Early April 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

TIGHT SUPPLY HELPS ANNUALS EDGE UP

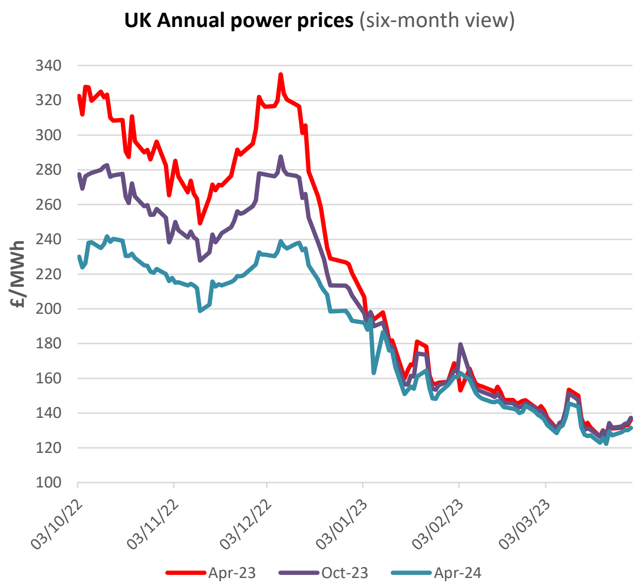
Weak renewable generation, low temperatures and industrial action disrupting French energy supply – in an ongoing dispute that looks far from over – have lifted UK power prices over the last couple of days with most periods now above values seen two weeks ago. The market has been much less volatile than during the opening half of the month with electricity prices trading in a tight range ahead of the expiration of Q2 '23, Summer '23 and April '23 Annual Baseload.

High and low closing values on April '23 Annual Baseload have been within £10/MWh of each other – compared to a difference of more than £20/MWh in the previous two weeks – with the period currently discussed just over £140/MWh. This is up6% over the last two weeks but still a fraction of the peak levels of nearly £600/MWh seen during the spike in August 2022. At the time of writing October '23 Annual Baseload – soon to become the front annual – had moved above £141/MWh, having edged up 8% over the fortnight. It had reached lows of £126/MWh just over a week ago before the French strikes – as well as strong demand – halted the downtrend that had been in place through most of Q1.

Rolling strikes in France have led to nuclear generation in the country cratering 19% this month compared to February and delays to maintenance are jeopardising the EdF target of 300-330 TWh of nuclear output this year. Surplus renewable generation in Spain – a key exporter of power to France – has been preventing a supply crunch on the continent. Spanish wind production has increased 26% compared to February, while output from the country's solar fleet soared 35%. Nevertheless, the unrest has pushed a lot of risk into French prices for later this year (when the maintenance may have to occur) with Q4 '23 Baseload above EUR 300/MWh at the time of writing – a 40% hike in two weeks – while the front year has gained nearly 30%.

Back in the UK April '23 Baseload has been changing hands at £114/MWh today – the last day of trading on the period before expiration – in line with values seen two weeks ago. May '23 – the front month from next week – is just over £112/MWh, having shed 5% over the past couple of weeks. Summer '23 is another period set to expire tonight and had been moving towards £115/MWh at the time of writing. A year ago Summer '22 expired at £245/MWh, illustrating just how far values have come down.

On the short-term market a slight uptick in renewable output combined with a drop in demand of more than 15% – longer daylight hours contributing – has helped prices to ease. The Day-ahead Baseload index has slipped into double digits on three consecutive days – an occurrence registered just once previously this year – as UK wind farms delivered 13 GW of power. Day-ahead is now back over £114/MWh though – in line with a couple of weeks earlier – on indications wind generation will average less than 4 GW during the opening two weeks of April, compared to an average of almost 8 GW in March.



Capacity towards the UK on the 1.4 GW North Sea Link with Norway has been limited to 1.1 GW – the maximum capability is 1.4 GW – by Norwegian grid operator Statnett. This brings import capability on the link in line with exports, which Statnett has said is the reason for the change. The UK has imported just over 1 GW on average through the North Sea Link this year. This follows news earlier this month that Norway has abandoned plans to build a second power interconnector with the UK.

MARKETS

Markets rise slightly on the back of low renewables and French industrial action

UK PLAN

Uk Gov launches 'Powering Up Britain' plan

The UK government has launched its 'Powering Up Britain' plan, which includes ambitions around energy security and reducing emissions. Through several reports the government has said that it expects around £100 billion of private sector investment to help reach the net zero target by 2050. But apart from a £160 million fund to support port infrastructure for floating offshore wind and another £240 million for green hydrogen projects, many of the policy details – such as new gas and oil exploration licences and support for carbon capture and storage – have been announced previously.

National Grid has launched a consultation around proposed changes to the process for connecting to the power network, to reduce bottlenecks and help facilitate new renewable and electricity storage capacity. Interested parties will have until the end of April to comment.

Coal stocks at import terminals in northwest Europe have reportedly reached a one-month high as demand for the fuel has dipped. Month-ahead European coal is currently around $138/tonne, 5% higher than in mid-March but down substantially from peaks above $185/tonne at the start of the year.

COAL

Coal stocks at Northern European import terminals reach one-month high

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
136.25	3.82	137.25	6.88	111.00	-2.91	112.05	-2.47	142.00	6.88	207.50	40.50

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
138.50	5.50	78.32	5.01	73.90	-2.25	90.80	1.55	94.93	1.61	99.30	1.86

All changes (chg) are compared to last report

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GAS

APRIL '24 ANNUAL UP 11%

UK gas prices have been roaring higher over the past couple of days and most periods are now up several percent compared to a fortnight earlier – after 10-20% drops in the opening half of March – with April '23 Annual gas rising 11% to 136 p/th. UK gas prices had been in a relatively tight range over the past couple of weeks as large storage inventories – ahead of the injection season in Q2 and Q3 – and strong LNG supply competed with a late cold snap, rising exports and North Sea outages. October '23 Annual gas – the front annual from next week – has moved up to 146 p/th, a 15% bump-up since the middle of the month.

Industrial action in France has also helped to arrest the downward spiral seen earlier this month as access to the country's LNG infrastructure has been disrupted. Gas supply from French LNG terminals has declined by 54% compared to February – according to Gas Infrastructure Europe – although a blockade on three of the four facilities in the country is expected to end next week.

British gas demand has declined by 8% compared to the first half of March – a typical occurrence as spring approaches – although offtake has still been around 5% greater than the seasonal average. This has partly been driven by cold weather lifting domestic use but also because of exports to mainland Europe, which have averaged 51 mcm/day over the last two weeks – almost a fifth of overall demand (and more than triple the previous fortnight now that technical issues on the Interconnector with Belgium have been resolved).

On the demand-side the EU has also agreed to extend the voluntary target of cutting gas use by 15% until March 2024. This goal was agreed last July and EU demand between August and January this year has reportedly been 19% below the five-year average. However, much of the reduction has been driven by benign weather and reduced industrial action as high prices have led to the shuttering of factories. The former has been down to good luck while the latter is less desirable from an economic perspective (and may partially reverse given lower energy prices now).

Prices covering Q2 and Q3 remain a fraction of where they were a year earlier – although are still quite high in historic terms – with Summer '23 gas currently at 120 p/th (Summer '22 ended Q1 last year at 290 p/th). This year-on-year difference has been mostly been due to the dramatic difference in storage with EU capacity likely to end Q1 around 55% full.

At this point in 2022 sites on the continent were 34% full and 63 BCM was injected over the summer. By September 2022 EU sites held more than 90 BCM, to reach that level this year will require injections of just 33 BCM. In Germany – which has the largest storage capacity in Europe – sites are above 64% full and the German gas front summer is around EUR 47/MWh, compared to EUR 125/MWh a year ago.

UK Annual gas prices (six-month view)

Norwegian gas processing and export capacity will be restricted in the coming months with a heavy Q2 maintenance schedule. From April 16th until late June at least 53 mcm of daily capacity will be offline – with up to 171 mcm unavailable at times – according to the timetable from Norwegian offshore operator Gassco. Exports from Norway to the UK tend to see a greater impact from work over the summer than elsewhere in Europe as there are fewer long-term supply contracts in place between the countries.

NORWAY

Norwegian gas exposts exected to be reduced over the coming months due to maintenance

Around 60%, or 250 BCM, of planned European LNG capacity could be unused by the end of the decade – including potentially 40 BCM in the UK – according to the Institute for Energy Economics and Financial Analysis (IEEFA). European terminal capacity is projected to rise from 270 BCM at the end of 2022 to 400 BCM by 2030, but overall demand (for LNG) could be just 150-190 BCM by that point.

DEMAND

Gas demand falls as UK enters Spring

LNG imports are likely to rise during April as this is considered a 'shoulder' month with Asian temperatures mild (and the hot summer weather in the region – catalysing strong Asian power demand for cooling requirements – has not yet kicked in). This normally leads deep liquidity allows for the easy monetisation of cargoes. During April last year supply from UK LNG terminals surged 43% compared to March, while on mainland Europe the increase was more modest at around 9%.

LNG

Strong LNG imports are expected as Asian demand wanes

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
125.98	3.94	135.83	8.88	106.40	0.02	103.88	-5.30	52.97	2.62	78.32	5.01

All changes (chg) are compared to last report

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