

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

FRONT ANNUALS RALLY AS RISK INTENSIFIES



This week UK power annuals have been hiked up to highs last seen in early October – after relative calm last week – as renewable generation cratered, temperatures dropped, and risk intensified as the highest demand period of the winter came into view. December and January are typically the darkest months of the year – and also some of the coldest alongside February – and supply security is again in sharp focus after a relatively mild start to Q4.

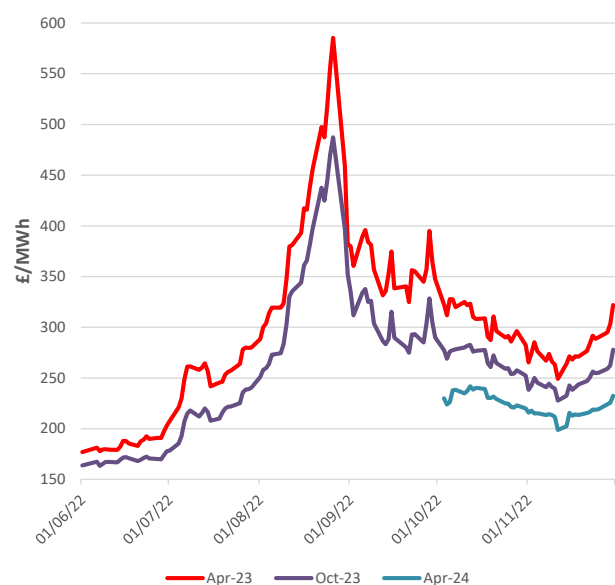
At the time of writing April '23 Annual Baseload was above £330/MWh – up 22% in two weeks – after touching lows of £268/MWh in November amid more benign weather. The front annual is now in line with values last reached around eight weeks ago during a period in which Russia was threatening European gas supply (when damage was reported on the Nord Stream pipeline). October '23 and April '23 Baseload annuals are currently around £286/MWh and £241/MWh, respectively, moving up by 18% and 12% over the last fortnight.

Short-term power has been incredibly volatile, with the Day-ahead Baseload index climbing from £112/MWh around mid-November to £173/MWh a couple of days later – driven up by limited renewables and exports close to maximum capacity – before falling again as wind speeds picked up. This week it has roared all the way up to £340/MWh – having dropped as low as £109/MWh over a stretch when wind farms had been consistently delivering 9-10 GW – as calm and frigid conditions settled across the UK. On one occasion overall wind power production was a paltry 0.85 GW – the first time output has been below 1 GW since August – pushing more expensive thermal generation to fire up in a period when household gas use has also been rising. There have been similar increases in December '22 Baseload, which ended November 20% higher than two weeks earlier at £355/MWh. The new front month – January '23 – is currently around £550/MWh, rising by about 12%. There have even been indications that National Grid might enact emergency demand response measures – amid hourly prices surging above £1,200/MWh – although this did not materialise.


Gains on the short-term market could have been even larger had there not been a switch to net UK power imports this week as intra-day prices moved above Belgium and the Netherlands. France has also been less hungry for UK power due to hydro and nuclear generation picking up by 63% and 14%, respectively, compared to the November average. Rising electricity production in France did little to quell prices on the continent with French front quarter Baseload increasing 12% just this week to EUR 641/MWh at the time of writing.

Elsewhere carbon has shown some signs of life – although economic woes have acted as a strong counterweight – as strength in wholesale gas and power fed through to the emissions market. At the time of writing UKAs were just above £73/tCO₂e, rising 6%. Front quarter coal has ballooned 37% in a fortnight to £281/tonne at the time of writing with cold weather in Europe – particularly coal-reliant Germany – acting as a strong upward driver.

UK Annual power prices (six-month view)




ELECTRICITY: OUTLOOK

 UK wind farms are expected to produce just 5.8 GW on average each day until December 15th – according to Elexon – down from almost 10 GW on average during November. Gas-fired generation will have to step up to make up the shortfall at a time when gas demand for heating is also on the rise.



PRICES RISE

Electricity prices reach levels not seen for 2 months

 The date for full operations on the IFA interconnector between the UK and France has been pushed back to January 18th – slightly more than a month later than originally planned, limiting export potential – when the full 2 GW capacity will become available. Currently 1 GW can be used on the cable – UK exports averaged 0.6 GW per day in November – with this set to increase 0.5 GW on December 18th. Pricing signals suggest the UK will remain a net exporter of power to France for the foreseeable future.



DEMAND

Prices rises as temperatures drop and demand rises

 UK chancellor Jeremy Hunt has confirmed the 3.2 GW Sizewell C nuclear power plant will go ahead – after talk the project might be scrapped – in the autumn statement. This announcement was followed by an almost £700 million government investment into the project, which is now jointly owned by the state and EDF (with China's share bought out). The facility will utilise the same European Pressurised Reactor (EPR) technology deployed at the French Flamanville 3 plant – expected to come online next year more than a decade late and EUR 9 Billion over budget – as well as at the UK's Hinkley point C. EDF has argued that the construction experience on Hinkley point C – set to come online in 2025 with a strike or sale price of £106.12/MWh – will allow Sizewell C to be built with 20% lower costs.



LOW WIND

Low wind generation further increases prices

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr'23 Annual	chg	Oct'23 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	Germany Cal '23	chg	France Cal '23	chg
322.00	58.00	278.00	45.50	355.00	73.33	330.85	223.85	371.20	69.20	447.75	48.68

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
274.77	88.77	85.38	-9.54	72.00	2.30	84.84	9.81	88.25	10.07	92.61	10.60

All changes (chg) are compared to last report

Energy Market Insights

Twice Monthly Independent Market Analysis

GAS

TASTE OF WINTER CATALYSES UPSWING



UK gas prices have surged over recent days as cold weather swept across Europe, power sector demand jumped and storage sites switched from injections to withdrawals. The uptrend started last week after Russia's Gazprom signalled that it may reduce exports to Moldova via Ukraine – on the pretext that some volumes were not being delivered – with many speculating this sounded the death knell for Russian deliveries into Europe via Ukraine.

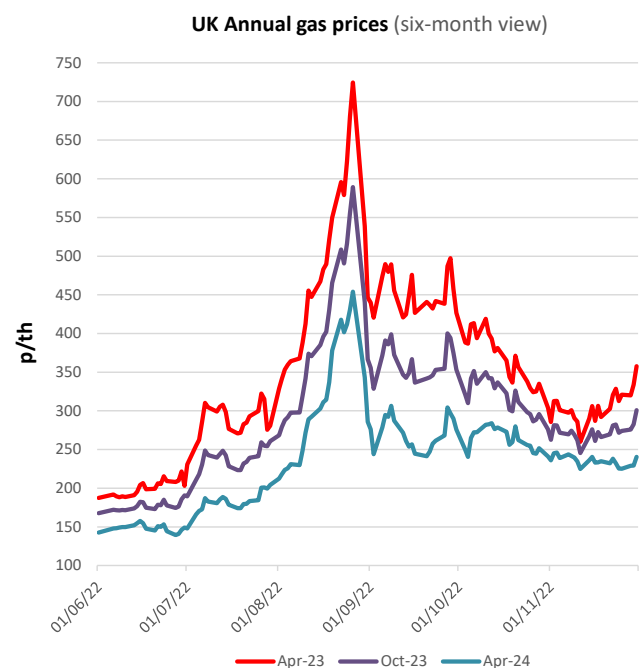
The threatened cut did not arrive, however, but demand concerns took the mantle and have helped keep prices on an upwards trajectory since. April '23 Annual gas is currently around 360 p/th, vaulting 20% from around 300 p/th a couple of weeks earlier. October '23 and April '24 annuals have moved up by a more modest 12% and 4%, respectively.

Short-term prices have flared up as UK gas demand moved in line with, and then above, the seasonal average due to plummeting temperatures and wind speeds. Gas-fired power generation has expanded more than 50% across the latter half of November, while residential demand leapt 30% over the same period (with household offtake swelling substantially this week). Since Monday gas use has been about 7% above the seasonal average – compared to 16% below during the month to November 27th – although the impact was lessened by a colossal drop in exports as the Interconnector pipeline with Belgium closed for maintenance. Over the past two weeks the UK has delivered around 15 mcm/day on average to the continent – down from 66 mcm/day over the opening half of the month – with volumes now rising after the Interconnector came back online yesterday.

Day-ahead gas closed up at 357 p/th earlier this week and is currently changing hands at 370 p/th, with demand soaring 22% above normal over the past few days, after dropping as low as 80 p/th a fortnight earlier when conditions were milder and renewable generation buoyant. The front month was pulled up this week as the market got its first taste of strong winter demand – bouncing off lows of 260 p/th previously – ending November at 322 p/th (rising 14% over the course of the month). January '23 is currently changing hands at 400 p/th, up 22% in two weeks.

On the supply side there have been net withdrawals from EU storage sites throughout November although the average daily volume has been just 89 mcm – compared to 210 mcm during the same period in 2017-21 – with the pull on storage mitigated by a 14% rise in supply from LNG terminals compared to October (to 372 mcm/day). EU storage remains relatively full with sites at about 94% of capacity – according to Gas Infrastructure Europe – compared to 69% a year earlier and 84% on average over the past five years.

Elsewhere North Sea oil has slumped from close to \$100/bbl in early November to around \$89/bbl now, as recessionary fears and a persistently strict policy on Covid-19 in China weighed on sentiment.



GAS: OUTLOOK


 Exports from the 20 BCM Freeport LNG plant in the US are now expected to resume in December – a month later than planned – with full operations due from March. The plant – accounting for about 17% of US LNG export capability – was closed earlier this year after an explosion and fire.

Next week the UK and EU will ban the import of seaborne Russian oil, as well as imposing sanctions barring companies from insuring vessels carrying crude from Russia to other countries, unless the buyers accept a certain price. The cap has been tentatively agreed at \$60. The breakeven cost point for Russian oil production is reportedly between \$12-20/bbl.



NET IMPORTER


UK switches to being a net importer of power in the past 2 weeks

 The windfall tax on oil and gas producer profits from UK operations will increase from 65% to 75% – it was announced in the autumn statement – until at least March 2028, extended from December 2025 originally. However, tax relief is available to the tune of 91 pence for each pound invested, shielding most large firms from the expanded tax burden.



NUCLEAR

UK Government confirms Sizewell C nuclear plan will proceed

 The European Commission has said that EU gas storage must be 45% full by February 1st – while urging member states to aim for 55% - to ensure energy security across the bloc. On February 1st over the past five years sites have been 53% full on average and the last time aggregate fullness on this date was below 45% was in 2017 (40%).



GAS STORAGE

EU gas storage remains mostly full, significantly more than previous years

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '23 Annual	chg	Oct'23 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2023:	chg	Oil (Brent) \$/bbl:	chg
357.63	67.63	301.00	33.94	355.78	69.31	355.14	68.66	145.33	25.00	85.38	-9.54

All changes (chg) are compared to last report

weareboxfish.com

The information in this market review is intended for Boxfish subscribers only. Unauthorised onward transmission or copying is strictly forbidden. The contents are intended for informational purposes only and are not to be used or considered as an invitation to trade or an offer in respect of any of the products or services mentioned. boxfish does not represent or endorse the accuracy or reliability of any of the information or content. Under no circumstances will Boxfish have any liability for any loss or damage caused by reliance on any information contained herein.