Mid July 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

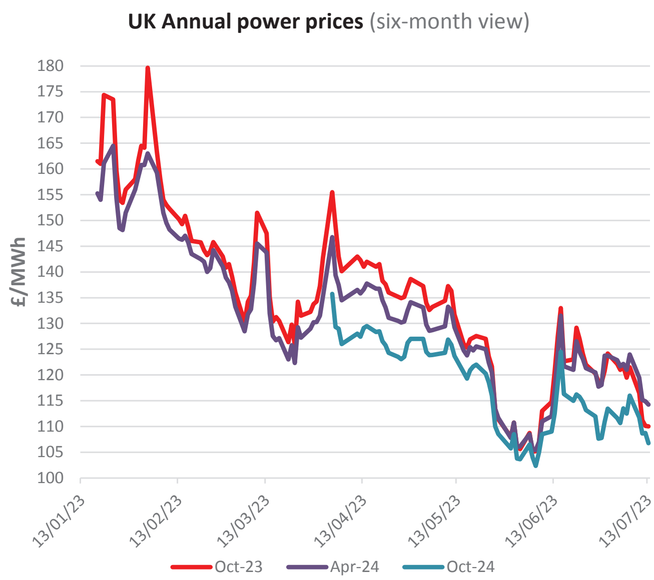
PRICES FALL BUT DOWNTREND STALLS

Power prices have been moving down over the past week – shifting lower after brief upside in early July – although the downtrend may be running out of steam as the market has started to tick higher again. October '23 Annual Baseload had moved up towards £119/MWh at the time of writing – bouncing off lows around £110/MWh – and still a decrease of 3% since the start of July. The trajectory on April '24 and October '24 Annuals has been more pronounced with these periods shedding 8-10% over the fortnight. Strong renewable generation, weakness in the gas market and limited demand have all helped to slash electricity values, although signs of more settled conditions on the horizon and extreme heat on the continent have arrested the downhill momentum.

The UK has been a net exporter of power over five days in July so far as spiking temperatures pushed up continental demand. This marks the first time the UK has been a net exporter over a 24-hour period since February. The days the strongest outflows occurred have been when UK wind output has been particularly strong, pushing short-term prices below linked markets such as France. The UK Day-ahead Baseload index has overall been about EUR 3/MWh above the same French period in the opening half of the month, down from a premium of more than EUR 7/MWh on average in June. Despite the heat, long-term power prices on mainland Europe have generally been trending lower with weakness in wholesale gas and coal values the main driver here. German front year Baseload is currently trading around EUR 136/MWh – down from EUR 140/MWh a fortnight ago – with the rapid deployment of renewables in the country (as well as LNG import infrastructure) helping to pressure values within Europe's largest demand centre.

The extreme temperatures have not been mirrored in the UK with demand this month in line with levels seen over the final two weeks in June. On the generation side, UK wind output has surged 60% to an average of nearly 7 GW, although current forecasts point towards calmer conditions over the next two weeks. This has led the Day-ahead index to fall by almost 11% compared to the previous two weeks. At the time of writing next day power had been trading around £79/MWh, down from just over £90/MWh at the start of the month. Biomass-based generation has also increased by more than 50% following the easing of maintenance restrictions at the Drax plant, which has accounted for about 5% of UK power supply over the past couple of weeks. Month-ahead UK power meanwhile has fallen to £77/MWh – up slightly from lows of £73/MWh – a dip of 15% over the past couple of weeks.

Elsewhere coal values have been coming down – despite reports of surging Chinese demand amid a heatwave – mainly due to falling prices on the gas side forcing sellers to lower their offers to compete. Month-ahead coal for European delivery is currently around $105/tonne, down 5% since end-June. UK carbon dipped from around £58/TCO2e to £50/TCO2e in early July and has remained around this level since then.



ELECTRICITY: OUTLOOK

Above average temperatures are currently projected to continue across most of southern Europe until at least mid-August, which should support demand and could potentially inhibit activity at some generation facilities. EDF has warned of a potential production turndown at the 2.6 GW St Alban nuclear reactor from this weekend due to high temperatures on the Rhone river restricting plant cooling capabilities.

POWER

UK net exporter of power due to continental cooling demand

Danish energy company Orsted has received approval to develop the 2.6 GW Hornsea 4 offshore wind project in the UK North Sea. Once operational, this will be the UK's second largest offshore wind farm behind the 2.85 GW capacity Hornsea 3, which is expected to start producing from 2025. The 1.22 GW Hornsea 1 plant came online in 2022, while the 1.38 GW Hornsea 2 has been delivering power since the middle of last year.

MARKETS

Markets drop after brief uptick and volatility in July

The Drax Group – operator of the UK's largest biomass facility with a 2.6 GW capacity – may lose access to financial support through the Contracts-for-Difference (CfD) and Renewable Obligation schemes following an investigation into the sustainability of its feedstock. The Drax plant is fired by renewable-classed wood pellets produced in Canada that environmentalists have said are derived from ancient forests, rather than from forestry waste as reported by Drax. UK energy regulator Ofgem is currently investigating whether the company has breached licences over renewable reporting. This year UK biomass plants have produced just under 5% of the country's electricity, the vast majority of which would have come from Drax as this is the only utility-scale bioenergy plant in the UK.

LNG

LNG shipments continue to go to Asian markets due to high demand.

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
110.00	-14.15	114.25	-9.50	73.91	-17.79	72.65	7.54	131.35	-12.78	165.50	-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
101.20	-21.30	80.42	5.55	50.25	-3.75	85.89	-3.71	90.32	-3.28	94.40	-3.50

All changes (chg) are compared to last report

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GAS

FRONT ANNUAL DIPS AFTER UPWARD FLASHES

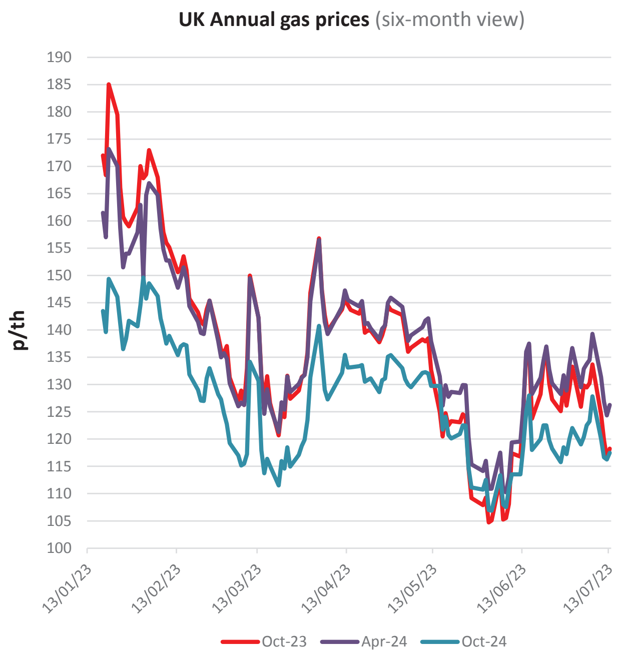
It has been a mixed picture for UK gas during the opening half of July with several mini-rallies taking place and then fading as concern over winter supply – particularly now high Asian prices are pulling LNG east – has never been far from view, while weak demand and strong storage volumes have acted as a counterweight. October '23 Annual gas has edged up towards 121 p/th currently – bouncing off lows of 116 p/th but substantially below peaks around 134 p/th – a dip of 4% since the start of the month (and 9% lower than at the end of June). At the time of writing April '24 and October '24 Annuals had moved up fractionally compared to early July – to 130 p/th and 121 p/th respectively – although both remain below end-of-June values.

Relatively full storage continues as the main downward driver on the forward market with EU facilities now more than 80% full – compared to 64% on average at this point over the last five years – with analysts suggesting 90% could be reached by the end of August. Restarting operations at the UK's Rough facility has added about 800 mcm of storage capacity, diminished compared to the 3 bcm or so available before 2017 but still a handy buffer. UK storage is currently around 60% full, although stocks are likely to build rapidly next month as August '23 has been trading at 63 p/th – crumbling 25% in two weeks – which is 5 p/th below September '23. This is partly a reflection of August being the lowest demand month but is also related to a quiet Norwegian North Sea maintenance schedule.

During July an unusual dynamic has developed on the front two seasons – not just in the UK but across continental markets too – where prices covering the coming winter have moved below Summer '24. Reports of a tighter global LNG market in 2024 have played into this, with one report suggesting LNG supply will be around 72 TWh short over the second half of 2023 but that the deficit could increase to 175 TWh next year. The other factor is a potential further tightening of Russian volumes if remaining pipeline exports are squeezed further, or there is a reduction in LNG exports from Russia. At the time of writing UK Winter '24 gas was 1 p/th below Summer '24, although as these periods move closer to delivery the relationship could shift back to normal.

Gas demand remains weak with offtake from the network about 17% below the seasonal average over the past couple of weeks – similar to the latter half of June – as the high level of exports seen earlier in the summer (that had been lifting demand above normal) has tailed off. LNG supply has taken another hit with volumes delivered into the grid less than half quantities seen during the second half of June. Norwegian imports also remain patchy due to maintenance constraints, although this has mattered little given the low demand. UK Day-ahead gas had come all the way down to 65 p/th – after starting July above 90 p/th – although the period has edged up slightly to 67 p/th currently.

Meanwhile US dollar weakness has helped to lift oil prices with month-ahead North Sea crude currently just above $81/bbl, a gain of 8% during July so far.



A parliamentary decision on whether development of the Rosebank field – the UK's largest undeveloped oil and gas North Sea asset – can proceed may be delayed until August due to concerns over the electrification of the associated infrastructure and net zero compatibility. A decision on the field – in which Norway's Equinor has an 80% stake – had been expected before July 20th. If sanctioned Rosebank could produce up to 500 million barrels of oil and gas equivalent over its lifetime, potentially starting in 2027.

PRICES

Short term prices will be heavily driven by weather over the coming month.

Centrica has signed a deal to import 14 LNG cargoes into the UK annually over 15 years from the Delfin Deepwater Port – a planned floating export facility off the Louisiana coast in the US – which could be operational in 2026.

Officials on the German island of Rugen are set to launch legal action to prevent the construction of two floating LNG terminals in the Baltic Sea, citing the impact on tourism and the environment in the area. Both German houses of parliament have backed an accelerated timeline for the facilities – with an application process that normally takes around six years reduced to weeks or months.

GAS STORAGE

Gas storage remains mostly full, countering high LNG prices

The EU parliament has approved rules to reduce energy demand by 11.7% by the end of the decade through the European Green Deal. The new rules now must be endorsed by the Council of Ministers before coming into force. Gas demand in Germany – the largest consumer of the fuel in Europe – has reportedly been around 17% below the five-year average this year, with a mild Q1 and industrial slowdown the main factors pushing down gas use.

NORTH SEA

UK delays decision on new North Sea gas field

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**
118.256	-15.016	126.04	-10.48	64.88	-23.28	63.50	-26.45	48.00	-4.60	80.42	5.55

All changes (chg) are compared to last report

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