Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

HIGH WINDS HELP SLASH ANNUALS BY 20%

Booming renewable generation, strong imports and weakness in interrelated markets such as gas and carbon have all helped to pull UK power prices lower over the opening fortnight in January. April '23 Annual power was below £160/MWh at the time of writing – having shed 23% since the start of the year – with the period now at lows last seen in May 2022. October '23 and April '24 annuals have dipped 19% and 20%, respectively, over the same period, with both now at their lowest levels since they started being discussed.

The UK has just recorded another milestone for wind farm production – beating the previous high set in December – with 21.6 GW delivered on average over a half hour period on January 10th accounting for just over 50% of supply during this window. Overall UK wind farms have produced around 13 GW each day this year – generating 15% more electricity than over the latter half of December – while net imports have risen 26%, to an average of more than 3 GW. This has allowed operators of gas-fired plants to reduce production by almost a third, decreasing the influence of more expensive thermal sources on the wholesale market and pulling down short-term values.

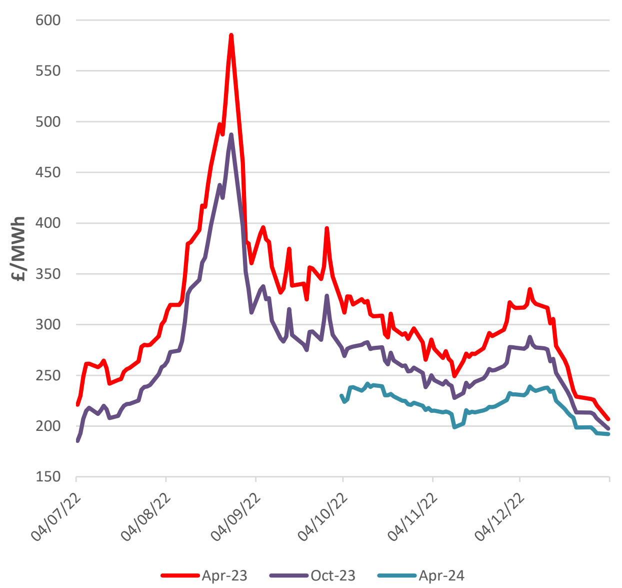
The UK Day-ahead Baseload index has bounced between £106-167/MWh – much less volatile than the £75-205/MWh swing in the latter half of December – and averaging £122/MWh, about a fifth lower than during the previous two weeks (although at the time of writing prices were pushing towards their highest levels so far this year as wind speeds calmed). The windy start to the year and robust imports helped pummel February '23 down by 26%, to just shy of £140/MWh, meaning UK front month values are now at levels last reached in early June 2022 - an illustration of just how extreme prices were last year rather than a signal of how weak the market is now.

Elsewhere the French nuclear sector started to show signs of life with output from the country's reactors jumping more than 8% compared to December, to an average above 40 GW/day – although a heavy maintenance schedule next month could derail the progress – while wind production in the country ballooned by two-thirds, helping front month values slide nearly 20% to EUR 180/MWh currently.

In Germany rising renewable output was even more impressive, as the yield from wind farms increased a massive 77% from last month, helping to pressure the new front year – 2024 – 25% lower over January to date to EUR 162/MWh.

Carbon has also been weak with UK emissions allowances tumbling 10% since the start of the year to just over £66/tCO2e at present – tracking weakness in the wider energy markets and also responding to increasingly negative economic sentiment – while EUAs have lost a similar proportion, to around EUR 78/tCO2e at the time of writing. Coal has tumbled more than 15% following reports that European stocks at key terminals have reached a three-month high, while windy conditions cut demand for the fuel and rapidly rising COVID infection rates in China led to concern the country's government may return to more stringent containment measures.

UK Annual power prices (six-month view)



A lack of snow in the Alps, which has forced the closure of many of the region's ski resorts this winter, could also lead to a dearth of water supply for hydropower facilities later this year. Snow melt in the summer months is a key supply source for hydro assets, but in many mountainous areas conditions have been too mild to produce significant snowfall.

PRICES

Low demand and strong winds further depress prices

From January 27th the full 2 GW of capacity on the IFA interconnector to France will become available, after the link's capability was cut in half in September 2021. The UK has been a net importer of power from France since December 18th, although UK Baseload prices for February are currently below the French market, suggesting exports are possible next month.

WIND

Wind generation sets new records in January

The EU added 15 GW of new wind capacity last year – around a third more than in 2021 – led by Germany, Sweden and Finland, according to WindEurope, the industry association. Around 90% of installations were for onshore wind projects. WindEurope also reported around 80 GW of projects are being held up in the permitting process.

TEMPERATURE

Above average temperatures expected to continue

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
176.25	-30.50	171.50	-26.00	162.00	-30.00	117.96	9.09	170.00	--45.75	177.00	-68.00
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
166.50	-8.50	85.28	0.91	67.10	-4.90	79.60	-5.24	83.51	-4.74	88.05	-4.56

All changes (chg) are compared to last report

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GAS

CHOPPY START BUT TRAJECTORY DOWNHILL

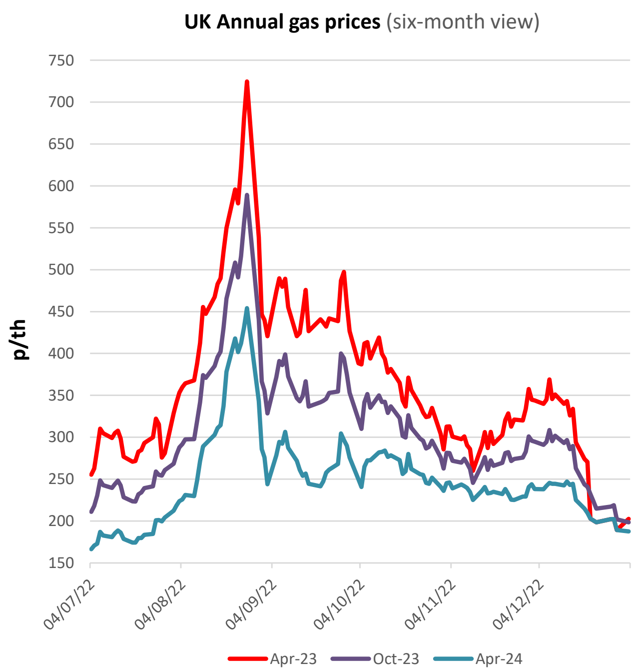
UK natural gas prices have fallen over the opening fortnight of the year – although the road has been bumpy with several upward flashes that quickly lost momentum – as mild and windy conditions, strong LNG imports and relatively full storage have continued to cut supply risk from the remaining winter periods, as well as from prices farther out. April '23 Annual gas had moved under 162 p/th at the time of writing – a new all-time low – having dived 20% over the past couple of weeks. October '23 and April '24 gas annuals have meanwhile declined by around 19% so far this year.

On the short-term market gas demand has been around 14% below the seasonal average – compared to 12% above normal for the time of year in the final month of 2022 – as balmy conditions for the time of year led to boilers being turned down across the country. Overall the UK has been using about 256 mcm of gas a day, a drop of 21% compared to December, which is unusual given January tends to be the colder month. Temperatures are set to drop this week although it seems unlikely average demand for the month will catch up with December given the low consumption of the past two weeks. The temperate conditions have led to average Day-ahead closes around the 150 p/th mark – about 25% lower than the previous two weeks – with lows of 138 p/th right at the start of the year and highs of 171 p/th a week later. UK Day-ahead gas has been changing hands today around 155 p/th with signs of falling temperatures and elevated demand this week failing to provide much lift.

It was a similar story on the front month, with limited volatility on February '23, which has fallen beneath 150 p/th – after peaking at 187 p/th in early January – and is, counterintuitively, the cheapest of all 2023 monthly periods on the UK market. June and July – two of the lowest demand months of the year – are both valued more than 5 p/th above February '23. This reflects confidence in supply for the remainder of Q1 but also the expectation that storage injections will be buoyant through the early part of the summer as participants will be keen to get as much of a buffer as possible ahead of next winter, as was the case in 2021.

As mild conditions engulfed the continent withdrawals from EU storage sites reduced from a trickle to a drip with just 87 mcm used each day – 82% less than the five-year average – while stocks remain substantial at more than 80% fullness, according to Gas Infrastructure Europe. Q2 '23 gas prices in Germany – which has Europe's largest storage capacity and where sites are currently 90% full – has cratered 27% since the start of the year. Dutch front month gas – the key benchmark for mainland Europe – has crumpled 21% over the same period to around EUR 57/ MWh (a fraction of the EUR 210/MWh limit the EU will impose on the period next month).

Elsewhere oil continues to be jockeyed between the impact of weak economic conditions (and rising COVID deaths in China) and supply fears stemming from the Russian invasion of Ukraine. North Sea crude is currently close to $84/bbl, in line with values in late 2022 and bouncing off lows of $77/bbl a couple of weeks ago.



Prices on the Japan/Korea Marker (JKM) – a major benchmark for Asian LNG – for March and April are now above the same periods in the British and Dutch markets, which is likely to attract spot LNG cargoes away from Europe and the UK over the coming months. This may not have much of an impact for the remainder of Q1 but could lead to lower EU storage injections in the early part of the summer, adding risk for the remainder of the year and early part of 2024.

LNG

Strong LNG imports keep short term prices down

The US Energy Information Association (EIA) forecasts North Sea oil values will average $83/bbl this year – 22% lower than 2022 – before dropping to $78/bbl in 2024, primarily driven by rising crude production globally. The EIA added that US LNG exports are expected to rise 18% this year as operations resume at the Freeport plant.

NUCLEAR

French nuclear output rises, though Germany confirms shut down of theirs

The EU Agency for the Cooperation of Energy Regulators (ACER) launched daily LNG price assessments on January 13th but did not receive enough transactions from participants to produce a number. The new prices are part of an attempt to establish a new European benchmark for the fuel and reduce the use of the Dutch TTF market as a reference. Rules that came into force at the end of last year require all companies involved in buying or selling cargoes that are intended for delivery into the EU to submit their prices to ACER. The ACER number will also be used as a reference to cap bids on the Dutch front month if the period trades EUR 35/MWh above the LNG reference – or at EUR 210/MWh – on the ICE exchange for three days, a controversial rule set to come into force on February 15th.

STORAGE

Gas storage usage 82% below average

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
177.85	-24.65	175.13	-23.38	161.86	-20.41	168.00	4.73	74.33	0.00	85.28	0.91

All changes (chg) are compared to last report

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