Early February 2022

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

ANOTHER SURGE AND SLUMP

Geopolitical tensions fueled another sharp rebound in UK power and gas markets in the second half of January, as a further build-up of Russian troops at the border with Ukraine intensified invasion fears – before a large-scale sell-off took hold as January ended and February started, helped by an improvement in physical supply.

As a result, Month-ahead prices swung from £195/MWh up to £226/MWh, and then all the way down to £173/MWh, their lowest level since early November. Meanwhile the front power annual – April '22 Annual – saw an even greater initial surge, as it roared up from £150/MWh to £200/MWh (its highest price since December's super-spike), before shedding half these gains, residual longer-term supply concerns stemming a full retreat.

Russian gas supply concerns were further fanned by France and Germany indicating the EU could look to stop the Nord Stream 2 gas pipeline project – although diplomatic talks between Emmanuel Macron and Vladimir Putin and the US and EU signing an energy security agreement at the end of January helped take some of the heat out of these concerns over the last few days.

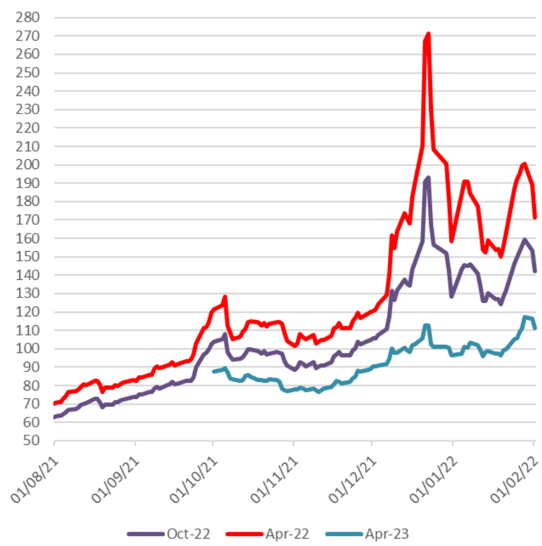
Elsewhere on the short-term market Day-ahead power has been extremely volatile – swinging in value by more than £130/MWh during the last two weeks of January – with spikes occurring on days when wind farms accounted for less than 15% of generation. Wind provided around a quarter of UK power overall across the month, up slightly from 21% during the December. Exports were another factor driving short term prices as maintenance at French nuclear plants meant the UK was a net exporter to the country on 15 days during January. At the time of writing Day-ahead power was trading at £165/MWh, its lowest level so far this year.

Strong carbon markets have also bolstered forward power discussion over the latter half of January and into February, with UKAs pushing to a new record above £85/TCO2e at the time of writing – up from the low 70's in the middle of the month (EUAs have meanwhile nudged EUR 93/TCO2e, also a record).

Coal prices have also been bullish, with Ukraine again the major driver as concern mounted that some countries would stockpile the fuel ahead of any conflict. Front year coal is currently around $114/tonne – up from $90/tonne at the start of the year. High UK gas prices have led to a resurgence in coal-fired generation in the UK since late 2021, although the fuel remains a relatively small component of overall power supply. During the second half of January coal accounted for about 1 GW of UK power production on average each day, almost double the generation levels in the opening two weeks of the month – driven by an outage-linked fall in nuclear output.

Carbon and coal played into increases of around 20% on October '22 and April '23 Annuals – although they remain relatively cheap compared to the April '22 Annual – with October '22 currently pegged around £147/MWh and April '23 at £115/MWh.

UK Annual power prices (six-month view)



On the 8th of February maintenance will start at the Torness nuclear power plant, reducing capacity by 640 MW until the 3rd of March.

Nuclear restrictions in France are set to step up during February, with just over 9 GW of capacity – or about 15% of the total – coming offline for extended periods.

UKRAINE

Tensions around Ukraine continue to boost prices

Wind farm generation is set to surge in early February due to stormy conditions, with output during week 5 expected to average more than 14 GW, compared to around 8 GW during the opening month of the year. This should push out thermal sources and could pressure UK power spot prices.

MARKETS

Markets have dropped from in the past week, but remain triple where they were this time in 2021

EDF's 3.2 GW Sizewell C nuclear plant received a £100m funding boost from the UK government, although the project has not yet received planning consent. A government decision was originally expected at some point in April, but this deadline is expected to be missed.

Proposals to build a new 2 GW interconnector with France, by Aquind, have been rejected by the UK government, which said the proposal conflicted with other projects and did not adequately consider alternative routes.

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
171.25	17.35	142.28	15.13	173.60	-26.40	171.00	-28.84	131.55	16.55	141.50	16.85

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
114.00	6.00	89.61	3.55	82.66	10.36	89.81	9.80	90.69	9.85	91.94	9.82

All changes (chg) are compared to last report

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GAS

LNG FLOOD OFFSETS POLITICAL WOES

The UK gas market turned strongly bullish again in the latter half of January, with the threat of conflict between Russia and Ukraine outweighing a bearish demand outlook and improving LNG supply – before the fundamentals took over and pressured the short-term market, with the bearishness rippling out along the forward curve. Sharp losses as January rolled into February were driven by forecasts of mild weather, buoyant LNG supply and an uptick in physical Russian flows via Ukraine.

Although the impact of a slight increase in Russian flows in eastern Europe is negligible in terms of actual supply to the UK, which is relatively insulated from Russian exports by Norwegian pipeline flows, LNG and domestic North Sea production, the psychological impact is significant in the current febrile market conditions.

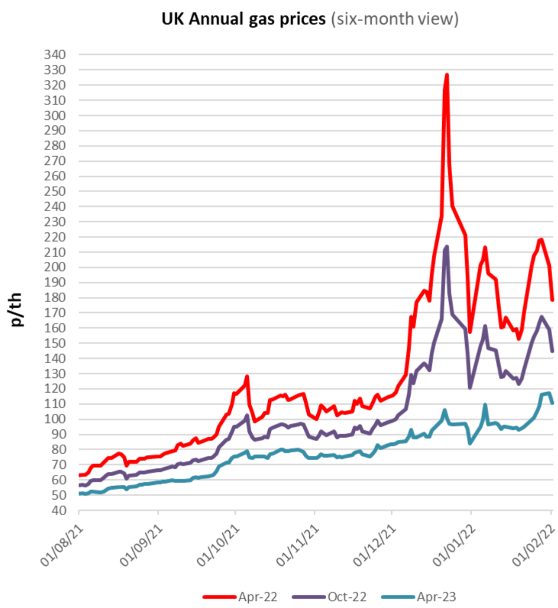
Day-ahead gas prices started to slide around the middle of January as LNG supply ramped up and demand was mostly below the seasonal average, dropping squarely and consistently below 200 p/th for several days. Prices then rallied up to 220 p/th in the last week of the month as falling wind output pushed up demand from the power sector and colder weather bolstered heating demand. But since then prices have slumped again, as low as 174 p/th.

Amidst the escalating geopolitical tensions gas flows into Slovakia at Velke Kapusany – an entry point on the border with Ukraine that delivers Russian gas – rose to just under 80mcm on the 1st of February, up from 47mcm the day before, providing further impetus to the downturn on short-term prices.

Sendout from UK LNG terminals accounted for just over a third of gas supply in the latter two weeks of January, up from 27% over the initial fortnight and 23% during December. This was a result of surging imports – particularly from the US – with the NBP a more attractive destination for LNG than Asian markets. UK LNG imports were limited through the majority of 2021 as stronger prices in Asia pulled cargoes east. Surging NBP values from October last year reversed this trend, with relatively mild conditions in much of Asia and greater storage capacity in China softening prices.

Movements on the front two UK gas Annuals have partially mirrored the short-term market, with April '22 and October '22 Annual first roaring up to 218 p/th and 168 p/th, before shedding 18% and 14% respectively in value since last Friday. Upside on North Sea oil and UK carbon in late January helped prevent long-term contracts from succumbing to the pressure at the front end of the market.

Prices across all periods were edging higher again at the time of writing, on a slight reduction in physical supplies and UK and EU carbon prices pushing to new record levels.



GAS: OUTLOOK

GAS PRICES

Gas prices boosted by continuing uncertainty over Nordstream 2

European gas storage fullness ended January below 39%, compared to 54% on average at this point over the past five years.

Dutch sites are particularly strained as exports to Germany have been used to offset the cessation in flows from Russia through the Yamal pipeline. This means there is potential for UK exports through the BBL to the Netherlands if the Dutch grid becomes stressed – a possible bullish driver for short-term UK gas prices.

Forecasts point towards mild conditions during February throughout northwest Europe, suggesting spikes in domestic demand are unlikely – with surging wind output also expected for at least the first week of the month.

CARBON

Strong carbon prices bolster power markets

Maintenance at the Norwegian Hammerfest LNG export plant is now expected to be completed in May, pushed back from the original deadline of the 31st of March, after the facility was closed on the 1st of December last year. The UK does not tend to receive cargoes from Hammerfest due to its significant pipeline capacity with Norway.

WEATHER

Mild weather pushes gas prices down

COAL

Coal prices rise as countries use as an alternative to gas

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
178.74	20.43	144.89	18.17	179.48	-17.52	175.64	-12.30	50.23	7.06	89.61	3.55

All changes (chg) are compared to last report

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