

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

SELL-OFF SNAGS ON FRENCH NUCLEAR CUTS



The rebound in UK power and gas prices seen in the first week of January largely unwound in the second week, as supply fears abated and the sell-off resumed – until last Friday, when the markets bounced on news of further cuts to French nuclear power plant availability and Russia-Ukraine talks on Ukraine ended without resolution. Prices have been easing again this week though.

EdF announcing that it is extending outages at five reactors (of the same model) – a couple by more than eight months, as it continues to investigate cracks found in safety equipment – bolstered all forward continental and UK prices out to next winter on Friday. February UK power was yanked up from below £200/MWh to at least £233/MWh straight after the announcement, although it had already eased again by Friday's close and has since slipped further, back to under £200/MWh (30% down on this month's highs – of over £282/MWh – seen during the early January rebound).

Prices across the summer and next winter also rose and buckled, albeit less dramatically, pulling April '22 Annual and October '22 Annual down below £154/MWh to £127/MWh at the time of writing – their lowest levels since early December.

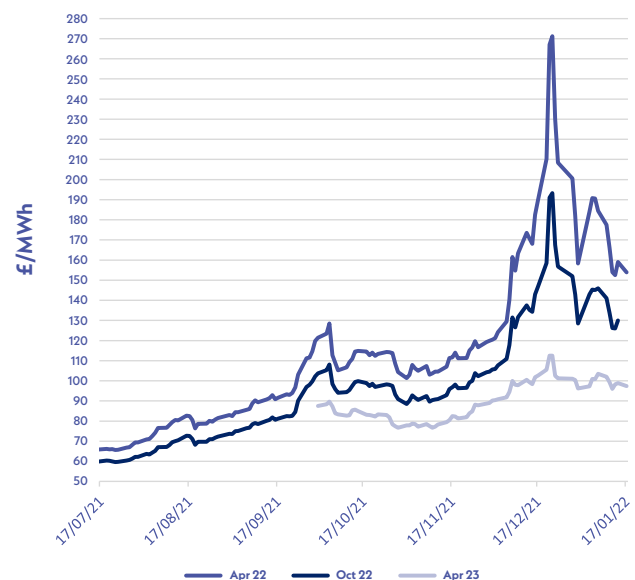
Milder, windier and sunnier weather forecasts, a continuing ramp-up in LNG imports into Europe and some improvement in physical Russian gas flows have helped feed the general price pressure on forward levels over the last week, even though Day-ahead UK power prices spiked to £285/MWh last Thursday, as wind levels dropped to less than 4.5% of daily supply.

Coal-fired units have also been brought onstream since January 9th to boost supply, accounting for up to 4% of national daily production. Prices for Day-ahead and the remaining days this week are now squarely back beneath £200/MWh, as renewables output has increased.


Increased generator demand for coal throughout Europe has helped propel coal prices to their highest level since before Christmas, although Russian freezing weather-related export issues, Indonesia's continuing ban on most coal exports and limited US and Colombian availability have also contributed. Month-ahead coal has reached \$160/tonne, while Year-ahead price tags are now at \$108/tonne – up almost 25% in value since the start of the year.

EUA carbon emissions, meanwhile, are off EUR 8/TCO₂ from their early January rebound high – at EUR 80/TCO₂, while UKAs are off almost £5/TCO₂ – at just over £72/TCO₂.

UK Annual Power Prices (6 Month View)



ELECTRICITY: OUTLOOK

 A report from Elexon shows wind power output is forecast to be on the low side in the UK between 20-27 January, before generation rises in the final few days of the month. Potential for downside on gas prices is relatively limited given the current environment, meaning the thermal generation that replaces missing renewables will be relatively high-priced.




PRICES DROP

Prices continue to drop as supply fears abate



FUTURE PRICES

Future prices hit lowest levels since early December

 In March sealed bids will start to be submitted as part of the fourth UK Contracts for Difference (CfD) round, with the first set of successful applicants due to be notified from 22 April. Up to 12 GW of new low carbon generation capacity is expected to be supported by the latest CfD drive.

The Hunterston B nuclear plant in Scotland has shut down after 46 years of operation, with its last reactor being turned off.

 From late March UK import capacity will increase when the full 2 GW of capacity becomes available on the IFA2, doubling the existing capability on the cable link to France.

The Hornsea Two offshore wind project is expected to come online later this year, bringing an additional 1.32 GW to the market. Once completed, this will be the world's largest offshore wind farm.



COAL

Coal prices hit highest levels since Christmas, due to high demand

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 '23	chg	France Cal '23	chg
153.90	-30.60	127.15	-18.85	200.00	-68.00	199.84	-15.60	115.00	-12.88	124.65	-8.32

KEY OTHER INDICATORS:

Coal (\$/MT) '23	chg	Oil (Brent) \$/bbl	chg	UKA '22 (£/TCO2)	chg	EUA '22 (€/TCO2)	chg	EUA '23 (€/TCO2)	chg	EUA '24 (€/TCO2)	chg
108.00	11.25	86.06	4.41	72.30	-4.20	80.01	-5.50	80.84	-5.58	82.12	-5.47

All changes (chg) are compared to last report

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GAS

REBOUND ENDS AS PRICES SLIDE



Prices across UK gas periods have softened significantly since January 6th, the peak of the new year rebound, several dropping back to the lows seen in December – as supply confidence has improved despite continuing low Russian flows, inconclusive US-Russia talks on Ukraine, Norwegian outages and temperatures dropping below zero across the UK. A rise in LNG imports, falling forward Asian LNG prices, forecasts of milder weather, increased coal-burn by generators and Dutch pledges to ramp up production have all helped weigh on talk.

Month-ahead is now back around 181 p/th, down 23% from its rebound peak, while next summer and winter are down almost 28% and 26%, at 152 p/th and 161.5 p/th respectively. This had brought the front Annual – April '22 Annual – down below 157 p/th at the time of writing, its lowest level since early December.

The Dutch government has announced it is considering nearly doubling the production cap on the onshore Groningen field in the current gas year, which finishes at the end of September, from 3.9 BCM to 7.6 BCM. With the final decision set to be made in April and the government also insisting it is still committed to stopping all regular production from the field by "mid-2022", it is unclear when this gas will flow through. Once Europe's largest producing field, with a peak output of 54 BCM in 2013, production is being phased out to stop extraction-related earthquakes in the region.

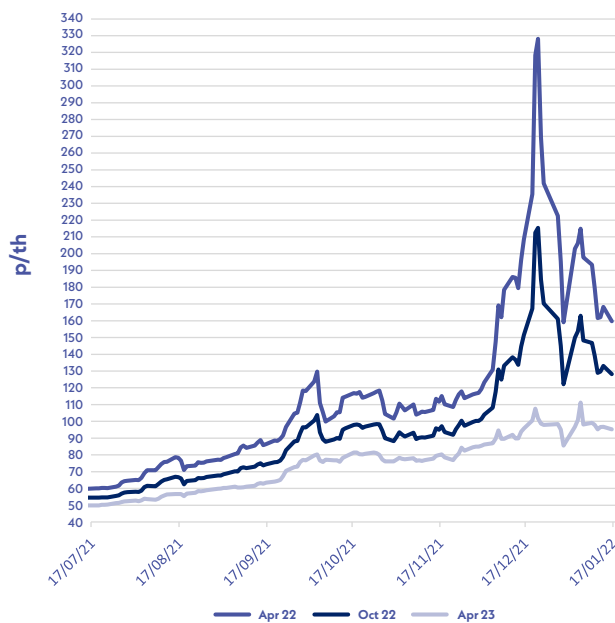
Unscheduled outages at several Norwegian fields and terminals, including Kollsnes, Nyhamna, Troll, Sleipner and Skarv have at times helped support short-term prices, although North Sea flows have generally been strong despite these. Significant LNG inflows into the UK grid, accounting for 34% of supply last week, up from less than 20% at the end of last year, have also helped offset any shortfall, while the start-up of coal-fired plants has shaved gas demand from generators.

Day-ahead UK gas has slipped from a rebound high of over 229 p/th to 185 p/th as a result (having dropped as low as 177 p/th last week).


European gas storage volumes are now at 47% fullness overall, compared to 62% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.

North Sea oil prices, which still feed into price formulae on some long-term European supply contracts as well as Asian LNG contracts, meanwhile have been pushed to a seven-year high, of over \$87/barrel, helped by drone attacks in the UAE by Iran-backed Houthi rebels stoking regional tensions, an improved demand outlook as Omicron fears have eased and US inventories dropping by more than expected.

UK Annual Gas Prices (6 Month View)



GAS: OUTLOOK

 "At normal weather conditions and with low Russian imports, European storage inventories will drop below 15 BCM by the end of March – a record low... Requirements to refill storage facilities will be high at 20-25 BCM more than last year," say analysts Wood Mackenzie.




UKRAINE

Tensions remain around Ukraine



GAS STORAGE

Gas storage levels remain lower than in previous years, maintaining pressure on prices

 Norwegian 2021 gas pipeline exports to European countries rose 5.6% last year, to 113.2 BCM – their third highest level ever. Similarly high exports are expected this year.

 "Expectations for increased US LNG supplies, the existence of healthy Asian storage, robust and flexible Norwegian gas deliveries and higher than expected production in the Netherlands," will all continue to weigh on forward gas prices this year, according to Cedigaz, the gas industry information association.

China and Japan are to release crude oil from their strategic reserves next month, as part of a US-led initiative to help lower global oil prices. India, South Korea and the UK have also pledged to release oil from reserves, alongside the US, in the first few months of 2022.



OIL

North sea oil prices reach a 7 year high

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 2023:	chg	Oil (Brent) \$/bbl:	chg
158.31	-38.05	126.72	-20.18	197.00	-17.98	187.94	-22.51	43.17	-4.59	86.06	4.41
All changes (chg) are compared to last report											

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