Early June 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

FRONT ANNUAL DIPS 13% AS SUPPLY RISES

There has been strong downwards movement on UK power prices over the latter half of May and into early June – the front three annuals had been eyeing double digits before ticking higher again today – with an improved supply outlook, downside on related energy commodities (particularly carbon) and falling demand as the summer progresses all helping to pull values lower. At the time of writing October '23 Annual Baseload had been rising strongly to £109/MWh – after hitting new lows for the period of £106/MWh – a decline of 13% since the middle of May.

Indications that French nuclear availability in the coming winter should be higher than during Q4 2022 and Q1 this year has been a big driver for prices covering the colder months. Recent statements from EDF indicated nuclear capacity in France could be 5-10 GW higher this winter, with 35GW available overall by October and 50 GW online by January next year. French Q4 '23 power is currently valued around EUR 159/MWh – cratering almost 30% over the past couple of weeks – while Q1 '24 has dived by a similar percentage to EUR 240/MWh. It is worth noting these prices are still significantly above the German market – Q4 '23 German power is at EUR 117/MWh with Q1 '24 close to EUR 133/MWh – showing that although French nuclear prospects have improved, confidence is far from strong.

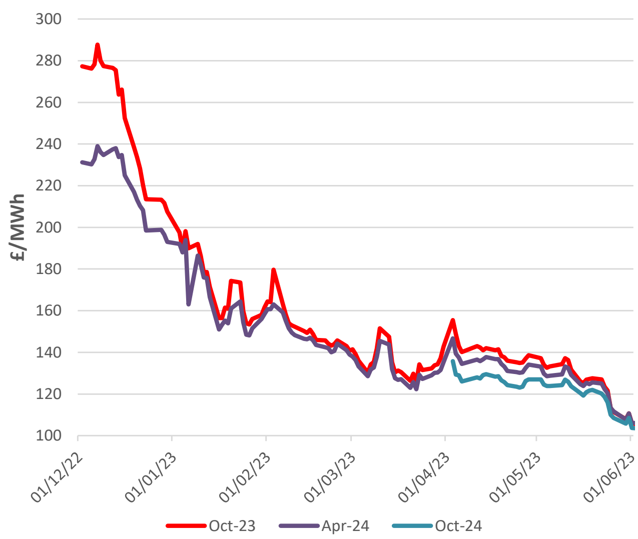
Rising precipitation on mainland Europe – potentially only short term based on current forecasts – has also helped to improve the outlook for power supply prospects after a dry winter led to concerns around hydro availability. ENTSOE data shows that Italian hydro stocks are now above the 2018-22 average – after starting the year about 30% lower – while Norwegian stocks have moved up to 41%, compared to 32% a year earlier. This all points towards a much healthier supply situation going forward – while ever increasing renewable capacity adds to this sentiment – helping to pull UK April '23 and October '24 Annuals down by around 10% to £109/MWh and £106/MWh, respectively, at the time of writing.

Falling prices have also been seen closer in with the Day-ahead Baseload index and front month both dipping under £70/MWh for the first time since May 2021. Both periods are now fractionally above this threshold after the downhill momentum stalled, but Day-ahead is still 17% below mid-May values while July '23 has fallen by a similar proportion. Although UK wind generation remains limited at an average of less than 4 GW these past few weeks, an 8% dip in demand and a 3% increase in imports have helped to pressure the short-term market.

Elsewhere the carbon rout shows no sign of abating with UKAs sliding another 10% to £51/TCO2e currently – UK emissions had briefly dipped below £50/TCO2e for the first time since August 2021 – largely due to expectations of lower allowance needs on the continent (a market UKAs are strongly correlated to) as falling wholesale gas values have reduced profit margins for coal-fired generation.

Front month and front quarter coal prices have at the same time fallen below $100/tonne for the first time since late 2021 on weaker demand expectations.

UK Annual power prices (six-month view)



Above average temperatures and low rainfall are expected through most of continental Europe over the next two months – according to the MetDesk summer outlook – potentially driving up demand from cooling applications while limiting hydroelectric generation. Last summer high river temperatures in France also led to some nuclear power plants needing to reduce activity. Precipitation in the Alpine region is currently expected to rise above the norm from August, according to MetDesk.

DECLINE

The previous months market decline continues

National Grid ESO has announced that 1.6 million households and businesses took part in the electricity Demand Flexibility Service over the winter period. It said that 22 electricity demand reduction events took place, cutting power usage by 3,300 MWh – enough to power nearly 10 million homes – during peak times.

PRICING

Electricity & Gas pricing down 13% & 10% since May 2023

EDF has reduced the expected duration of outages at six 1.3 GW French nuclear reactors by up to 28 days, with four now set to resume operations earlier this winter than originally anticipated. Separately, EDF is reportedly investigating reactor upgrades that could boost capacity across 900 MW and 1.3 GW reactors by 4% – or around 2.5 GW – via the replacement of certain parts. An expected timeline for the upgrades has not been revealed.

DAY-AHEAD

Day-ahead electricity at lowest level since May 2021

Japanese company Marubeni has said it will sign a memorandum of understanding with the UK government including plans to invest around $12 billion into offshore wind projects in Scotland, as well as green hydrogen in Scotland and Wales. The Sumitomo Corporation has also committed to offshore wind in the UK, announcing it intends to invest $4.9 billion into plants off the Suffolk and Norfolk coasts, in addition to building a high voltage cable manufacturing plant in Scotland.

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
105.63	-20.38	106.13	-18.63	70.71	-13.13	69.86	-12.70	118.38	-23.00	152.50	-44.00

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
95.00	-18.50	75.82	0.37	51.10	-6.05	78.85	-8.30	82.85	-8.38	86.75	-8.47

All changes (chg) are compared to last report

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GAS

Q3 FALLS 10% AS EU STORAGE HITS 70%

Unprecedented gas storage levels for the time of year, falling exports to the continent and tentative signs the UK summer may finally be starting have helped to offset disruption to North Sea and LNG supply, pulling wholesale gas values towards lows last seen at the tail end of 2021. EU storage sites are now at 70% of capacity – the UK's own diminished facilities are at 56% – according to Gas Infrastructure Europe, massively above the five-year average of 49% despite heavy Norwegian maintenance through Q2 so far. This raises the likelihood of oversupply in the coming months and Q3 '23 UK gas has slumped 10% since the middle of May to around 72 p/th currently, after moving close to 60 p/th before ticking higher late last week and surging up today. October '23 Annual gas had reached a new low of 105 p/th but has since nudged up to around 110 p/th, shedding about 10% over the past couple of weeks.

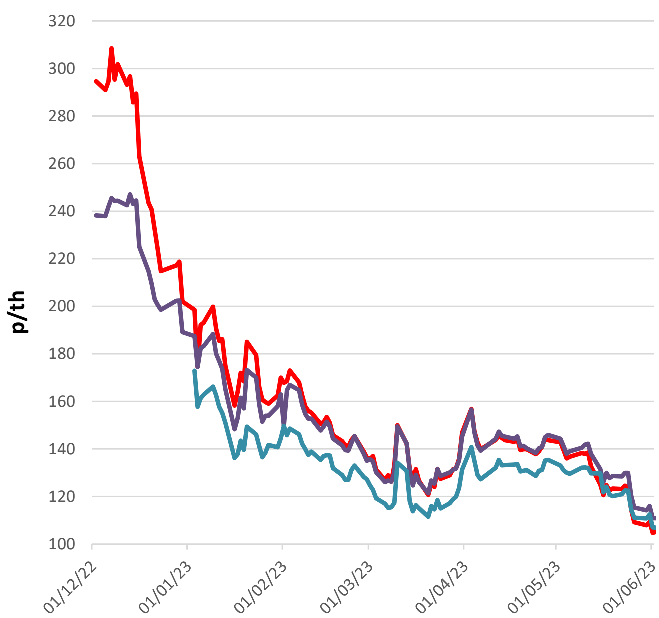
This comes against the backdrop of fairly tight UK fundamentals at the front end of the market. Practically no gas has been coming into the UK from Norway via the Langeled pipeline – the largest connection between the countries – over the past few weeks as summer maintenance in the Norwegian North Sea has ramped up. Langeled has been running at less than 3% of its 70 mcm capacity, while Norwegian flows through other pipelines into the St Fergus entry terminal have also been patchy. LNG supply has also dried up somewhat, with volumes falling about 23% in May compared to the month before. The dearth of LNG into the UK – and to a lesser extent mainland Europe – has been a result of rising prices in Asia making it more attractive to deliver cargoes into markets such as China, Japan and South Korea as European wholesale prices have eased.

Demand has remained persistently high with offtake about 13% higher than the seasonal average over the last couple of weeks – although gas use is set to fall below normal levels in the coming days – driven by weak renewable generation and strong exports. But this has done little to change the sentiment that, the wider European market is well supplied for the summer – particularly with Norwegian maintenance restrictions easing substantially next month – helping Day-ahead gas to tumble more than 20% to below 60 p/th. July '23 has at the same time dropped 11% to just under 66 p/th, after moving below 55 p/th for a couple of days last week.

But there is still an inherent supply risk for the winter given the ongoing situation with Russia, which has led to a huge and growing chasm between near term periods and those covering October onwards. Q4 '23 gas briefly dipped below the 100 p/th mark but is now back up to 104 p/th – a 6% slide over the past couple of weeks – while Q1 '24 has shed about 10% to 120 p/th.

Meanwhile oil values have started to creep higher following the US deal to raise the federal debt ceiling and avert a catastrophic default. Month-ahead North Sea crude is currently around $78/bbl – after dipping below $73/bbl last week – a gain of 1.5% since mid-May.

UK Annual gas prices (six-month view)



UK and European forward gas prices covering the remainder of the summer are now substantially below the Japan-Korea market (JKM) – a key benchmark for LNG into Asia – meaning liquified imports are likely to fall in the coming months. Month-ahead Dutch gas – the main benchmark for the continent – is currently around $1/MMbtu, or 12%, below the same JKM period.

OVERSUPPLY

Risk of gas oversupply over the summer pulls down short term pricing

WINTER

Winter continues to loom over markets and will be an increasing driver over the coming months

A total of 25 gas suppliers have submitted offers to deliver 13.4 BCM through the AggregateEU platform – a system run by the PRISMA capacity booking service that is aimed at reducing the price of gas supply for EU buyers by pooling demand – according to the European Commission. This is more than the 11.6 BCM demanded by the 77 companies bidding for volumes, with 10.9 BCM of sales offers matched to potential buyers so far. Would-be suppliers must specify volumes, prices, and delivery locations for the monthly distribution of gas from June this year until May 2024. PRISMA matches these offers with demand requests, prioritising the lowest prices. The process is non-binding and matched companies must now negotiate bilateral contracts. The prices offered from potential suppliers have not been disclosed.

BP and PetroChina have each booked 2 BCM of annual incremental capacity – capacity that has not been built – at the Dutch Gate terminal for 20 years. Dutch storage company Vopak and grid operator Gasunie are expected to make a final investment decision on expanding Gate by September and – assuming the decision to invest is positive – are aiming for commercial operations by Q3 2026.

CONTRACTS

Boxfish recommends reviewing any contracts due in 2023

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**
105.10	-19.90	110.88	-20.63	55.54	-18.78	56.66	-16.56	43.07	-7.84	75.82	0.37

All changes (chg) are compared to last report

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