Mid June 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

FRONT ANNUAL ROARS 17% HIGHER

Soaring temperatures have heralded the start of summer (in earnest) and catalysed fresh power market instability with several changes in direction over the opening half of June. The overall trajectory has been upwards, after a few false starts, as soaring demand (at one stage National Grid had to call up emergency coal-fired supply to feed energy-hungry cooling applications), low renewable generation and renewed gas supply concerns have been conspiring to lift prices.

At the time of writing prices were recoiling lower after surging on Thursday with October '23 Annual Baseload around £124/MWh, down from the £133/MWh peak reached yesterday but still up 17% since the start of June. End of day high and low prices for the period have fluctuated by £27/MWh – up from less than £20/MWh over the latter half of May – following multiple directional changes. April '24 and October '24 Annuals have meanwhile gained 14% and 9%, respectively, and are in line with values seen in late May.

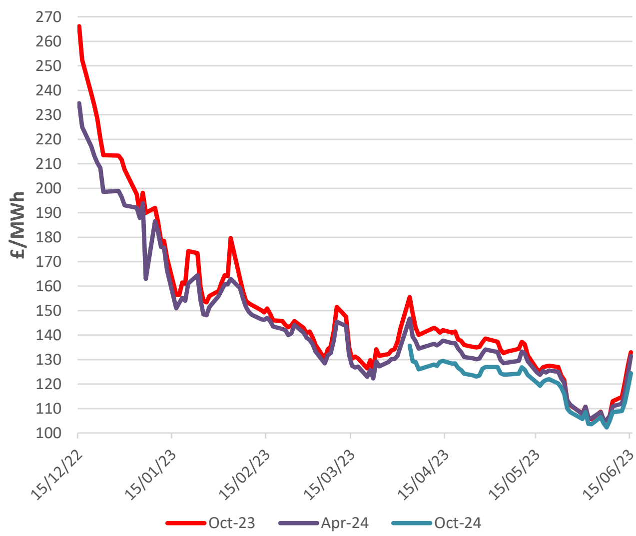
UK wind generation has remained limited, at an average of just over 4 GW – in line with production over the previous two weeks – while imports have withered by more than a third. The drop in supply from the continent has been partially due to an outage on the North Sea Link with Norway but has also been a result of strong demand on mainland Europe reducing volumes available for export to the UK. This has meant gas-fired generation – in a period of rising wholesale gas prices – has been required to step up and fill the gap. Production from the UK gas-fired fleet has risen 10% and the share of gas in power supply has moved above 40%.

An increasing reliance on fossil fuels has pushed strength into the short-term market and helped to propel the Day-ahead index into triple figures for the first time since late April. Day-ahead is currently around the £95/MWh mark, bouncing 37% since the start of the month. It has been a similar trajectory on July '23 (the front month), which has swelled 40% across the last two weeks to just below £97/MWh. UK power months covering Q3 had moved above the £100/MWh threshold for the first time in eight weeks, although only September '23 was above this level at the time of writing.

On the continent year-ahead French power has pushed above EUR 200/MWh for the first time since early May – having ramped up 31% over the past fortnight – as high temperatures fuelled concerns of further strain to the country's nuclear fleet. French nuclear safety watchdog ASN has poured cold water on EDF plans to extend the lifetime of its reactors – suggesting at least nine are unlikely to be suitable to run beyond the mandated 50 years – adding upside impetus.

Elsewhere the coal market has started to heat up – gas strength a major pillar of support here – with month-ahead values for delivery into Europe rising 29% since the start of the month (when prices were at the lowest level since late 2021). Other factors supporting the rally have been indications of rising temperatures and dry weather, which have the potential to affect European coal transportation – particularly on German waterways – while forecasts of muted wind generation on the continent could also prop up coal demand.

UK Annual power prices (six-month view)



Denmark has cancelled 24 offshore wind projects – following indications the tender system was not in line with EU laws – under the country's newly-approved Marine Plan. Green Power Denmark has said these projects could have delivered 12 GW of new wind capacity. A 1.4 GW interconnector between the UK and Denmark – the Viking Link – is expected to be operational by the end of this year after several delays.

MARKETS

Markets spike, returning to levels seen in May 2023

The European Commission will not extend current emergency measures used to protect consumers from spiking wholesale energy prices in the coming winter. A recent report argued that the measures – including demand reduction targets, infra-marginal pricing and retail price caps – contributed to calming energy markets. In contrast National Grid has signalled the UK will retain its emergency responses.

INCREASES

High temperatures and low wind generation drive increases

The capacity of UK offshore wind plants in the development pipeline is nearing 100 GW – according to RenewableUK – with around 1.23 TW of new projects in progress globally. There are just under 14 GW of offshore wind plants in operation in UK waters currently – Elexon data showed – and wind turbines (including onshore) have accounted for about a quarter of power generated in the year to date. The UK government is targeting 50 GW of offshore wind capacity by the end of the decade.

NORTH SEA

Norwegian North Sea field outage further boosts prices

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
133.00	27.38	131.50	25.38	70.71	0.00	115.96	46.09	153.88	35.50	202.50	50.00

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
117.00	22.00	74.27	-1.55	60.88	9.78	92.93	14.08	97.40	14.55	101.40	14.65

All changes (chg) are compared to last report

GAS

JULY '23 SWELLS 60% IN SUPPLY PANIC

Striking volatility has returned to the gas market with double-digit percentage changes on key periods occurring on multiple days over the opening half of June. A clear upward trend had established itself this week as fears over restricted Norwegian supply, competition for LNG with Asia and surging demand from the power sector all helped to drive prices higher. Some commentators suggested the gains had been overblown and that a climbdown was imminent, and they have been proved correct today with gas prices spiralling lower. That said, the gains have not been completely erased and October '23 Annual gas has risen 18% over the past fortnight, at 128 p/th – the period had peaked at 137 p/th – while April '24 and October '24 Annuals have gained 8-9%.

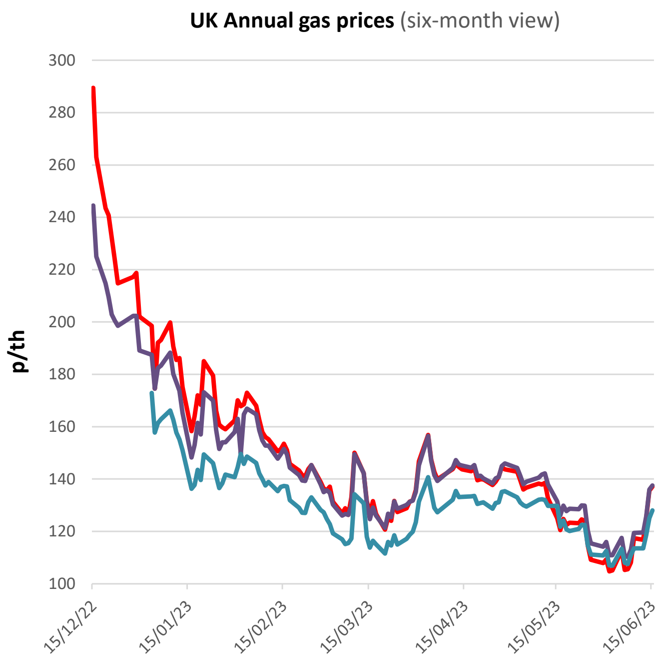
The upside has been most acute at the front end of the market – despite relatively benign storage conditions – with July '23 almost doubling at one point to 100 p/th, although the period has since receded below 87 p/th (still up more than 60% this month). August '23 and September '23 are currently around 87 p/th and 92 p/th, respectively, rising 42% and 34% in two weeks.

Extensions to maintenance in the Norwegian North Sea have been a key driver of the panic. Exports from Norway to the Netherlands, Belgium, Germany and France declined by 9% last month and have dipped another 10% in June. Restricted flows from Europe's largest pipeline supplier should continue until mid-July when the maintenance schedule eases up – according to information from pipeline operator Gassco – before the next round of work kicks in from late August. Tightening supply – as well as high temperatures ratcheting up demand from the power sector – had led the Dutch month-ahead to push above EUR 40/MWh and reach a ten-week high. At the time of writing the Dutch front month was changing hands below EUR 35/MWh – having cratered 16% in a few hours – still more than 50% higher than at the start of June.

EU supply from LNG terminals has ticked up slightly compared to the previous two weeks – an increase unlikely to be sustainable as producers eye more attractive prices in Asia – but not nearly enough to offset the loss of Norwegian flows. This may not be too much of a worry in the short-term as conventional EU gas storage is now 73% full – compared to 43% on average at this point over the last five years – leaving no doubt that stocks will be competently full well ahead of the colder months.

At the front end, UK Day-ahead gas moved above 100 p/th for the first time since early April, driven higher by temperamental imports from Norway, reduced LNG supply and an 8% increase in demand from power generators. It has since dipped to about 85 p/th but remains almost 50% higher than a fortnight ago.

Elsewhere oil continues to be jockeyed between economic optimists and pessimists. At the time of writing North Sea crude was just over $75/bbl, fractionally up on values seen in early June.



There is just one LNG cargo scheduled for delivery at the South Hook terminal over the next seven days as volumes are diverted to higher priced markets. Supply from the UK's three LNG facilities – South Hook, Dragon and Isle of Grain – has dipped to about 15% of overall supply this month, down from 36% in May.

LNG

LNG shipments head to Asia over Europe

STORAGE

Continental gas storage remains strong

The London Energy Brokers' Association (LEBA) has reported a 14% rise in over the counter (OTC) natural gas traded volumes last month compared to the same period last year, led by a 17% increase at the Dutch TTF and a 12% rise at Germany's THE. In contrast brokered UK gas volumes declined by 9%, while trade in UK power jumped 21%.

A 35% windfall tax on UK oil and gas production will be removed if crude prices fall below $71.4/bbl and gas values decline to 54 p/th, bringing the tax rate back to the original 40%. Oil and gas prices will need to be below those levels for two months for the windfall levy to be removed. This could encourage more investment into the sector although Apache – operator of the Forties oil field – has recently said it will cease drilling in the North Sea, specifically citing the tax regime as a barrier to investment.

CORRECTION

Potential for some correction based on market opening WC 19th but too early to tell

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**
137.13	32.03	137.50	26.63	104.04	48.50	107.83	51.18	54.00	10.94	74.27	-1.55

All changes (chg) are compared to last report

weareboxfish.com