

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

VOLATILITY EASES WHILE EXPORTS SURGE



UK power prices were yanked higher a couple of times during the second half of April as strong exports, concerns around Russian gas supply and occasional oil price spikes supported the market, although periods were trending lower by early May. October '22 Baseload Annual power closed above £200/MWh twice during the fortnight (it has not done this since March 9th) – the first time due to coal and carbon strength and later after news that Russia had ceased exporting gas to Poland and Bulgaria. It was more frequently around the £190/MWh mark and had moved below this level at the time of writing as weaker gas, carbon and crude prices helped to pull the period lower.

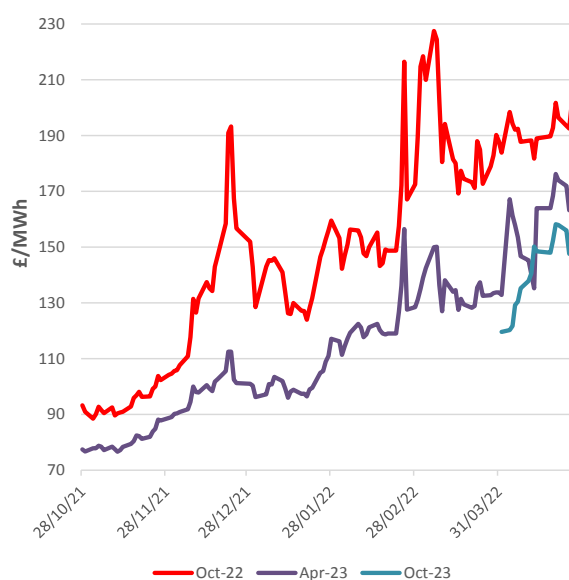
UK power exports to France remained high as more French nuclear capacity was taken offline for planned and unplanned maintenance. Across the two weeks the UK delivered about 812 MW to France on average each day – after net imports of 34 MW during March – with relatively cheap gas-fired generation even driving exports to Norway on several occasions. Although wholesale gas prices are historically high in the UK they are even higher on mainland Europe, providing UK-based gas-fired generators with strong incentives to deliver power outside their domestic market. The UK was also a net exporter of power to the Netherlands to the tune of 77 MW per day – compared to net imports of 521 MW over the opening fortnight in April – while electricity volumes coming from Belgium fell by 94% against the start of the month to just 42 MW.

Buoyant UK power deliveries to other European markets came against a backdrop of limited wind farm generation – causing a fair amount of volatility in the short-term power market – with wind farms accounting for about 19% of electricity supply over the two weeks, down from 24% in the first half of April. This was offset by more gas-fired production – with output from gas plants up by almost 1.5 GW in the second half of April – while biomass plants delivered around 250 MW more on average each day and nuclear generation also ticked up slightly.

The UK Day-ahead Baseload power index closed at a high of £193/MWh on a day when wind farms produced less than 2.3 GW and then 1.5 GW the day after. Day-ahead Baseload hit a low of just under £142/MWh after wind output leapt to more than 10 GW, before creeping up to £167/MWh by the end of the month as renewable output waned and thermal production stepped up.

Elsewhere coal values were dipping on reports of growing stockpiles of the fuel globally and indications of steep discounts on offer from Russian producers. Year-ahead coal collapsed by almost 15% from a peak of just over \$246/tonne to around \$213/tonne at the time of writing. Indications of falling energy demand in China – the world's largest coal importer – due to lockdown measures, also helped to weigh on prices.

UK Annual power prices (six-month view)



ELECTRICITY: OUTLOOK



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>£200/MWh

Baseload Annual power closed above £200/MWh twice during the fortnight, the first time since March 9



The government has moved to the next stage in reforming the planning process for offshore wind with a view to developing Multi-Purpose Interconnectors (MPIs) that will link turbine installations offshore to transmission networks in two or more countries. Another aim is providing transmission capacity to multiple offshore wind farms, rather than the current point-to-point approach. This followed a consultation where respondents pushed for reform of Ofgem's Cap & Floor and the government Contracts for Difference (CfD) mechanism to enable the development of MPIs.



NORWAY

Norwegian hydro reservoirs at 23% of capacity, compared to 41% last year



RESTORED

On May 2, 345MW of capacity was restored at the Connah's Quay gas-fired power plant, after maintenance shuttered the facility on April 18



On May 2nd 345 MW of capacity was restored at the Connah's Quay gas-fired power plant after maintenance shuttered the facility on April 18th. Today another 430 MW of gas-fired capability will come back online at the West Burton site a day later after work that started on April 22nd.

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Oct'22 Annual	chg	Apr'23 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	Germany Cal '23	chg	France Cal '23	chg
192.50	10.75	165.25	30.00	152.00	-40.20	167.72	-21.28	201.38	-1.25	257.00	24.95

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
212.70	-24.30	109.97	3.36	80.75	3.85	83.81	5.91	86.18	6.31	89.12	6.81

All changes (chg) are compared to last report

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GAS

TENTATIVE EDGE DOWN ON LNG BOOM



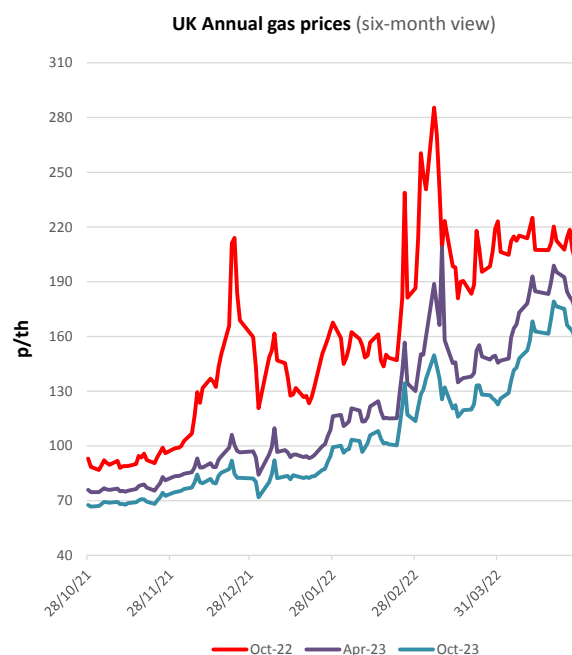
In late April Russia cut off gas supply to Poland and Bulgaria after the countries refused to pay for volumes in roubles, leading to a surge across European wholesale markets as fears built that pipeline flows will be halted elsewhere. EU importers have refused to pay for Russian gas in the currency although there have been reports – as yet unconfirmed – of a handful of traders using roubles to buy volumes. UK October '22 Annual gas pushed up towards 220 p/th a couple of times during the fortnight – once due to North Sea oil strength and another after the Russian news – but was edging down to 195 p/th at the time of writing, a level the period has not closed below since late March, helped down by a rise in Russian transit flows and buoyant LNG supply.

On the short-term market UK Day-ahead gas jumped at times due to Norwegian maintenance and unplanned outages cutting pipeline supply. UK imports through the Langeled pipeline – the country's largest connection to Norway – dropped by 30% compared with the opening two weeks of April to a daily average around 45mcm, or 65% of the link's capacity. The impact of this was tempered by strong LNG supply with terminals accounting for about 35% of gas, with the proportion rising to nearly 40% at times.

On the demand side limited wind output and low temperatures pushed offtake across the latter half of April around 59mcm above the seasonal average, according to National Grid. A high rate of exports to mainland Europe also boosted the total, with deliveries into Belgium and the Netherlands across April at just over 68mcm per day – compared to 30mcm during March – as volumes were used for injection into storage sites on mainland Europe. UK Day-ahead gas closed at a low of just over 100 p/th around the middle of the month on a day of very high supply – roared up to 191.05 p/th a few days later as a Norwegian unplanned outage was reported – but had dropped back towards 130 p/th by early May.

UK exports helped shippers to get started on filling EU storage early, with net injections of around 215mcm per day during April – about 25% higher than the five-year average – bringing fullness up to around 32%, compared to 30% a year earlier. Increasing stocks provide confidence of sufficient supply in the event of disruption to Russian exports, with UK Winter '22 gas creeping down from 233 p/th in mid-April to 225 p/th by the end of the month as a result.

Elsewhere month-ahead North Sea oil was testing the \$100/bbl mark – after peaking above \$118/bbl shortly after mid-April when Russian supply fears intensified – due to concern over global demand as new lockdowns were introduced in parts of China. On the supply side releases from strategic reserves – mainly in the US but also other IEA countries – helped to ease the situation somewhat. Towards the end of the month fears of a disruption to Russian supply due to new sanctions intensified and North Sea oil was pushing back up towards \$109/bbl.



GAS: OUTLOOK

 Exports to mainland Europe are set to remain high across the summer period as shippers look to fill storage capacity on the continent. Although prices have been high on the UK market, they have been even higher across the channel. At the end of April the Dutch gas month-ahead expired at more than 263 p/th, compared to 115 p/th for the same period in the UK.




UK Oct 22

UK Oct 22, Annual gas pushed up towards 220 p/th a couple of times during the fortnight - once due to North Sea oil strength and another after the Russian news



NORTH SEA OIL

North Sea oil was testing the \$100/bbl mark – after peaking above \$118/bbl shortly after mid-April when Russian supply fears intensified

 Support for energy-intensive businesses struggling to pay utility bills was expanded by the government in late April with a new £800m package for the Energy Intensive Industries Compensation Scheme, which is double the original budget. The programme – originally set to end in March – has been extended for three years.

 Hydro stocks in Brazil are in much better shape than last year and reservoirs are currently at around 73% of capacity – compared to 45% at the same point in 2021 and 48% on average over the previous five years – according to the country's grid operator ONS. A drought last year drove LNG imports into South America and away from Europe throughout the summer as the country used natural gas to offset lower hydro production. With Brazilian reservoirs fuller this year the demand for LNG from the region is likely to be lower over the coming months, freeing up cargoes for delivery into Europe.



EXPORTS

Exports to mainland Europe are set to remain high across the summer period as shippers look to fill storage capacity

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Oct '22 Annual	chg	Apr '22 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2023:	chg	Oil (Brent) \$/bbl:	chg
202.04	-22.99	174.81	-18.13	125.00	-88.10	92.00	-108.00	78.49	-4.91	109.97	3.36

All changes (chg) are compared to last report

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