Early January 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

KEY PRICES CRUMPLE TO SIX-MONTH LOWS

Power prices have been dropping sharply in the UK over the past couple of weeks as renewable generation rebounded, imports swelled and weather forecasts turned mild. Benign demand expectations for the coming weeks have helped to offset perennial worries over Russian gas supply with the risk of shortages during the current winter causing far less concern. UK April '23 Annual Baseload is currently just below £200/MWh – a level not seen since late June – having lost 35% over the last fortnight with the trajectory consistently downwards during this period. October '23 Annual Baseload has shed 28% to £192/MWh, while the April '24 Annual fell 19% to £191/MWh.

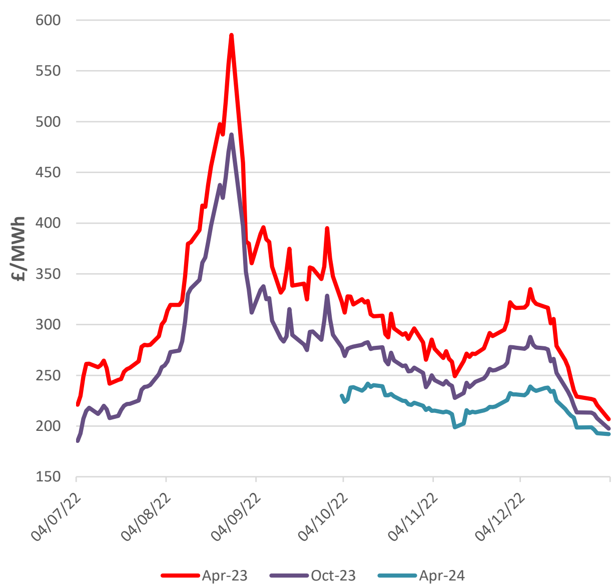
The downside has been even heavier on the remaining winter periods, where supply concerns had been the most intense following Russia's invasion of Ukraine and subsequent drop in exports, with Q1 '23 ending 2022 at £198/MWh – a 43% collapse over the latter half of December – while January '23 finished the year at £206/MWh, having descended 38% over the final two weeks of last year. These periods cover the portion of the year when demand tends to be highest and the absence of forecasts pointing towards another cold snap catalysed the rapid downturn that has continued into the early part of this year. UK February '23 Baseload was around $190/MWh at the time of writing – 44% down from mid-December – with no signs of the downtrend abating so far this week.

It has been a similar story on mainland Europe with German January '23 Baseload cut in half as 2022 wrapped up to end the year at EUR 167/MWh, while February '23 has been changing hands at EUR 172/MWh today, falling a massive 49% as renewable generation surged and heating demand subsided. The French front month has been dealing at EUR 219/MWh – roughly half the value seen midway through last month – after indications that emergency demand reduction measures are unlikely to be required this quarter despite limitations to the nuclear fleet.

On the short-term market UK prices juddered down as wind farm generation leapt to nearly 11 GW on average – practically double volumes produced in opening half of December – just as some businesses were winding down operations. The Day-ahead Baseload index fell as low as £75/MWh on one of the final working days of 2022 – down from a peak of £205/MWh a few days earlier – but has since crept back up to just over £100/MWh, although this is a fraction of values seen in early December. Another factor helping pressure short-term prices has been net UK imports to the tune of 2.8 GW – almost three times the amount coming in during the previous two weeks – as wind output was also buoyant on the continent, particularly Germany where generation nearly doubled.

Elsewhere carbon values have been feeling the pressure from declining gas and power values with UKAs eyeing the £70/tCOe mark – down from £75/tCO2e a couple of weeks before and close to £85/tCO2e in early December – while gloomy economic conditions have also been helping to pressure emissions allowances.

UK Annual power prices (six-month view)



French nuclear restrictions are set to ramp up in February with a combined 9 GW of capacity set to be taken offline across nine reactors for at least three months. The UK has been a net importer of power from France since mid-December although this may be set to change as the next round of maintenance kicks in.

SHARP DROP

Prices sharply drop over the previous 2 weeks

RENEWABLES

Strong renewables generation reduces prices

The EU has agreed emergency rules to reduced permitting times for repowering renewable energy projects to six months, as well as solar installations on buildings and other structures to three months. Permits for ground source heat pumps will have to be granted within three months and within a month for heat pumps below 50 MW. These rules must now be formally adopted by the EU Council.

Strong UK wind output is forecast for the coming days with more than 11 GW expected on average until January 18th – according to Elexon data – about 2 GW higher than the average during December.

MARKETS

Milder weather and low demand a significant driver of markets

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
206.75	-115.25	197.50	-80.50	192.00	-163.00	108.88	-221.97	215.75	-44.00	245.00	-46.00

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
175.00	-42.50	84.37	-1.01	72.00	-3.69	84.84	-3.41	88.25	-4.36	92.61	N/A

All changes (chg) are compared to last report

Early January 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

GAS

FRONT ANNUAL CRASHES 42% AS RISK WANES

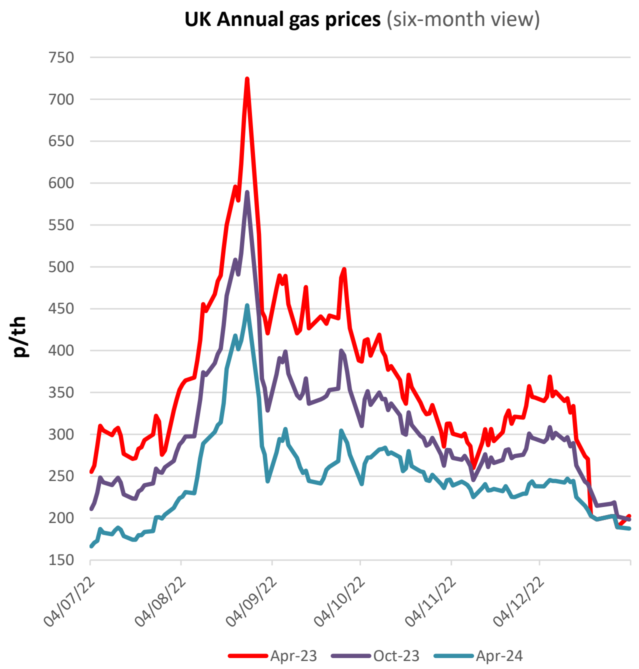
UK natural gas prices have cratered over the past fortnight as temperatures increased while wind speeds picked up, the holiday period helped to reduce demand and storage withdrawals reduced to a trickle. The frigid conditions that characterised early December have now thawed and there are no signs of more cold on the horizon, leading to massive drops on key periods. April '23 Annual gas has sunk a whopping 42% over the past couple of weeks to around 193 p/th at the time of writing, while the October '23 and April '24 Annuals have plummeted 34% and 22%, respectively, over the same timeframe. All three periods – although elevated compared to normal times – have never been valued so low.

On the short-term market strong wind speeds – alongside rising power imports – allowed UK gas plant operators to reduce production by more than 60%, with the amount of gas used for power generation falling 70% compared to early December. Total gas demand has been nearly 20% lower than during the opening half of December – milder temperatures have been another cause – helping to pull the Day-ahead to around 144 p/th, 52% lower than a couple of weeks earlier and down from values regularly exceeding 300 p/th when conditions were colder.

It was a similar case on the continent and the dearth of demand drastically reduced the pressure on storage with volumes withdrawn from sites collapsing 88% (net injections even took place across the last five days in 2022 and the first day this year). EU stocks are now close to 84% full – compared to 72% on average at this point over the previous five years – and with no indications of another cold turn in the coming weeks Q1 supply is starting to look fairly secure. The robust storage picture helped UK Q1 '23 gas to end last year just shy of 185 p/th – tumbling 45% in the latter half of December – while the new front quarter Q2 '23 has been trading at 181 p/th, down 45% since the middle of last month.

Elsewhere Dutch front month gas – the benchmark for the continent – has fallen below EUR 70/MWh, a decline of nearly 50% over the last two weeks. In Germany – which has the largest storage capacity in Europe and where sites are well-stocked at 91% full – Summer '23 gas has plunged 46% to EUR 74/MWh now.

Meanwhile oil prices have taken a downturn over the last few days due to recessionary fears and a stronger dollar – after bouncing in late December as China relaxed its COVID stance – with North Sea crude hovering close to $80/bbl. This is in line with values seen two weeks before but about $5/bbl below peaks in late 2022. Sweden's SEB bank recently forecast oil to average more than $100/bbl this year due to supply constraints and demand roaring back, but values remain someway off this mark at present. Coal stocks in Europe are reportedly at three-month highs and front month prices were $182/tonne at the time of writing, down 16% since the middle of last month partly due to robust supply but also tracking losses across gas markets.



The restart of operations at the US Freeport LNG export plant has been delayed again, this time to the latter half of January. Freeport accounts for around 15% of US LNG export capacity but has been shut since June last year due to a fire.

UKRAINE

Ukraine continues to overshadow markets, but is a lesser driver at present

Japan has recommitted to nuclear power by passing rules to allow reactors to operate beyond 60 years, as well as pledging to building new capacity. Of the 60 reactors in the country, only ten are in operation at present while another seven have received permission to restart. Japan has been either the first or second (behind China) largest importer of LNG since the Fukushima disaster in 2011, which has led to competition with Europe for cargoes.

WEATHER

Weather will be the main driver of pricing in the near term

EU energy ministers have finally agreed to a price cap on front month trades at the Dutch TTF gas market – the main benchmark for Europe – with bids on the period set to be capped at EUR 180/MWh from February. The mechanism will be triggered if the period is trading above this level – or EUR 35/MWh above a reference price for LNG defined by the Agency for the Cooperation of Energy Regulators (ACER) – for three days on the ICE exchange. If these conditions are met, bids will be limited to EUR 180/MWh through a market notification. Critics have suggested that, at best, the mechanism will have no impact and, at worst, it will risk security of supply by setting an artificial limit on the price of EU imports, meaning if prices are higher elsewhere – particularly Asia – then LNG will be diverted from Europe. The other potential issue here is that a price cap will limit incentives to reduce gas demand.

2023 PRICES

2023

Strong storage levels from this winter may reduce 2023 prices, if weather remains mild

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
202.50	-155.13	198.50	-102.50	182.27	-173.51	163.27	-191.87	74.33	-31.03	84.3	-1.01

All changes (chg) are compared to last report

weareboxfish.com