

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

PRICES CRUMBLE ON MARKET REFORM TALK



UK power prices have crashed this week (after rocketing higher last week) following comments from the European Commission (EC) that it is seeking to make imminent reforms to the design of electricity markets to prevent prices from spiralling ever higher. The main thrust of the changes is expected to be the decoupling of fossil fuel-based generation from renewable output – which has also been mooted as an option in the UK – although details at this point are scant, with EC president Ursula von der Leyen saying an announcement would be made in the next few weeks. October '22 Baseload power was around £500/MWh at the time of writing, bringing the period back into line with values last seen a couple of weeks ago.

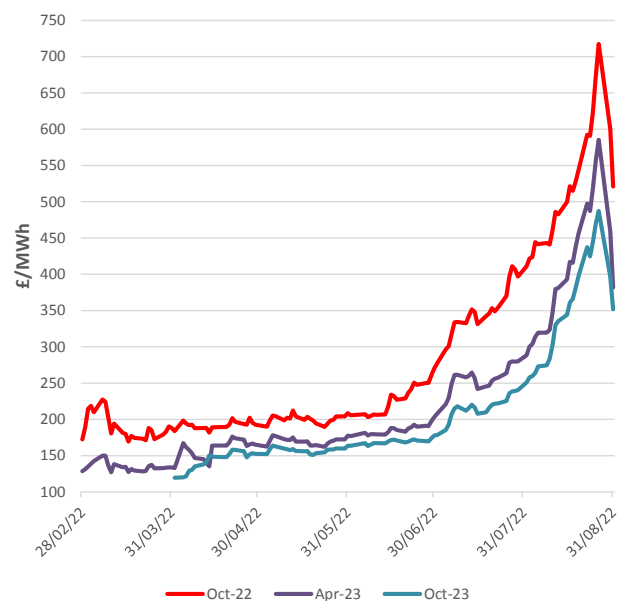
This week's crash has also been a correction after upwards price momentum accelerated sharply last week – driven by an announcement from Russia's Gazprom that it would shut the Nord Stream pipeline to Germany for three days from August 31st – that saw October '22 Annual Baseload smash through successive record highs and reach a peak of £717/MWh. The fundamental fears underpinning that spike have not gone away but the hint of regulatory reform has also pulled down April '23 and October '23 Baseload annuals by 37% and 29%, respectively, since last Friday.

Renewable output has picked up a touch over the past two weeks, with UK wind and solar plants accounting for just over 15% of power generation– up from 14% in the prior fortnight – although this was more than offset by a 40% leap in exports. Heatwaves throughout Europe have pumped up demand and caused havoc for generators – particularly in France – with prices on the continent dwarfing the UK market. French nuclear generation – stifled by high river temperatures in addition to the heavy maintenance burden – has been 35% below the five-year average over the latter half of August, compared to a 30% differential in the opening two weeks. Hydro generation in France – another area of concern given recent droughts – has been a third lower than the 2017-21 average. Constant extensions to nuclear outages in France have piled risk into winter pricing and French Q4 '22 Baseload is currently above EUR 1,000/MWh, compared to £630/MWh (EUR 729/MWh) for the same UK period.


On the short-term market the UK Day-ahead Baseload power index hit a low of £372/MWh just after mid-August when exports tapered and wind speeds picked up – then roared up to £555/MWh amidst the Gazprom-inspired panic – before shifting down to £416/MWh as prices corrected lower this week.

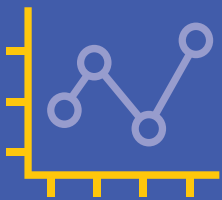
Elsewhere carbon has been sliding – after UKAs spiked above £97/TCO₂e for the first time just after mid-August on low auction volumes and strong demand – with an increasingly gloomy economic outlook helping to pull prices towards the £93/TCO₂e mark. Emissions have bounced back to around £96/TCO₂e this week with a disconnect to gas market movements continuing. Coal strength remains – amid buoyant global demand and the EU ban on imports from Russia – with the front year rising another 11% to just under \$313/tonne.

UK Annual power prices (six-month view)




ELECTRICITY: OUTLOOK

 Precipitation across the UK and continental Europe is currently forecast at average or slightly below until the end of September – according to the EU Copernicus service – suggesting hydro stocks are likely to remain strained. Norwegian hydro capacity is at around 69% – compared to 74% on average at this time of year between 2017-21 – while stocks in Spain are at 22%, against 30% on average over the last five years.

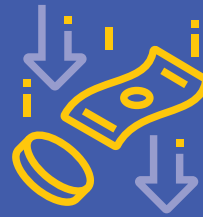


MARKETS REMAIN HIGH

Markets remain high (mid-August levels) following the crash


 The IFA cable linking the UK and France will close for maintenance for four weeks from September 19th, which is likely to reduce UK power exports and push down demand overall. During August the UK was exporting 450 MW on average through the IFA as France struggled with low nuclear availability and hydro generation. For the first week of the IFA outage UK links to the Netherlands and Belgium – with a combined capacity of 2 GW – will also be taken offline for maintenance.

The first power has been produced at the Seagreen offshore wind farm off the coast of Scotland – developed by SSE Renewables and TotalEnergies – with full operations at the 1.1 GW plant expected in the first half of next year.



CRASH

UK gas and power prices crash following a surge over the past week

 Trading volumes on UK power declined 17% in the first seven months of the year compared to the same period in 2021 – according to the latest report from trade aggregation platform Trayport – while transactions on EU electricity contracts declined 40%. Trade on coal has been 31% lower than in 2021, with activity in the UK gas market falling 18% and EU gas trade dropping 13%. Volatility across energy commodities – as well as the very high prices forcing some players from the market – has pushed down volumes after years of growth.



EU ACTION

EU set to announce action on energy markets

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
520.95	21.45	381.93	-11.08	395.25	3.93	416.17	116.17	573.50	96.50	652.50	28.50

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
306.00	29.50	96.70	2.69	97.09	7.15	80.03	-10.68	83.11	-10.10	88.11	-9.44

All changes (chg) are compared to last report



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GAS

ANNUALS TUMBLE DESPITE PIPELINE DIP



UK gas prices have plunged this week – despite the Nord Stream pipeline between Russia and Germany closing completely for three days of maintenance yesterday – with the October '22 Annual currently around 496 p/th, following massive strength last week that saw the front annual close as high as 777 p/th after Gazprom spooked the market by announcing the Nord Stream closure. Prices are now back in line with mid-August values.

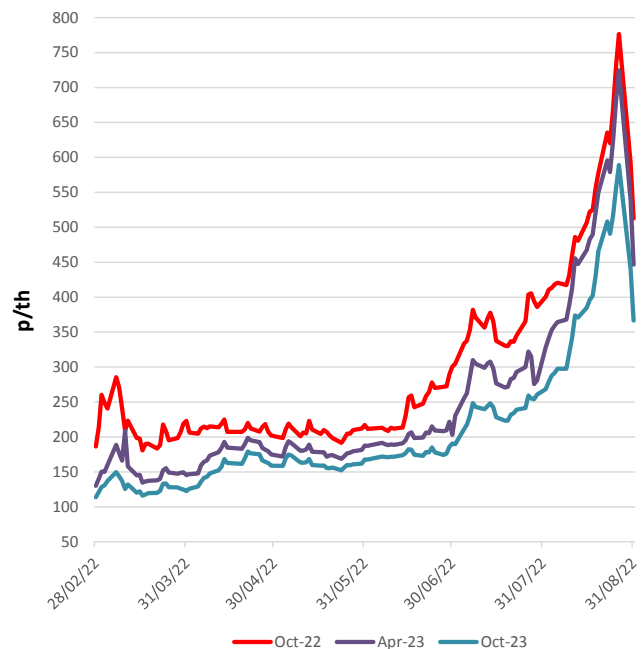
Many have speculated the Nord Stream shutdown is politically-motivated given the invasion of Ukraine and subsequent EU and UK sanctions – with Russian producer Gazprom saying Nord Stream maintenance is now required after every 1,000 hours of operation – and many are fearing a complete halt in Russia supply to Europe at some point this winter. Nord Stream had been flowing at 20% of capacity – delivering about 31 mcm into Germany daily – since late July with Gazprom citing issues with turbines at a compressor station making it necessary to reduce flows. From today Gazprom has also stopped delivering gas to France's ENGIE, citing a contractual dispute. April '23 and October '23 annuals reached peaks of 725 p/th and 589 p/th in the midst of last week's frenzy, but have since dropped more than 40% from those levels, to around 427 p/th and 347 p/th currently.

The pullback has also been a result of rapid EU storage injections despite the cuts to pipeline supply with stocks across the continent now above 80% full – a target member states had agreed to reach by November 1st – with sites in Germany, which has the largest capacity in the EU, pushing towards 85% at the time of writing. This has been possible thanks mainly to a huge increase in LNG supply – with a ramp up in Norwegian exports also playing a part – as terminals across the continent delivered a whopping 305 mcm per day across August, almost double the five-year average. Rapidly filling storage has pulled some of the risk from the coming cold season and UK Winter '22 gas had dipped to 362 p/th at the time of writing – in line with values a fortnight earlier and down from a high of 827 p/th last week – while the same period on the main European market, the Dutch TTF, is currently around EUR 230/MWh, falling more than EUR 100/MWh this week.


Elsewhere short-term prices remained volatile with Day-ahead values reacting as much to the headlines as to fundamental drivers. Demand remains persistently high with the export market – including for power generated from gas plants – meaning gas use was around 29% above the seasonal average across the latter half of August. The Day-ahead was yanked up from 258 p/th to a high of 530 p/th last week, but has since fallen back towards 300 p/th.

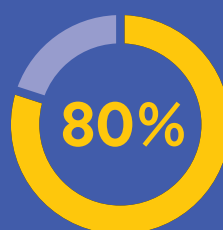
Meanwhile North Sea oil values were rising from close to \$90/bbl to a peak of nearly \$103/bbl as tight supply and expectations of an economic stimulus package from the Chinese government helped to lift crude. Since then, oil has slid back towards \$93/bbl as recessionary fears once again take over as the main driver.

UK Annual gas prices (six-month view)



GAS: OUTLOOK

 The restart of exports from the US Freeport LNG plant has been delayed until November – a month later than originally planned – with 85% of capacity set to be brought back online before full operations resume in March next year. The 2 BCM/year plant represents around a fifth of US LNG export capacity, although the facility has been closed since June due to a fire.



STORAGE


EU gas storage passes 80% fullness

 The UK's North Sea Transit Authority (NSTA) has now granted all permissions necessary to reopen the Rough gas storage site – closed in 2017 after a series of technical problems due to the age of the infrastructure – with owner Centrica expected to invest £2 billion on repairs required to bring the facility back online. It is not clear at this stage when operations might resume at Rough, which used to account for around 70% of UK gas storage capacity.



SHUTDOWNS

Further shut downs of Nordstream expected

 Global gas demand is expected to contract this year with total growth between 2021-25 forecast to reach 140 BCM – compared to 360 BCM over the previous five years and down from the original prediction of 175 BCM – according to a report from the International Energy Agency (IEA). The downwards revision in demand growth was mainly driven (80%) by lower economic activity and less switching from oil- and coal-fired power generation to gas, as opposed to efficiency measures.



ROUGH STORAGE

Approval granted for the UK's Rough storage site to reopen

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
512.46	5.72	446.50	-20.93	422.75	0.00	380.63	4.63	193.78	-8.00	96.70	2.69

All changes (chg) are compared to last report

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