing again. Thin trading volumes, as a number of players scattered to the sidelines to watch and wait out the market storm, appear to have exacerbated the price moves too.

Month-ahead UK gas rose to over 180 p/th and Winter to almost 183 p/th on the 15th September, both dwarfing previous records, helped by an even greater surge in UK power prices – as a fire knocked out a France-UK electricity interconnector, prompting fears that UK generators would need to increase gas-fired production to compensate for the import loss. The shutdown of US LNG export infrastructure as tropical storm Nicholas hit the US (barely days after Hurricane Ida disrupted output), North Sea production issues, still low renewables output and further Asian LNG gains, alongside ongoing storage and Russian supply concerns, added further upwards heft.

But very soon after these highs were reached the market started crashing lower, as the market was perceived as overbought, sellers emerged and the short-term physical gas and power supply outlook improved. Month-ahead slid down to 158.5 p/th and Winter beneath 162 p/th, although both were rebounding again at the time of writing.

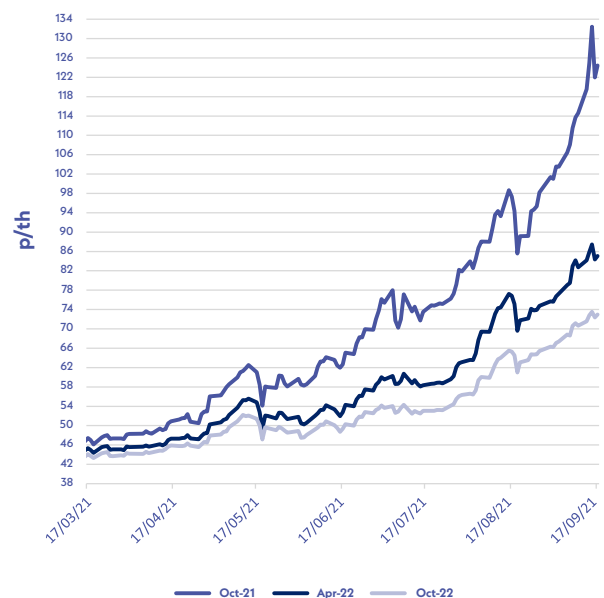
Prices from April onwards have seen much less bullishness and volatility in general. This was helped by the upwards momentum in Summer '22 LNG showing signs of exhaustion since September 10th, earlier than the winter; having reached \$13/MMBTU it crashed off 27% in value, back to early August levels around \$9.5/MMBTU, before recovering.

In the run-up the winter gains helped push intra-day October '21 Annual discussion briefly above 134 p/th, a third higher than its value at the start of this month and double its value in late June, although it has now slipped back to around 124 p/th. Its premium to other Annuals also exploded – at one stage its premium to October '22 Annual reached 60 p/th, up from 35 p/th at the month-start.


European gas storage facilities are now at 71% fullness, compared to nearly 94% at this time last year, according to data from Gas Storage Europe, the storage operators' association.

Oil prices, that feed into some European gas supply contracts, meanwhile have kicked higher by nearly 6% since the start of the month, to above \$75.5/barrel, helped by a prolonged Gulf of Mexico infrastructure recovery from Hurricane Ida, said to be the most oil-disruptive storm in US history, and falling US inventories. The IEA (International Energy Agency) suggesting Q4 will see a rebound in the market on "strong pent-up demand" and vaccination rollouts, as well as increasing its oil demand growth forecasts for 2022, also contributed.

UK Annual Gas Prices (6 Month View)




GAS: OUTLOOK

 Prices have been roaring higher in a shoulder month, well before the onset of real winter demand. When the first cold spell hits it could test the market, jangle supply nerves and potentially inject further bullishness.



VOLATILITY


Further volatility expected when the first winter cold spell hits

 Several chemical companies have shuttered operations fully or partially in response to the high prices. Further industrial shuttering could dampen gas demand and help ease the supply crunch.



SPRING 2022

Prices from Spring 2022 show much less volatility

 There are fears that four more energy suppliers could go to the wall this week due to high wholesale gas and power prices, following the two that failed last week and five that have failed since early August, according to reports. There may be "less than 10 suppliers by the time we come through winter," according to consultants at Baringa. (At the start of this year there were more than 70).



SUPPLIERS

Many small to medium suppliers expected to go under

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
124.42	20.85	85.06	8.36	162.80	33.80	158.92	27.78	40.05	5.75	74.81	4.36

All changes (chg) are compared to last report

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