Mid April 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

OCT ANNUAL DIPS 11% FROM MONTH PEAK

It has been a mixed start to the month for the UK electricity market with a tentative downtrend emerging over the past few days. Baseload values surged higher in early April as renewable generation dried up, temperatures dropped and strikes continued to rock the French power sector, but prices have edged down since then as wind speeds started to rise and values on other energy-related commodities – gas, carbon and coal – have come under pressure.

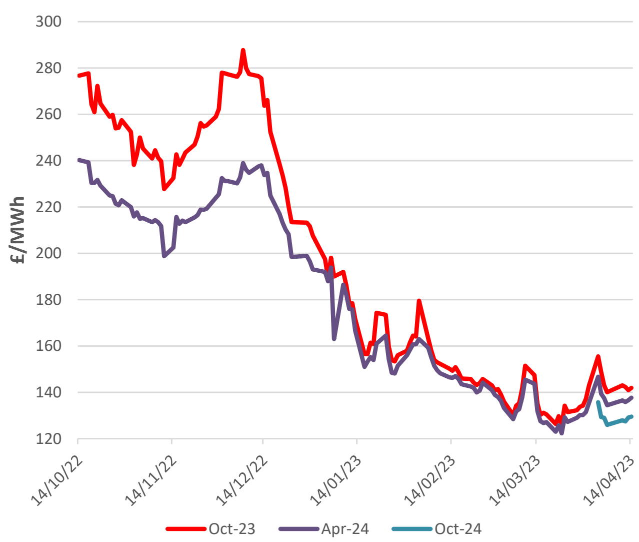
October '23 Annual Baseload – the front annual since the start of April – is currently valued just below £139/MWh, having dipped 11% from a £156/MWh peak earlier in the month. April '24 and October '24 Annuals have traced a similar pattern, with flashes up to £147/MWh and £136/MWh respectively, followed by downward moves towards £136/MWh and £129/MWh at the time of writing. Meanwhile Month-ahead (May '23) prices have moved lower throughout the fortnight – one of the only periods showing a consistent direction – and are now around £103/MWh, having shed 18% over April so far.

Since the start of March industrial action has meant French nuclear and gas-fired production has fallen 20% and 46% respectively compared to February, which has been partially offset by an increase in wind and hydro generation. Concern over the duration of the strikes and fears union action could delay maintenance on the country's nuclear fleet – multiple outages have already been extended – has propped up long-term French power values. At the time of writing year-ahead French electricity was being discussed around EUR 214/MWh – bouncing 30% since the strikes started – compared to EUR 148/MWh for the same German period.

Electricity supply from other countries has also been needed to shore up the French market. Although the UK has been a net importer of power from France in April to date, volumes have crashed more than 60% compared to the previous two weeks. Overall power flows into the UK from all countries have declined by some 40% against the previous fortnight, while wind production has been about 25% lower. This has been partially offset by weaker demand, with a 20% bump to gas-fired generation also helping to counterbalance the faltering imports and stuttering renewable supply. But the addition of more (expensive) thermal power in the mix has lent some support to the short-term market, with the Day-ahead Baseload index averaging £109/MWh, up from £105/MWh the previous fortnight. Day-ahead Baseload was trading at £102/MWh at the time of writing, down from a peak of £125/MWh earlier this month but above the £90/MWh trough hit during a three-day stretch that wind farm generation averaged more than 11 GW.

Meanwhile signs of oversupply in the coal market have helped to pull down values for the fuel, with European front month coal some 12% lower than two weeks ago. Similarly carbon has also been moving downwards – after a brief uptick at the start of the month – with UKAs now 5% lower than at the end of March. Muted compliance buying ahead of the deadline this month – industrials are said to be largely covered by remaining free allowances – has led to pressure on the emissions market, with low traded volumes also not helping.

UK Annual power prices (six-month view)



Germany has now closed its remaining 4 GW of nuclear power capacity after extending the lifetime of its three remaining plants to prevent shortages over the winter. The country plans to close its coal-fired fleet – which currently has a capacity of more than 35 GW – by the end of the decade but will need to add another 25 GW of gas-fired plants to offset the closures.

UK total coal-fired power capacity has fallen to just 2.7 GW, with only two sites remaining, after two plants with a combined 3.5 GW closed at the start of the month.

PRICES

Prices stabilise after a brief uptick in early April

MARKETS

Markets currently around levels seen just prior to the war in Ukraine

Last week 500 MW was restored at the Heysham nuclear plant after a 610 MW reactor at the site was closed for maintenance in mid-February. Full capacity is expected to be available from September 10th. The return of capacity at Heysham will be offset by the closure of 640 MW at the Torness nuclear facility from April 17th until May 7th.

Coal values in the Pacific could be 25% lower in 2024 compared to the projected average this year, according to consultants FocusEconomics. The company forecast average prices of $173/tonne on the Newcastle Coal Index – a key benchmark for the Asia-Pacific region – compared to year-ahead values around $185/tonne currently.

FRANCE

Industrial action has significantly reduced French generation

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Oct' 23 Annual	chg	Apr '24 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '24	chg	France Cal '24	chg
142.00	4.75	137.75	6.25	101.15	-9.85	100.81	-11.24	146.75	4.75	216.00	8.50

KEY OTHER INDICATORS:

Coal ($/MT) '24	chg	Oil (Brent) $/bbl	chg	UKA '23 (£/TCO2)	chg	EUA '23 (€/TCO2	chg	EUA '24 (€/TCO2)	chg	EUA '25 (€/TCO2)	chg
125.00	-13.50	85.93	7.61	70.65	-3.25	94.10	3.30	98.70	3.77	102.85	3.55

All changes (chg) are compared to last report

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GAS

SIDEWAYS START TO GAS SUMMER

UK natural gas prices are yet to establish a new directional trend as relatively full storage and strong LNG supply have competed with a cold start to Q2, exports close to maximum capacity and limited renewable output. October '23 Annual gas is currently just under 145 p/th – having peaked at 157 p/th in early April – and is now down just over 1% since the end of March. In contrast April '24 and October '24 annuals have moved up slightly – 0.5% and 2%, respectively – over the fortnight.

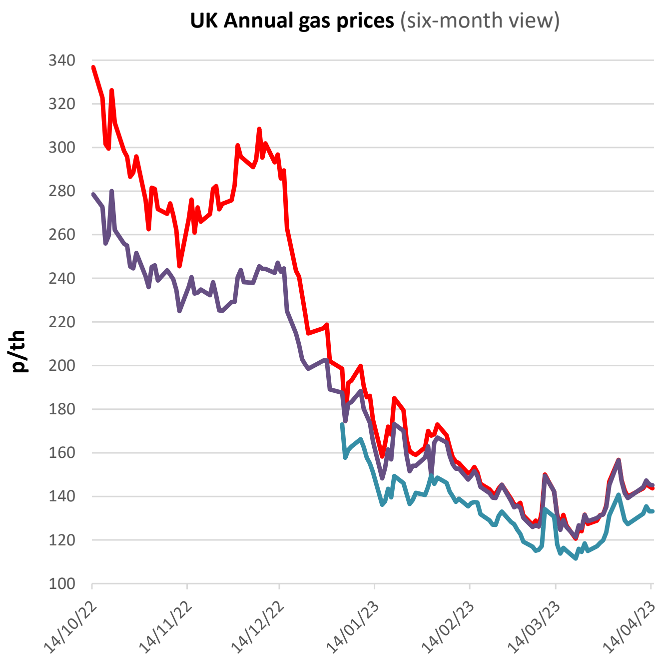
Gas demand has remained stubbornly high with offtake almost 20% above the seasonal average over the opening half of April. This has partly been driven by lingering cold – domestic gas use has been about 7% higher than the same period last year – but is also because of strong exports, with flows to the continent more than doubling compared to March to 70 mcm/day, which has been around a quarter of UK demand. Signals of elevated gas use at the start of this month had pushed up short-term values, with Day-ahead hitting 127 p/th – a level not reached since late February – but it has now eased down towards 100 p/th as UK supplies have held up despite buoyant exports.

Much of the gas exported from the UK has been used to fill EU storage sites – strong injections are underway already from wary supplies looking to ensure volumes ahead of the winter and conscious of the dearth of Russian supply – although the pace has been slower than last year (daily injections have averaged about 50 mcm, about half the volume added to stocks in the same period of 2022). But with storage so much fuller than last year – around 56% currently compared to 27% in 2022 – the pressure to inject is not now as pronounced.

The relatively fullness of gas storage has prevented another uptrend from being established and is pressuring summer-delivery gas. Month-ahead has slipped almost 21% to just over 100 p/th, while Q3 '23 has fallen 10% to 108 p/th over the last fortnight.

On the supply side EU LNG has been holding up well despite industrial action in France continuing to hamper access to the country's four LNG terminals. French gas supply from LNG facilities during March and April has been 50% lower than in February, but overall EU volumes over the last fortnight are up 18% on March and 50% greater than during February. Back in the UK, Norwegian summer maintenance – as well as a couple of unplanned production issues – has meant imports have been temperamental at times, although overall supply has held up in the face of high demand.

Elsewhere North Sea oil is showing signs of bullishness and is currently around $86/bbl – up from just under $80/bbl a fortnight ago – partly due to signals that Russian exports are starting to flag and also because Chinese imports in March were at the highest level since June 2020. If recent reports from the International Energy Agency that global crude demand could hit a record 102m barrels per day this year come to fruition there could be an added upward impetus.



Gas demand for power generation is likely to be strong until at least May 1st with wind farms in the country forecast to produce just over 5 GW on average until then, compared to more than 7 GW during the opening half of April and nearly 8 GW last month

UK DEMAND

UK gas demand around 20% higher than the seasonal average

INCREASES DOWN

Full storage and strong LNG imports keep increases down

Dutch storage company Vopak and grid operator Gasunie will decide whether to install a fourth tank at the Rotterdam LNG terminal – potentially expanding capacity by 4 BCM to 20 BCM – by September. An open season for bids on the additional capacity closed recently although details have not been made public. Since opening in September last year, the Rotterdam facility has supplied about 11 mcm/day to the Dutch grid on average, with volumes increasing to more than 20 mcm/day so far this month, according to Gas Infrastructure Europe.

Average to above average temperatures are currently forecast in the UK until at least the middle of May – according to the EU Copernicus Service – which should reduce heating-related gas demand to a minimum after the cold start to April.

SUMMER

Current forecasts are for above average temperatures going into the summer

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Oct'23 Annual	**chg**	**Apr'24 Annual**	**chg**	**Month-ahead index:**	**chg**	**Day-ahead index:**	**chg**	**TTF 2024:**	**chg**	**Oil (Brent) $/bbl:**	**chg**
143.70	7.87	145.18	10.05	99.63	-6.77	99.00	-4.88	55.85	2.89	85.93	7.61

All changes (chg) are compared to last report

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