

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

ANNUALS FALL 10% DESPITE BRIEF SURGE



New questions around the stability of the nuclear fleet in France and striking French energy unions have injected a fresh wave of volatility into the UK electricity market, temporarily pausing the downtrend that started in late January before the bears took control again this week. France's nuclear watchdog ASN has found cracks on welds at some reactors – dating back to repairs made during the 1980s – and has warned all plants in the country could be afflicted with similar issues. This came as industrial action intensified, with French unions disrupting power supply and access to some gas infrastructure but – after a brief spike – UK electricity prices have been crumbling again, and most Baseload prices have reached new lows.

At the time of writing April '23 Baseload was just over £130/MWh – having peaked at £153/MWh last week as the French disruption spooked the market – shedding 10% since the start of March. October '23 and April '24 Annual Baseload values have also lost 10% and the three front annuals are at their lowest level since they started being discussed. October '23 and April '24 Annuals are both cheaper than April '23 Annual – unlike in the gas market – as the projected increase in renewable capacity over the coming years has pressured values farther out.

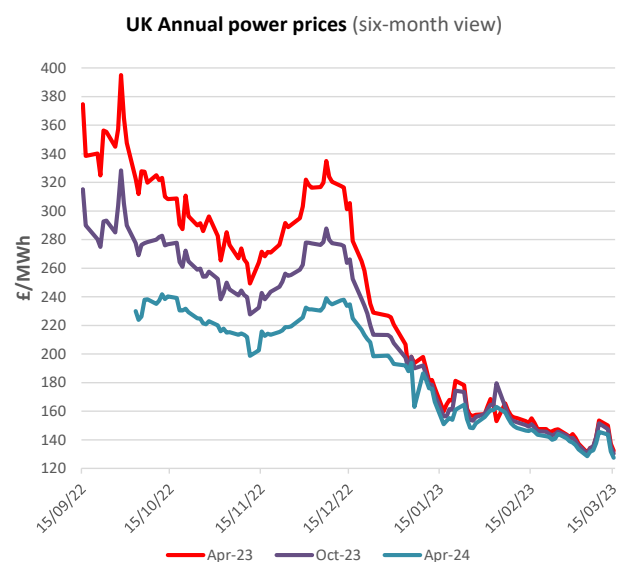
Wind farm generation has slumped by 24% to an average of 6.5 GW, although current forecasts suggest output will pick up to around 8.5 GW through the remainder of March. Although UK generators have been called upon a couple of times to plug the French supply gap, the UK has been a net importer from France overall, to the tune of 1 GW on average – a third lower than the previous two weeks – while total imports from the continent dipped around 15%. This meant the UK gas fleet had to step in to make up the shortfall – gas-fired generation has rebounded 28% – fortunately during a period of comparatively low gas prices.

Things could have been different given French nuclear power output generation has been some 17% lower than production in February due to the strikes. But abundant French wind supply coupled with huge imports from Germany and Spain have meant that France has avoided shortages. French front year Baseload is currently valued around EUR 167/MWh – fractionally higher than two weeks ago – while the same German period (a key benchmark for

the mainland) has declined 10% over the same period, to EUR 133/MWh.

On the short-term market UK Day-ahead Baseload is currently around £115/MWh – 16% lower than a fortnight earlier – after moving as low as £97/MWh last week amid surging renewable generation. Month-ahead Baseload is hovering around the £110/MWh mark – a 13% slide since the start of March – having scrambled up to £134/MWh in the depths of the French commotion.

Elsewhere carbon values have started to come down with UKAs approaching the £70/TCO₂e mark at the time of writing – after peaking close to a record level of £85/TCO₂e earlier this month – with the compliance-buying-related upwards momentum running out of steam. EUAs are just below EUR 87/TCO₂e, a 13% decline after approaching the EUR 100/TCO₂e last week.



ELECTRICITY: OUTLOOK

 Norway has abandoned plans to build the 1.4 GW North Connect power interconnector with the UK to focus on reducing electricity prices for domestic users, rather than exports. The existing 1.4 GW North Sea Link came online in 2020, although teething problems meant regular flows only started in October 2021. Since then, net exports from Norway to the UK have averaged 470 MW per day and volumes have increased to an average of more than 1 GW this year.

Maintenance at eight French nuclear reactors with a combined capacity of 9.5 GW has been delayed by the ongoing strikes – according to unions – while the restart of other units has also reportedly been pushed back because of the industrial action.




MARKETS

Markets continue to drop, despite brief spike



STRIKES


Industrial action in France affects both nuclear and LNG

 EU governments will have to use two-way Contracts for Difference (CFDs) if using public funds to support investment into renewable and nuclear capacity, under draft market reforms proposed by the European Commission. These CfDS would have minimum and maximum prices for power generated with any revenue above the upper threshold redistributed to consumers. If prices fall below the floor the state will compensate the generator.

REACTORS

EDF extends lifetime of UK nuclear reactors to 2026



 EdF will extend the lifetime of the UK-based Heysham 1 and Hartlepool nuclear reactors for an additional two years until 2026 to help avoid a supply crunch. The lifetimes of Heysham 2 and Torness – slated for closure this year – have already been extended to 2028. This year UK nuclear plants have accounted for 13% of the country's power supply.

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr'23 Annual	chg	Oct'23 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '23	chg	France Cal '23	chg
132.43	-9.52	130.38	-10.48	113.91	-12.80	114.52	-21.41	135.13	-14.13	167.00	-1.00

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
133.00	-22.50	73.31	-10.54	76.15	-8.53	89.25	-10.29	93.32	-10.97	97.44	-11.78

All changes (chg) are compared to last report



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GAS

SUMMER MONTHS EYE DOUBLE DIGITS



UK natural gas values have been edging lower over the past few days – after a brief spike last week inspired by the French strikes and a touch of cold – with monthly prices now eyeing double digits for the first time since the summer of 2021. April '23 Annual gas has now moved below 120 p/th – having dipped 10% over March so far – while October '23 and April '24 Annuals have fallen by similar proportions to around 125 p/th.

Not content with wreaking havoc on France's power sector, unions in the country have been preventing operations at the four French LNG terminals too – meaning no cargoes could be unloaded and supply from terminals has collapsed. French LNG terminals had been supplying 71 mcm/day over the few days in March before the blockade and overall EU LNG supply has fallen by about 5% since operations have been disrupted.

The loss of French LNG supply – coupled with cold spells and lower UK exports due to a pipeline outage (more on this later) – meant conventional storage was called upon to make up shortfalls. EU withdrawals surged by 26% compared to the previous two weeks and stock fullness has now fallen to around 56%. Historically though this is still very comfortable – a year earlier sites were 26% full and the five-year average is 36% – providing confidence injection demand should be limited this summer. Front summer gas values in Germany – Europe's largest storage market – are currently around EUR 43/MWh, having shed 13% over the past fortnight.

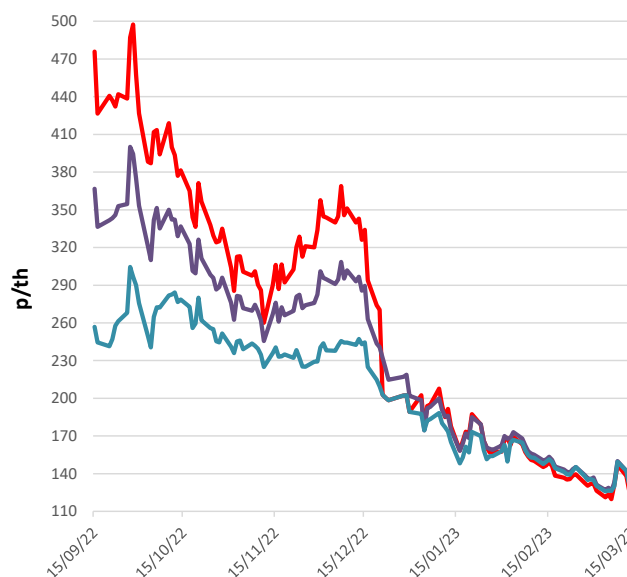
In the UK the storage situation has heaped pressure on the months covering the summer period with April '23 currently around 105 p/th, after falling 18% since the start of March. During Q2 and Q3 in 2022 the UK exported close to 13 BCM to mainland Europe – almost a third of total demand – a figure likely to be much lower this year.

On the short-term market a late cold snap and low wind generation have meant demand has been above the seasonal norm for most of this month. Gas use would have been even higher were it not for an unplanned six-day outage on the Interconnector pipeline that links the UK to Belgium, which has meant UK overall exports during the last fortnight have cratered by two-thirds compared


to February, to a daily average of just 12 mcm. The dearth of exports – combined with waning outright demand expectations as we move closer to the spring – has helped to pull Day-ahead gas towards the 100 p/th mark, plunging nearly 20% in the month to date.

North Sea oil has fallen below \$74/bbl – down 13% in two weeks – as contagion from a stock market sell-off filtered into crude values. The collapse of the Silicon Valley Bank has inspired new commercial pessimism and oil prices – often a barometer of global economic sentiment – have followed the downtrend despite signs of growing Chinese demand as the country opens up. Month-ahead coal has edged 8% lower, partly due to recessionary fears but also on signs of growing surpluses of the fuel at key storage points.

UK Annual gas prices (six-month view)



GAS: OUTLOOK

 Oil demand could hit new records this year – according to the International Energy Agency (IEA) – driven by the reopening of the Chinese economy as COVID restrictions are eased.



RETAIL PRICES


Retail prices hit 6p on gas and 30p on electricity

NORWAY

Norway cancels new interconnector to the UK



 EU gas storage is likely to end Q1 more than half full, according to EU energy commissioner Kadri Simson. Last November the European Commission urged member states to ensure sites were at least 45% full by the end of February – a non-binding target – a level that has been exceeded by a considerable margin.

 UK gas trade increased 20% month-on-month in January – according to Trayport – to 500 TWh, retaining its position as the second-largest gas market in Europe. Volumes dealt at the Dutch TTF – the benchmark for the continent – at the same time grew 48%, to more than 4,000 TWh, while German gas trade rose 36%, French liquidity was up 69% and the Italian gas market expanded 43%. High wholesale prices have forced many companies out of the energy trading space since 2021, which has exacerbated volatility.

A joint EU natural gas purchasing service will be launched through transmission capacity booking platform PRISMA in mid-April, with around 13 BCM expected to be tendered via the mechanism this year. The European Commission envisions a central buying system whereby one company negotiates on behalf of a consortium. Some participants have said they would rather enter into negotiations on their own terms and would prefer not to purchase gas as part of a collective.



OIL DEMAND

Oil demand expected to hit record highs in 2024

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
122.04	-8.34	126.95	-9.42	106.38	-14.09	109.17	-11.53	50.35	-3.33	73.31	-10.54

All changes (chg) are compared to last report

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