Early July 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

RALLY FAILS TO OFFSET RECENT JUNE LOSSES

UK power prices have been ticking higher over the last few days – putting a stop to a downward slide that took hold over the second half of June – although most periods are now below values seen a fortnight ago as gas supply concerns have eased, renewable generation has picked up and temperature spikes have become less extreme. October '23 Annual Baseload is currently around £127/MWh – having slid 4.5% since mid-June – while April '24 and October '24 Annuals have moved 11-15% lower as supply risk on these periods is seen as far less acute than on the front Annual.

July '23 expired at £90/MWh, rising 30% overall during June following a buoyant market in the early part of the month, but down from a peak of £111/MWh reached two weeks earlier. At the time of writing the new front month contract – August '23 – had been trading around the £96/MWh mark, an 8% slide over the past two weeks.

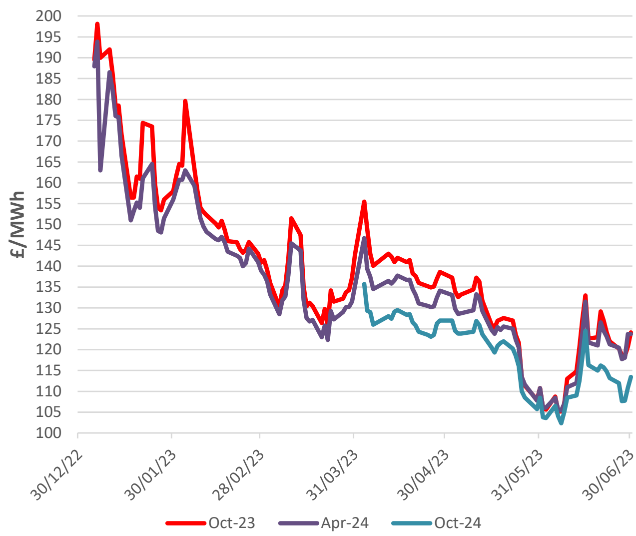
In final week of June and into the start of July UK wind generation averaged nearly 7 GW – almost double output seen during the first three weeks in June – helping to pull the Day-ahead index all the way down to £65/MWh at the end of last week, a 37% dip. At the time of writing Day-ahead power had leapt back up to £95/MWh as the renewable output outlook worsened and EDF extended outages at a couple of nuclear reactors.

On the continent German wind generation shrunk by 16% over the latter half of June, forcing a ramp up in fossil fuel-based production. While German gas plant production has seen a slight rise, coal-fired output has leapt more than 50% to help offset low renewables. While this has triggered the occasional rise on short-term prices at the German market, rapidly expanding renewable capacity – the country has installed nearly 5 GW of solar and more than 2 GW of onshore wind this year already – new LNG deals and high levels of gas storage have meant the trajectory of most power periods in the country has been downwards. German front year Baseload – a major benchmark for mainland Europe – has shed 10% over the past couple of weeks, to move below EUR 140/MWh.

Meanwhile EUA prices have made some sturdy rallies with values pushing above EUR 90/TCO2e on several occasions, having fallen below EUR 80/TCO2e at the start of June. Signs of even more ambitious renewable goals in Brussels and news of a reduction in auction allowances that will be offered to the market this year have helped provide fresh impetus to the upside. A more tepid approach in Westminster has been reflected in the UK market, where prices have moved in a £50-60/TCO2 range these past couple of weeks, some EUR 20/MWh below values seen on the continent.

Elsewhere month-ahead coal – for delivery into northwest Europe – has ticked about 7% higher since mid-June to $123/tonne currently. But indications of abundant supply, slowing demand and weakness in the gas market could lead to downside in the coming weeks, according to some analysts.

UK Annual power prices (six-month view)



French nuclear watchdog ASN has warned that nine nuclear reactors with a total of 9 GW of capacity may not be suitable for lifetime extensions beyond the planned 50 years. EDF has announced plans to extend operations at the country's 56 reactors to 60 years or more. ASN will make a final decision in late 2026, although the safety body has said it is particularly concerned with pipe bends at five facilities. It added that the 3.7 GW Craus plant could be shuttered if a fault line is discovered where the unit is located, following an earthquake that occurred 15 km away in late 2019.

JUNE PRICES

UK energy prices rose slightly over June, with significant daily variations seen due to market volatility

EU ambassadors have agreed to law changes that will require 42.5% of energy consumption in the bloc to come from renewables by 2030 – up from the original target of 32% – after the European Commission said it may exempt certain ammonia plants from renewable fuel targets. Changes to the law had been held up by a group of countries led by France that sought a more favourable position on nuclear generation, particularly as a low carbon input to produce chemicals and hydrogen.

WIND FARM

Commissioning of a new 200 MW offshore wind farm to start this month

Commissioning of the UK's Dogger Bank A offshore wind farm is expected to start later this month with 200 MW set to be online by the end of Q3, according to developers SSE and Equinor. The companies expect 500 MW in operation by the end of the year with the full 1.2 GW available at the end of September 2024. Dogger Bank B and C – both of which will have a 1.2 GW capacity – are also in the pipeline and there is scope for a further 1.8 GW development at the site.

UK WIND

UK wind generation in July forecast to double over June, which should push prices down

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
124.15	-8.85	123.75	-7.75	91.70	21.00	65.11	-50.84	144.13	-9.75	174.00	-28.50
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
122.50	5.50	74.87	0.60	54.00	-6.88	89.60	-3.33	93.60	-3.80	97.90	-3.50

All changes (chg) are compared to last report

Energy Market Insights

Twice Monthly Independent Market Analysis

GAS

OCTOBER '23 ANNUAL EDGES 5% LOWER

UK gas prices have generally ticked down over the past couple of weeks – despite a couple of rallies – with relatively full storage, falling demand and improved renewable generation helping to offset weak LNG imports and North Sea supply issues. October '23 Annual gas had edged under 130 p/th at the time of writing, a 5% dip over the last two weeks (but up from lows close to 100 p/th a month earlier as gains made in the first half of June have not been completely wiped away). July '23 ended last month just over 91 p/th, about 8% lower than a fortnight earlier but up from lows of 54 p/th seen in early June. August '23 – the current front month – had been changing hands just below 90 p/th at the time of writing, a 10% dip across the last couple of weeks.

Signs that Vladimir Putin's hold over Russia could be weakening – following a failed insurrection –has helped to maintain volatility across European gas markets. Prices had been much more changeable even before the instability in Russia with reports of an increase in speculative activity from traders not normally involved in the gas market exacerbating movements, although the swings have mellowed somewhat in recent days.

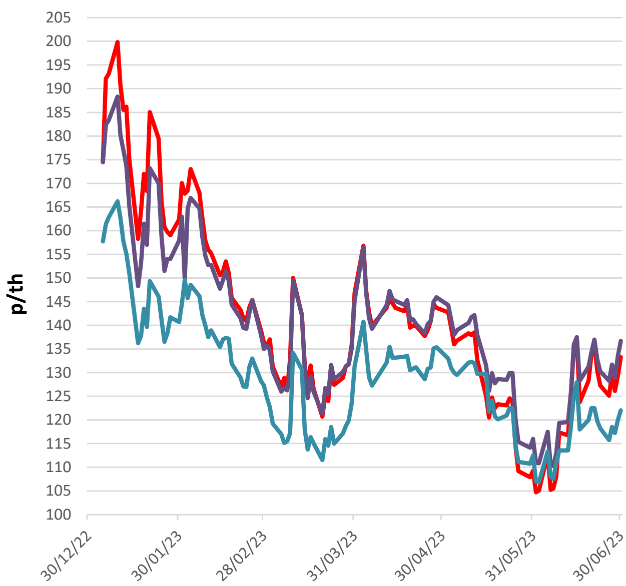
At the front end of the market UK imports have dried up with inflows from Norway collapsing almost 40% compared to May as maintenance in the Norwegian North Sea has intensified. Volumes delivered from the UK LNG terminals have plummeted 78% over the same timeframe. However, demand has been tumbling over the latter half of June and into July, with gas use almost a fifth lower than the seasonal average.

Crumbling gas exports have been the main driver behind the falling demand as UK flows to mainland Europe have dropped by 60% over the last two weeks – month-on-month the drop was 70% – as the gap in short-term gas prices between the UK and Dutch markets (the main benchmark for mainland Europe) has been narrowing. The fall in consumption has helped to offset the dearth of Norwegian and LNG supply, limiting the gains in Day-ahead gas – which was 94 p/th at the time of writing. Although this is 9% lower than prices seen in mid-June it still up from lows of 80 p/th at one stage.

On the continent a new German LNG import deal with a US producer and rapidly filling storage have helped to pull winter prices at the Dutch market back towards EUR 50/MWh. Winter '23 Dutch gas had pushed close to EUR 55/MWh just after mid-June – the highest value since early May – as the market started to fret over declining LNG imports, but this concern has ebbed again as EU gas storage approaches 80% fullness. At the start of July last year stocks on the continent were about 59% full and over the last five years the average on this date has been 62%, according to Gas Infrastructure Europe.

Elsewhere North Sea oil is currently around $76/bbl – little changed from two weeks ago – but could see some gains following news that OPEC will extend production cuts for another month.

UK Annual gas prices (six-month view)



GAS: OUTLOOK

Energy prices could spike again this winter – according to IEA head Fatih Birol – if the Chinese economy strengthens and European temperatures are low. Birol said under this scenario governments will be forced to step in and to subsidise consumer bills, adding that policymakers in Europe must focus on measures to cut energy demand.

LNG

LNG cargoes arriving in the UK are down by three quarters, as Asian demand ramps up

80%

UK GAS USAGE

Warm weather and a focus on efficiency, has seen UK gas usage at around 80% of the historic average

The UK's Isle of Grain terminal has launched a consultation on its plan to offer 9 million tonnes of annual import capacity – or 12.2 bcm – to the market from 2029, after existing agreements end. The capacity will be divided into three lots of 3 million tonnes, with each lot entitled to 42 cargo berthing slots.

The EU could maintain gas supply security in the event of an immediate halt to Russian LNG exports – according to think tank Bruegel – provided demand remains 15% below the five-year average. European imports of Russian LNG are expected to reach 11 bcm over the opening half of the year, little changed from the same period in 2022.

Norwegian gas exports should rise as the month progresses with summer maintenance restrictions on capacity falling to 90 mcm from July 5th – down from 121 mcm currently – with most curtailments set to end from the middle of the month, according to the Gassco schedule. The next round of significant work will kick in over the latter half of August.

NORWAY

Norwegian gas export are expected to rise over July as North sea assets come back on line after summer maintenance

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
133.26	-3.86	136.71	-0.79	88.16	-15.88	89.95	-17.88	52.60	-1.40	74.87	0.60

All changes (chg) are compared to last report

weareboxfish.com