Mid May 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

OCTOBER '23 ANNUAL TUMBLES 10%

UK power prices have been moving lower over the last few days – driven by falling demand, rising imports and weakness in the gas market – putting an end to a brief uptick last week and resuming the downwards momentum that has been building since early May.

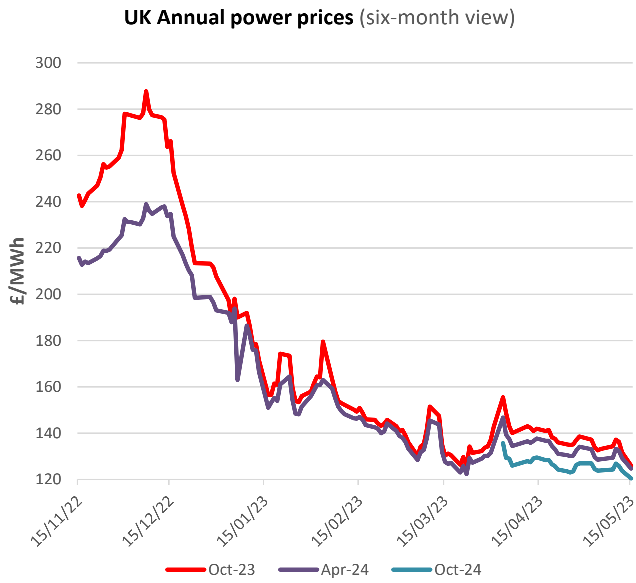
At the time of writing October '23 Annual Baseload was heading towards £125/MWh – a 10% dip since the end of April and a new low for the period (as well as the weakest price for a front annual since December 2021) – falling from a May high of EUR 137/MWh last week. It has been a similar story on the next two annuals, which have shed 7-8% to £123/MWh and £119/MWh, respectively, with both periods eyeing new lows.

As daylight hours have increased UK power demand has slid by 6% compared to April, helping to pressure the Day-ahead index to an average of £88/MWh across the opening half of May, down from more than £100/MWh during the previous two weeks. Losses could have been even greater had it not been for a 25% slump in wind farm output – current forecasts also project weak wind generation through the remainder of the month – as well as a 12% drop in nuclear production as maintenance at several reactors cut supply for refuelling. At the time of writing Day-ahead power had fallen below £83/MWh – a 10% decline through May so far – while June '23, July '23 and August '23 have all moved under £90/MWh for the first time after losing 10-12% these past two weeks.

It has been a similar trajectory on the continent with values on key markets falling at the start of the month, briefly ticking higher and then resuming the downturn late last week and continuing to shed value since. German month-ahead electricity has dropped by 8% across the month to date to less than EUR 90/MWh, while the front year has made more modest losses of 5%. French industrial action in the energy sector has been much quieter this month, helping the front month there to drop more than 10% and move below EUR 89/MWh at the time of writing.

Elsewhere UK carbon has been stable to weaker for the past two weeks. EUAs have been more volatile with news that additional sales of allowances under the REPowerEU plan will not begin until after 2024 driving a EUR 5/TCO2e

Coal prices have been moving down consistently over the fortnight with month-ahead prices for delivery into Europe crumbling 14% to $118/tonne currently, touching lows last seen two years ago. Sluggish demand has been the main factor depleting coal values, while high inventories at key ports – in China as well as Europe – have also contributed to the downside.



ELECTRICITY: OUTLOOK

Industry association Energy UK has warned the upcoming Contracts for Difference (CfD) auction – designed to support the development of more renewable capacity – will fall short of delivering the government's target of reaching 50 GW of offshore wind by 2030. Analysis from the body suggested only 3.2 GW of new offshore wind capacity will be brought forward via the CfD auction, 4.8 GW short of the overall requirement.

Italian utility Enel has warned that hydroelectric availability in Italy this year could be just 2.5 TWh – or 5% of output in an average year – due to a drought. The volume of water held by reservoirs feeding the country's hydro plants is currently 6% below the five-year average – according to ENTSOE data – although there are other hydro assets in the country such as run-of-river generation facilities that will be adversely impacted by the dry weather.

MARKETS

Gas and power markets drop 10 & 16% respectively in the past week

PRICES FALL

Coal, carbon and oil prices also fall

RENEWABLES

Weak renewables generation prevents a sharper drop

Germany has proposed subsidising up to 80% of electricity costs for high-consuming industrial companies in a move to shield energy-intensive businesses from high wholesale costs, although the proposal has been greeted with scepticism from coalition partners and other EU member states.

Ireland has awarded contracts to develop four offshore wind projects with a combined capacity of just over 3 GW, which will be the first commercial scale offshore plants in the country. Successful bidders secured a strike price – a guaranteed return for investors – of EUR 86.05/MWh. Month-ahead Irish Baseload is currently around EUR 122/MWh. The UK has been a net exporter of power to Ireland this year.

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
126.00	-12.63	124.75	-9.38	83.83	-10.42	82.57	-17.60	141.38	-6.57	196.50	-0.50

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
113.50	-24.50	75.45	-4.02	57.15	-4.09	87.15	-0.45	91.23	-0.58	95.23	-0.35

All changes (chg) are compared to last report

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GAS

FRONT ANNUAL SLIPS 16% AFTER BRIEF GAINS

Relatively full gas storage and declining values on other energy commodities – coal, carbon and oil – have helped to pull UK gas prices lower this month, although above average demand (underpinned by strong exports) and disruption to North Sea supplies have prevented an all-out rout. There was a short-lived rally on gas last week, but the market's heart was not it in and those gains have now been erased. October '23 Annual gas had slid 16% to a new low just above 120 p/th (still above where April '23 Annual was valued in late March), while April '24 and October '24 Annuals have shed 10% and 7% respectively.

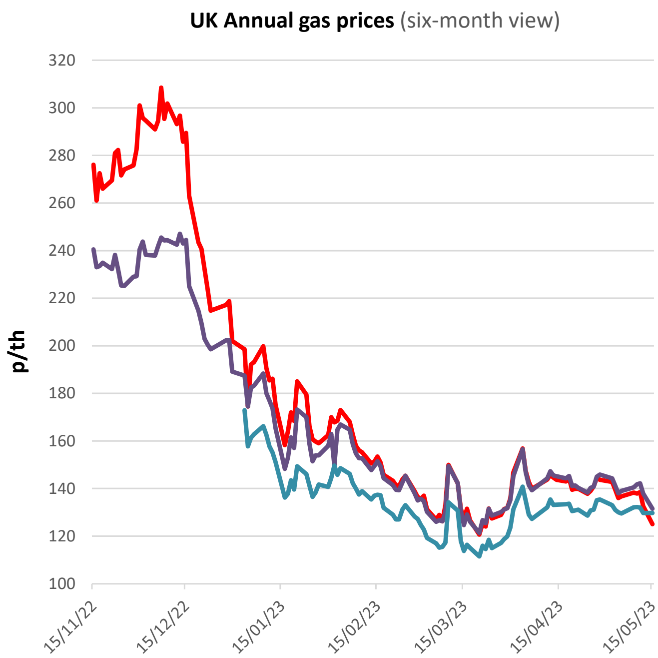
The pace of EU storage injections over the summer so far is lower this year than in 2022 – although sites started Q2 more than twice as full – largely because of heavy Norwegian maintenance in April and May that has restricted exports from Europe's largest pipeline supplier. Since the start of April pipeline flows from Norway to countries excluding the UK have been around 27% lower than during the same period last year. The schedule from Gassco – which manages Norwegian North Sea infrastructure – shows curtailments will be substantial until mid-June before maintenance starts to quieten down. No capacity is expected to be offline for the bulk of July and storage injections are likely to rise as a result.

Gas storage on the continent is currently around 63% full – the five-year average at this time of year is 44% – and injection demand through the remaining summer months will be a lot lower than in normal years. This has helped Dutch month-ahead gas to drop below EUR 35/MWh for the first time since July 2021 – the year European energy prices started to rally significantly – with the period shedding 16% over May so far and approaching EUR 32/MWh currently. UK month-ahead gas has fallen 14% and the months out to September are now all under 90 p/th for the first time.

Buoyant gas stocks – as well as rising LNG import capacity as new floating units have come onstream – have also started to help pull some risk from periods covering the colder months of the year. Dutch Winter '23 has slipped below EUR 50/MWh – after sliding 13% through the opening fortnight in May – while Q1 '24 has been changing hands at EUR 52/MWh, an 11% dip since the end of May.

The UK's limited storage capacity – just over 2 BCM including the recent addition of 775 mcm at Centrica's reopened site Rough – has already pushed past 90% fullness, leaving little wiggle room for excess volumes.

Oversupply may not be too much of an issue for the UK in the coming months though, as LNG imports have started to wane with prices on the Japan/Korea marker (JKM) – a key benchmark for Asia – now above the UK (Dutch prices are slightly higher than the JKM for now). So long as the JKM remains more expensive than the UK market the pace of cargoes heading towards UK terminals is likely to diminish as volumes are diverted towards Asian ports.



Weak wind farm generation through the remainder of the month is likely to bolster gas demand from power plants and could lend some support to short-term prices. The current forecast points towards average wind generation of just over 3 GW, according to Elexon, manager of the UK power market's balancing mechanism.

DECREASE

Low demand and strong imports contribute to decrease

STORAGE

Continental storage levels remain above average for the time of year

Natural gas suppliers have been invited to submit bids to deliver volumes as part of the AggregateEU tendering process, which looks to reduce costs by pooling demand requirements across companies and countries. In total 77 companies have submitted requests for 11.6 BCM of gas – with 2.7 BCM via LNG and the remainder for delivery through pipelines – according to the European Commission. Potential suppliers have until today to submit bids.

Italy has received its first LNG cargo at the new Piombino terminal – energy company Eni has announced – carrying volumes from Egypt. The floating storage and regasification unit (FSRU) is the country's fourth LNG import facility. German utility RWE has also reported that commercial operations have started at the Elbehafen FSRU – the country's third – in early May.

LNG

UK LNG imports decline due to limited storage and demand in the east

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
125.00	-18.68	131.50	-14.43	74.32	-15.40	73.21	-15.62	50.90	-5.50	75.45	-4.02

All changes (chg) are compared to last report

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