

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

FRONT ANNUAL SURGES TO NEW RECORD



Power prices have been shunted up to new highs this week as further cuts to Russian natural gas supply added risk to a market already spooked by the invasion of Ukraine, short on French nuclear capacity and struggling to cope with low hydro reserves. UK October '22 Annual Baseload electricity shattered records set earlier this year to move above £270/MWh – a 15% gain from the middle of June – with the period moving in an upward trajectory throughout the fortnight. The supply threat is most acute for the coming winter, with the Baseload product covering that period roaring up from lows around £277/MWh to more than £343/MWh at the time of writing.

There have been limited policy interventions to counteract the bullish price moves although chancellor Rishi Sunak is reportedly cooling on the idea of a windfall tax on power generation after German energy company RWE said such a move would make the firm rethink its planned £15bn investment into UK renewables.

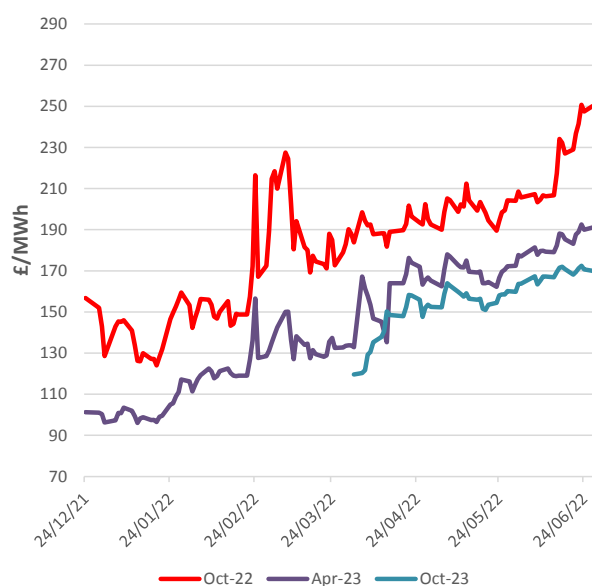
UK power plants remained a major supply source to the continent with net exports at a daily average of around 2.5 GW – in line with deliveries since May – with 90% of that power delivered into France – up from 85% in the opening half of June – as the country struggles to manage demand. French nuclear generation has been around 25% below the five-year average as outages, maintenance and the occasional strike reduce operations across the country. French hydro generation was around 35% below the 2017-21 average – a slight improvement from the 38% gap in the opening half of June – with dry conditions continuing to present problems. Forecasts up until the opening week of August suggest below average rainfall across most of France, indicating hydro production is likely to remain strained in the short-term.

On the short-term market UK wind farm generation has increased by 18% to an average just shy of 5.7 GW, although this provided little relief to prices as strength on the gas side spilled over into the power sector. The UK Day-ahead Baseload index hit a low around £156/MWh a day prior to UK wind farms producing nearly 9 GW, but surged past

£200/MWh in the days that followed as renewable output started to wane while the continent's appetite for UK electricity – especially in France – remained insatiable.

Elsewhere EUAs were lifted to levels last seen in late May after EU ministers finally agreed a common position on reforming the emissions trading scheme (ETS), while rising darks spreads – a measure of the profitability of coal-fired power generation – also helped to lift prices by around 3%. The UK response was more muted with UKAs rising by 2% across the fortnight to just over £84/TCO_{2e}, a level also last reached in May. Coal remained bullish with the front quarter pushing above \$322/tonne at the time of writing – an increase of more than 20% over the past two weeks – with strong demand from the power sector and looming bans on Russian imports helping to prop up values.

UK Annual power prices (six-month view)



ELECTRICITY: OUTLOOK



At the time of writing front winter French Baseload power was almost 80% higher than the same UK period, creating a strong incentive to maintain flows from the UK into France.

From July 1st 457 MW of gas-fired capacity is set to be taken offline at the Staythorpe plant for planned work that is currently expected to last until the end of the month.



POWER GENERATION

French power generation remains low compared to normal year



CONCERNS

Concerns remain around supply levels in Winter, with National Grid reviewing options



UK coal consumption increased by 2% across the opening four months of the year – according to preliminary data from BEIS – with imports reaching 1.71m tonnes during the period. Coal plants have produced 500 MW on average each day during the first six months of 2022, according to National Grid.



Norwegian power producer Statkraft plans to double annual electricity output to 100 TWh by 2030 through the installation of 30 GW of renewable capacity. This will require increasing annual installations from 2.5-3 GW in 2025 to 4 GW by the end of the decade.

German wind and solar capacity increased by 785 MW during May – up from 670 MW over April – according to the latest data from the country's energy regulator. Although the increase will not have a direct impact on the UK market, days of high winds or solar radiation in Germany should help the overall balance in mainland Europe and reduce the need for UK exports.



COAL

Counties look to bring coal power plants online to substitute for gas

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
270.30	52.93	203.23	20.88	205.25	36.85	208.84	45.56	293.50	71.00	365.00	72.00

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
229.00	12.00	114.48	-10.39	84.99	2.88	89.41	5.38	92.19	5.07	98.25	6.36

All changes (chg) are compared to last report



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GAS

NORD STREAM FLOW CUT BOOSTS MARKET



UK gas prices have been breaking new ground this week after a 55% drop in Russian gas flows into Germany sent shockwaves across the market and added new risk to an already tight supply picture. Front annual gas has pushed above 300 p/th – gaining 16% since the middle of June – with the period smashing to new record highs repeatedly this week. The bullishness has been particularly fierce on periods that cover the coldest months, with November '22 to February '23 all heading towards 400 p/th.

Russian gas deliveries into Germany through the Nord Stream pipeline started waning in early June, before crashing around the middle of the month as Gazprom said German company Siemens had not returned gas compressor units after repairs. Siemens announced plans to wind down its operations in Russia – including putting all deliveries to the country and Belarus on hold – back in May following the invasion of Ukraine. Gazprom said that it would only be possible to deliver 100 mcm per day into Germany through Nord Stream but flows on the link have dropped to a daily average of 64 mcm over the past couple of weeks, down from 140 mcm during the previous fortnight and 161 mcm in May.

Around the same time as the Nord Stream flow cut Italian utility Eni started to report that Gazprom has been underdelivering on volumes requested. Strong words from German energy association BDEW added further tension to the market with the organisation stating that it believed Russian gas flows via Nord Stream would cease entirely from August – after maintenance on the pipeline in the latter half of July – pumping up already inflated Q3 monthly prices. August '22 was around 247 p/th at the time of writing – a gain of 37% in a month – while September '22 has risen by 51% across June to 318 p/th. market too with Day-ahead UK gas roaring above 185 p/th at the time of writing – more than 80% up from the start of June – while Day-ahead values at the Dutch TTF are closer to 250 p/th, as mainland Europe is more sensitive to Russian disruptions than the UK.

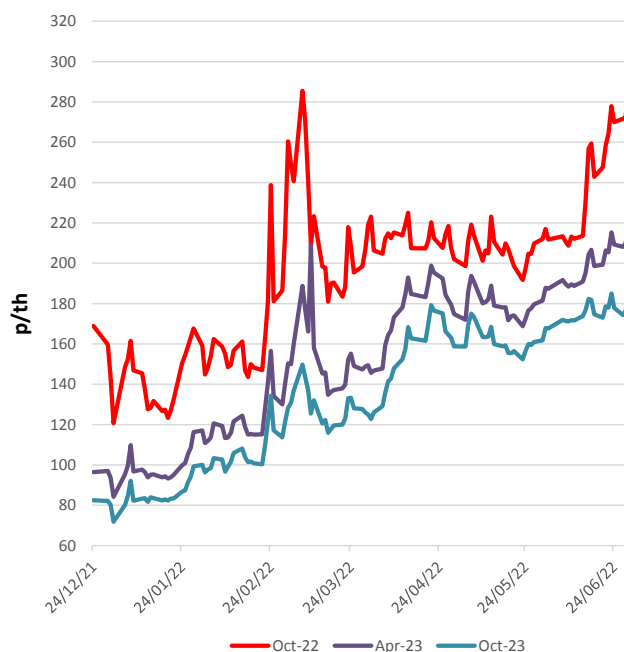
With pipeline deliveries faltering the pace of storage injections across the EU started to wane with around 347 mcm added to sites each day over the last two weeks –

down more than 10% – bringing overall storage fullness across the continent to just under 60%. EU stocks are now in line with the five-year average and volumes are substantially above the same point in 2021, but with less gas around for injections winter prices have been ramping higher. UK Winter '22 gas is now firmly above the 350 p/th mark – up from an average closing value of 250 p/th in the first fortnight in June – with the period trading around 380 p/th at the time of writing, up 21% in two weeks.


On the short-term market gas demand remained elevated by exports and a strong pull from the power sector, with offtake around 30% above the seasonal average according to National Grid. Day-ahead gas bounced from a low of just under 135 p/th to a high of 195 p/th, but had fallen to around 165 p/th at the time of writing following an uptick in wind forecasts for next week.

Elsewhere month-ahead North Sea oil shed just over 4% as fears of an impending global recession weighed on crude values.

UK Annual gas prices (six-month view)




GAS: OUTLOOK

 UK wind output is likely to hover around 3.7 GW across the opening two weeks of July – according to Elexon – which should keep some support on the near-term market as gas-fired generation is used to make up the shortfall in renewable output.

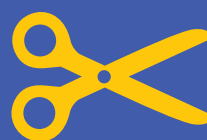


WINTER

Winter gas prices significantly above other delivery periods


 Norwegian gas exports to the EU are expected to rise by 100 TWh compared to 2021 – or 9% - with production running close to maximum capacity, according to a statement from the country and European Commission earlier this month. Although this is unlikely to completely offset the loss of Russian volumes – especially if Nord Stream flows to Germany cease later this summer – any additional supply will be welcome.

Germany's plan to keep 10.4 GW of coal and oil-fired power capacity could reduce the country's gas demand by 3 BCM this year and 10 BCM in 2023 – compared to annual consumption around 90 BCM – according to a study from German consultancy Enervis.



CUTS

Prices hit new highs following further cuts to Russian Gas supplies

 The European Commission and US are working to reduce Russian energy revenue in a bid to cut funding for the war in Ukraine. The focus of recent talks has been around reducing gas demand through the use of technologies such as heat pumps and demand response solutions, while diversification is also on the agenda. Any measures are likely to take multiple years before a substantial change in market dynamics becomes visible.



DELIVERY

Cuts to gas deliveries mean less overhead to top up storage

KEY GAS INDICATORS:											
Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Oct '22 Annual	chg	Apr '23 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2023:	chg	Oil (Brent) \$/bbl:	chg
300.64	69.96	203.06	7.76	171.97	-24.58	160.14	-0.93	106.60	22.85	114.48	-10.39
All changes (chg) are compared to last report											

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