

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

JANUARY BREAKS ABOVE £300/MWH



UK power prices, despite steadying as the second half of November got underway, rallied strongly again over the last week, as the first real cold weather of the winter boosted demand and further rattled gas and power supply nerves. Power gains have outstripped those on gas amid concerns about nuclear availability in France (and to a lesser extent the UK) over January and February, and as EU emissions prices roared to record highs. January power surged above £300/MWh as a result – a record sustained Month-ahead price (Month-ahead briefly rocketed to trade at £360/MWh on October 6th but crashed lower almost immediately afterwards, while this week it held above £300/MWh for two days running).

Colder weather forecasts across Europe for the first part of December have helped bolster discussion, although the release of milder forecasts for the middle of the month were helping prices to soften again at the time of writing.

Short-term prices have also spiked, with Day-ahead prices last Friday (for delivery this Monday) trading up to £430/MWh, their highest level since mid-September, amid forecasts of freezing, non-windy weather. Wind levels have been generally good either side of this, helped by Storm Arwen battering much of the country, keeping Day-ahead prices mostly beneath £250/MWh and as low as £180/MWh.

While January price tags have risen more than 25% since mid-November and similar gains have been seen for February power, helped by expectations of significant interconnector exports then, much smaller increases have been seen further forwards, with March up 13%, and Summer '22 and Winter '22 up around 9%.

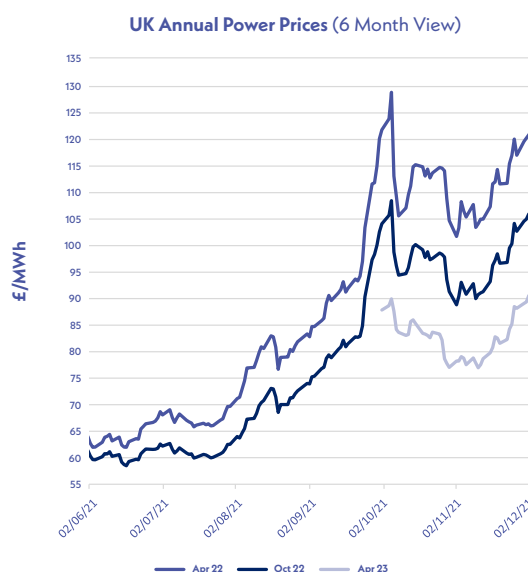
April '22 Annual has pushed above £121/MWh in turn, its highest level since the early October super-spike, also up 9% over the last fortnight, while October '22 Annual has rallied above £105/MWh.

EUA carbon allowances reached a record EUR 80/TCO₂ today, a gain of almost 18% since mid-November, the bullishness fed by German plans to introduce a carbon


price floor of EUR 60/TCO₂, a lighter EU state auction schedule this month, and strong buying ahead of the expiry of options derivatives. UKAs also rose sharply – to reach £73/TCO₂ – but were kicked £4.50 lower as December started and the CCM (Cost Containment Mechanism) was triggered, meaning the UK ETS Authority will intervene and increase supply.

Year-ahead coal prices meanwhile have swung between \$131/tonne and \$99/tonne over the last week, a Russian mine fire helping boost prices to the high end of this range before Omicron fears and weakening Chinese buying helped yank them lower.

Mainland European power prices have also pushed firmly higher, with Year-ahead French prices seeing the greatest increase, of 25%, as they lurched to a new record closing price of EUR 176.5/MWh, helped by concerns of the impact of 10-year outages at multiple plants next year. German prices meanwhile climbed 12.5% – to nudge EUR 147/MWh.



ELECTRICITY: OUTLOOK

 French grid operator RTE has warned of significant power market tightness in January and February, due to nuclear plant outages (up to a third of France's nuclear reactors are facing shutdowns this winter). EdF is currently looking at delaying several planned outages to improve supply during these two months.

An increase in operational capacity in the NSL Norway-UK interconnector, from 700 MW to at least 1050 MW, has been delayed by a month and a half to mid-January while its operators continue to grapple with technical issues with the cable.




NUCLEAR

French nuclear output is forecast to reduce significantly in January



NORWAY-UK


An increase in capacity on the Norway-UK interconnector has been delayed to mid-January

 The UK ETS (Emissions Trading Scheme) Authority is to announce measures to improve UK supply by December 14th, following the triggering of the Cost Containment Mechanism (CCM) – as the average price over the three months September-November was above the £52.88/MWh trigger price set for December.



CARBON

EUA carbon allowances reached a record high of EUR 80/TCO₂

 "Overall, there is no risk to electric security of supply this winter," ENTSO-E, the power transmission system operators' association, says in its Winter Outlook, saying that high gas prices may even help ensure there is sufficient gas for generators, by limiting end-user consumption and making coal and other generation feedstocks more economically viable. It did highlight specific risks in France though over January and February if the weather turns extremely cold, as well as in Ireland and Malta.

Financial terms on Dogger Bank C, the 1.2 GW third phase of the giant Dogger Bank wind farm development, have been finalised, meaning the project is still on-track to come onstream in 2025, according to its operators.

Nine northern EU states – including Germany and Holland, have released a joint statement calling for wholesale European power markets rules not to be changed, following calls from five southern EU states – including Spain, France and Italy, to reform them in order to protect end-users from spiralling costs.

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
121.25	9.63	105.88	9.01	293.00	60.57	258.55	69.63	146.81	10.91	176.43	27.93

KEY OTHER INDICATORS:

Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	UKA '21 (£/TCO ₂)	chg	EUA '21 (€/TCO ₂)	chg	EUA '22 (€/TCO ₂)	chg	EUA '23 (€/TCO ₂)	chg
109.00	-3.00	69.45	-12.07	68.81	8.55	79.98	12.82	80.37	12.92	81.15	12.86

All changes (chg) are compared to last report

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GAS

COLD SNAP HELPS CRANK PRICES HIGHER



UK gas prices across all periods have moved higher since mid-November, to varying degrees and in a slightly meandering fashion, with the onset of the first widespread sub-zero temperatures of the winter helping lift levels over the last week. As a result Day-ahead and Month-ahead gas climbed to 243 p/th, their highest level since the first half of October, although milder forecasts have started pressing them lower again since yesterday. Prices beyond the current winter have however continued to rise, with several Annuals from April '23 Annual onwards pushing to their highest ever levels.

There has been little news or change on the Russian gas front, with imports into Europe remaining broadly steady and disappointing, although the US has imposed new sanctions on a ship involved in the construction of the Nord Stream 2 pipeline between Russia and Germany, lending some mild bullishness to discussion as it may potentially delay its completion.

Fears over the Omicron covid variant and European lockdowns have weighed marginally on gas talk for the next few months, amid expectations they may dampen demand.

Unplanned Norwegian outages have again helped tighten physical supplies and boost short-term prices at times, although an improvement in LNG imports into northwest Europe has reined in potential rallies, as have good wind levels – which have limited demand from generators.

At the time of writing Day-ahead was back down at 230 p/th and Month-ahead at 235 p/th.

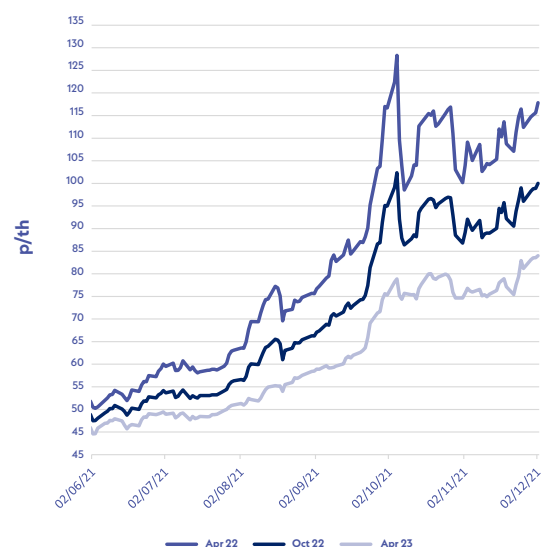
Prices beyond this winter are still moving higher though, particularly for next summer and winter, as storage and Russian supply concerns have spilled forward, with April '22 Annual valued at 121.5 p/th, up 8.5% on mid-November levels. October '22 Annual discussion meanwhile has reached 100.5 p/th, up 6.5% over the same timeframe. Annuals further forward have been pulled higher in turn, and as they did not react as strongly as nearer Annuals during the early October spike, this means they are now

reaching record highs – April '23 Annual for example breaching 84 p/th for the first time.


European gas storage volumes have again fallen as the colder weather increased withdrawals, with facilities now at 68% fullness overall, compared to 87% 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 tumbled from \$82/barrel to as low as \$69/barrel over the last week, on an expected slowdown in travel due to the Omicron variant, although they had bounced back to \$72/barrel today, as OPEC+ states hinted they may limit production increases from next month.

UK Annual Gas Prices (6 Month View)



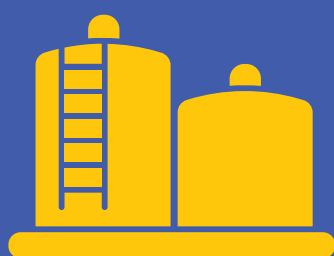
GAS: OUTLOOK

 A La Niña weather pattern has formed in the Pacific. Such weather patterns are associated with colder winters in the northern hemisphere and increased risk of heavy rainfall and coal mine flooding in Indonesia and Australia. The Australian Bureau of Meteorology said the La Niña would be short-lived, lasting until the end of January and possibly into February.




RUSSIA


Russian gas imports into Europe have continued to be lower than predicted



STORAGE

European gas storage volumes have fallen to 68% fullness

 British gas demand could drop by as much as 50% over the next ten years, if the country decarbonises and moves towards more hybrid solutions for heating, such as electric and hydrogen hybrids, National Grid says in its Gas Ten Year Statement. Three other potential scenarios are also outlined in its report, all showing drops in gas demand of at least 16% over the next decade.

 "There is no quick fix to the global gas crisis because of the short-term inelasticity of winter gas demand and the lack of supply response to rising prices so far. The market should stay tight during the winter season, before falling in 2022," Cedigaz, the international gas association, says in a new report.



OUTAGES

Unplanned Norwegian outages have tightened supply

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
117.85	7.54	100.00	6.43	233.58	-5.43	235.36	4.28	57.05	2.20	69.45	-12.07

All changes (chg) are compared to last report

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