

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

NEW SURGE: RUSSIAN GAS UNDERWHELMS



An increase in Russian gas exports into Europe on November 9th only had a temporary one to two-day bearish impact on residual winter gas and power periods, with prices moving higher since – first tentatively and then in leaps and bounds this week, with daily gains of more than 10% in value seen on some periods. Month-ahead and Q1 '22 UK power as a result surged by more than 30% in value from their low point on November 9th, reaching a four-week high yesterday, while April '22 Annual rose 10% over the same timeframe – although most periods were softening again at the time of writing.

The surge came as regulatory delays to the Nord Stream 2 Russia to Germany gas pipeline and rising geopolitical tensions on the Russia/Ukraine and Belarus/Poland borders further sapped confidence in sustained Russian gas supplies this winter, which was already waning as a promised increase in flows was lower than the market had hoped for. At the same time tight short-term markets due to production outages and low renewables output, record carbon prices, an unscheduled shutdown of the new Norway-UK electricity interconnector (which had been exporting test power into the UK) and colder weather forecasts also jolted sentiment higher.

Low wind levels – the lowest in 56 days – helped push UK hourly Day-ahead auction prices to their second highest level ever on Monday, with the 1700-1800 slot for Tuesday hitting £2000/MWh. Another strike by French power workers was also said to have contributed, although All-day Day-ahead prices at the same time reached a more modest high of £176/MWh, only their third highest level this month (prices breached £270/MWh on the 1st and £205/MWh on the 9th).

EUA carbon allowances have been pushing to new records this week, reaching a new high of EUR 68/TCO₂ on Wednesday, with post-COP26 bullishness, alongside the triggering of technical buy signals, said to have contributed. UKAs also rebounded strongly, from just over £51.5/TCO₂ at the start of the month to just over £60/TCO₂ (although still well short of their recent records).

Month-ahead UK power rebounded to a high of £236/MWh and Q1 '22 above £230/MWh, with even March price tags breaking above £200/MWh again, although they have all eased today, helped by warmer and windier short-term forecasts.


April '22 Annual UK power meanwhile clambered as high as £112/MWh, up £11/MWh since the start of this month, although it has since chipped back a pound. News that the fire-damaged IFA1 interconnector between France and the UK is now likely to be fully operational again by next winter – ten months ahead of the scheduled date given last month – has also helped improve the longer-term supply outlook.

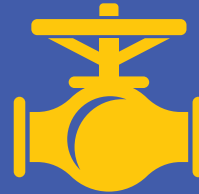
Day-ahead UK power prices have swung between £140/MWh and £275/MWh so far this month – the choppiness driven again mostly by changes in wind levels, outages and gas volatility.

UK Annual Power Prices (6 Month View)



ELECTRICITY: OUTLOOK

 French power worker strikes, to protest about salaries, pensions and coal plant closures could become more frequent in the run-up to the presidential election in April, affecting French output and exports. Analysts and the network operator have already warned that supply margins in France will be much tighter this winter than last.




DELAYED

Nord Stream 2 delayed, causing large spikes in prices




DAY-AHEAD

Day-ahead prices hit their second highest level ever

 The UK government has approved a £210 million grant to Rolls Royce, for the construction of small modular nuclear reactors. Alongside £195 million from private investors this will help kick-start the design and development of the reactors, with up to 16 reported potentially being built by 2050.

The UK government has meanwhile said its target is to boost UK hydrogen production to 5GW/year by 2030, when the country will potentially become an exporter.

 Operational capacity in the NSL Norway-UK interconnector is to remain at half-capacity – ie 700MW – until December 5th due to technical issues, according to its operators.



HIGH PRICES

Low renewables output and colder forecasts contribute to high prices

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr '22 Annual	chg	Oct '22 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	Germany Cal '22	chg	France Cal '22	chg
111.63	8.5	96.88	6.78	232.43	56.99	188.92	21.16	135.90	27.30	148.50	32.00

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
112.00	11.50	81.52	-2.56	60.26	8.56	67.16	7.71	67.45	7.67	68.29	7.77

All changes (chg) are compared to last report

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GAS

WINTER SOARS AGAIN: Q1 HITS 235P



UK gas prices have surged over the last few days, jettisoning any bearishness and supply confidence that was seen at the beginning of the month when Vladimir Putin initially ordered Gazprom to fill its storage sites in Europe - and nine days later when that order started to be put into action. Month-ahead and Q1 '22 have risen in value by as much as a third since then, although they were starting to edge down again today.

The German energy regulator BNA's temporary suspension of the certification process for the Nord Stream 2 pipeline between Russia and Germany, until the operators of the pipe set up a German legal entity to cover operations in its German section, was a key driver. With low Russian gas flows into Europe in recent months said by some analysts to be part of the Kremlin's strategy to secure approval for the controversial pipeline, news of the delay further agitated concerns over Russian supplies for the remainder of the winter, although these had already been building - as Gazprom again failed to book extra transit capacity through Ukraine in month-ahead auctions, the promised increase in flows this month continued to disappoint, and tensions grew over Russia's troop build-up on the Ukrainian border and the migrant crisis at the Belarus/Poland border, as Belarus threatened to cut off transit gas flows into the EU.

Other factors have also been at play in helping to drive prices higher particularly over the last few days - although levels have been rising daily since November 10th/11th, shortly after Gazprom started to export gas to fill its storage sites in Europe. Tight short-term markets amid Norwegian gas outages, record carbon prices, low renewables output and colder forecasts have all contributed. The shutdown of part of the Gorgon LNG facility in Australia due to a gas leak, also played a part, as it boosted Asian LNG prices. and Month-ahead five times higher than where they were at this time last year, and the front Annual nearly three times higher. (In May/June last year both Day-ahead and Month-ahead reached single digits.)

A rolling series of unexpected outages in Norwegian infrastructure - at the Skarv, Oseberg, Sleipner and Troll fields and at both major gas processing plants, Kårstø and

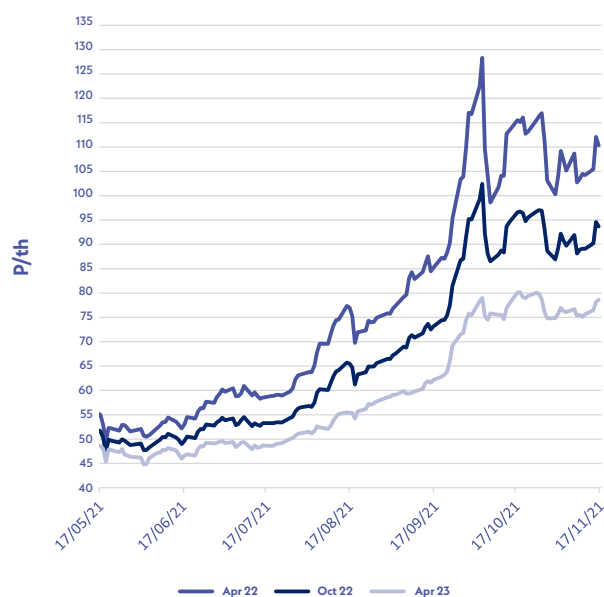
Kollsnes - has helped propel Day-ahead UK gas prices to a four-week high above 230 p/th, up 70 p/th over the last week and more than 90 p/th since the month-start. At the same time Month-ahead and Q1 '22 levels have surged to 240 p/th and 235 p/th respectively.

Less bullishness was seen in Summer '22 and beyond, with April '22 Annual climbing to 112 p/th, before notching lower today amid the general softening, which was due in part to improved Norwegian flows and reduced physical end-user and generator demand.


European gas storage volumes have again nudged lower amid further withdrawals, with facilities now at 75% fullness, compared to 92.5% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.

North Sea oil prices, which feed into some European gas supply contracts, meanwhile have slipped to a six-week low beneath \$80/barrel, on talk that the US may release oil from its strategic reserve to help improve domestic and global supply.

UK Annual Gas Prices (6 Month View)



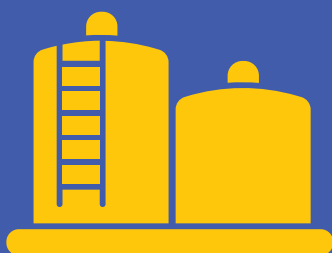
GAS: OUTLOOK

 Further price spikes could become a market feature for the rest of the winter, as long as Russian supply sensitivities persist and Asian LNG demand remains strong, with cold and/or windless spells likely to help trigger kneejerk run-ups.



AUSTRALIA


Gorgon LNG facility in Australia shutting down boosts LNG prices



STORAGE

Gas storage levels remain low compared to 2020

 Norwegian gas exports were up 18% in October year-on-year, amid expectations that elevated exports will continue. Norwegian gas revenues in October were five times higher year-on-year.

 The head of the IEA (International Energy Agency) has said that Russia can “easily” and should increase gas exports to Europe by a further 15% to help ease the current supply crunch.

Monitoring of global LNG cargo movements and hence regional supply and demand trends is being hampered by up to 30 LNG vessels turning off their tracking devices, ostensibly at the request of Chinese authorities wanting to reduce data transparency and snooping, newswire Montel reports.



WINTER

Volatility expected throughout winter

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '22 Annual	chg	Oct '22 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2022:	chg	Oil (Brent) \$/bbl:	chg
110.31	6.38	93.57	4.43	239.01	66.44	231.08	66.32	54.85	8.83	81.52	-2.56

All changes (chg) are compared to last report

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