

# Energy Market Insights

Twice Monthly Independent Market Analysis

## ELECTRICITY

### EUROPEAN HEATWAVE PUMPS UP PRICES



UK power prices have been roaring higher during August so far as forecasts of extreme temperature spikes on the continent, fresh threats to global gas supply and concern around spiralling renewable deployment costs have all helped to lift values towards levels last seen in late July, after initially trending lower in early August.

The strength has been most intense at the front end of the market – weather-related risk and potential gas supply issues are mostly concentrated here – with September '23 Baseload rocketing 36% over the month to date, although the current price of £93.5/MWh is down fractionally from a peak of £94/MWh a few days earlier. It has been a similar story on October '23, which has bounced 20% over the last two weeks to just under £100/MWh, whereas percentage changes on longer-dated periods have been more restrained.

UK wind farms have produced around 5.7 GW on average – up fractionally compared to production over the previous fortnight – although wind speeds look set to wane through the latter half of August. Wind and solar have accounted for about a quarter of power production through the month so far – similar to the share in July – while imports from France have increased significantly.

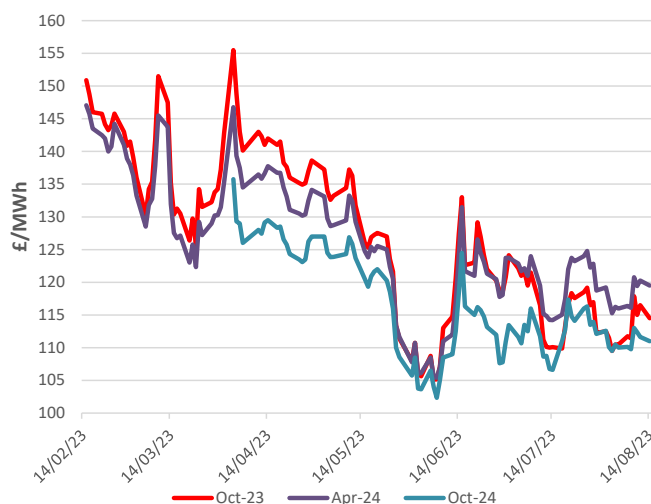
However, the threat of yet more extreme temperatures in southern Europe – potentially stoking demand and jeopardising operations at some plants (EDF has warned restrictions are likely on 4.5 GW of nuclear capacity in the coming days) – has driven strength into the short-term market. UK Day-ahead Baseload is just shy of £90/MWh currently, having dipped to a low of £63/MWh in the early part of the month. Next-day French power has moved above EUR 100/MWh, a leap of 38% over the opening half of August.

On the longer-term market October '23 Annual power has reached £119/MWh – the first time this threshold has been breached since the last week of July – rising nearly 6% over the last two weeks. Farther out, April '24 and October '24 Annual electricity periods have gained 2-3% to £123/MWh and £115/MWh, respectively.


Elsewhere the gulf between UK and EU carbon prices remains vast – after a very strong correlation between the two over the first couple of years following the launch of the UK system – with emissions values on the continent almost twice as high. The gap is largely political as the commitment to net zero is seen as far stronger in Brussels than Westminster, particularly after recent indications that free allowance allocations would rise in the UK from next year.

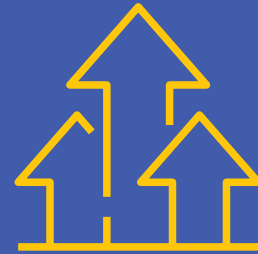
Meanwhile rising gas prices have improved the profitability of coal-fired generation in key markets such as Germany, while coal plants have also been running more frequently in the UK. Improving margins for coal generation – alongside strength in the highly-correlated gas market – have pushed up coal values. Month-ahead coal for delivery into northwest Europe is currently just over \$121/tonne, up 15% in the last two weeks.

UK Annual power prices (six-month view)



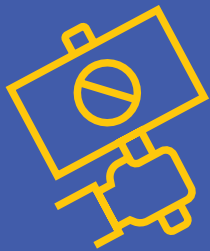
# ELECTRICITY: OUTLOOK

 Supply chain hold ups pushing up the cost of offshore wind and delaying the installation of new capacity could remain in place for a decade, according to the head of German utility RWE. The company's chief executive warned projects could be scrapped and climate goals jeopardised if expenses continue to rise. The head of Danish utility Orsted has separately called for governments to look beyond traditional public tenders to lower the risk of spiralling costs that could lead to project cancellations or to higher prices for consumers than originally envisioned. The CEO cited a recent subsidy-free round in Germany – where BP and TotalEnergies offered to pay EUR 12.6 billion to develop 7 GW of offshore wind – as an example of a tender process that is unlikely to be sustainable.




## RISE


**Gas and Power rise after several weeks of stability**



## AUSTRALIA

**Strike action in Australia causes global concerns over LNG supplies**

 Scientists at the US Livermore National Laboratory claim to have successfully repeated a nuclear fusion test that has delivered more energy than inputted – a landmark first reached by the same team in December last year – adding that energy yield was higher during the most-recent test. Commercial deployment of the technology – if possible at all – is unlikely any time soon.

 The UK government intends to back plans aimed at halving the time it takes for large electricity transmission projects to be delivered from the current average of 14 years, according to reports. A huge pipeline of renewable projects is reportedly being held up by grid connection issues, threatening clean energy goals and net zero targets.



## PRICES

**Weather concerns around temperatures and wind generation also push up 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
114.50	2.00	119.50	0.28	84.75	15.40	86.00	14.05	135.65	0.15	156.75	-5.50

### 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
125.30	6.46	86.42	0.91	40.15	-5.43	87.95	1.19	92.05	0.88	95.63	1.03

All changes (chg) are compared to last report



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## GAS

### LNG STRIKE FEARS FUEL GAS MARKET RALLY



Votes in favour of industrial action from Australian LNG workers, heatwaves on mainland Europe and rising maintenance restrictions have all helped to lift wholesale gas prices during the opening two weeks in August. Around half of Australia's LNG export capacity – accounting for some 10% of global supply – could be impacted by the proposed strikes, which has led to fierce volatility that saw UK and Dutch front month gas prices rising by 28% in a single day.

Values had started to creep downwards until another jolt higher following reports that talks to avert the industrial action had faltered. At the time of writing October '23 Annual gas had pushed above 132 p/th for the first time since late July – having gained 7% across the past couple of weeks – while April '24 and October '24 Annuals have increased by 4-5% since the end of July.

Fundamentally the market looks well-supplied with EU storage now approaching 90% full – compared to 76% a year earlier – suggesting a strong buffer for the coming winter. UK gas demand has been close to the seasonal average throughout August so far – after being 15% above normal over the latter half of July – with exports dropping nearly 18% as storage-related demand on the continent has waned. Despite this, short-term UK gas prices have rocketed higher with concerns over European power supply – due to extremely high temperatures – and falling wind generation helping to lift prices. UK Day-ahead gas is currently just under 88 p/th, down from a peak above 92 p/th when the Australian strike news broke but still up 31% since the end of July.

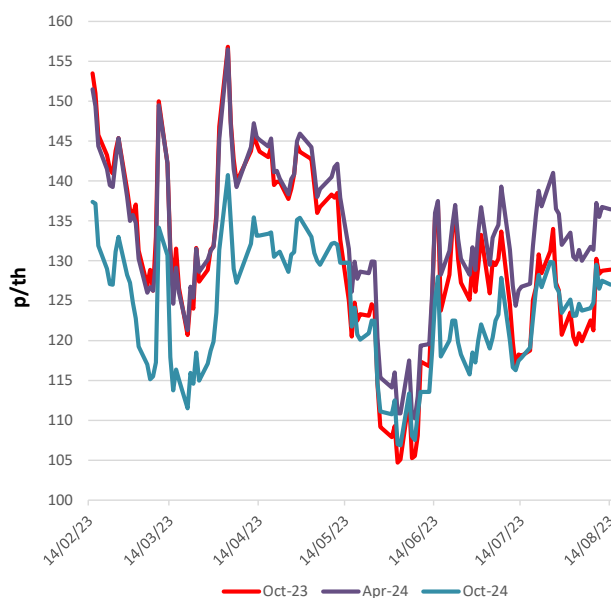
The front few months have also been particularly strong with September '23 soaring 29% to just under 93 p/th currently, although this is down from a peak of nearly 100 p/th reached last week. It has been a similar story for Dutch month-ahead gas, which has rallied more than 40% overall since the end of July to move above EUR 40/MWh. UK and Dutch gas months out to at least December '23 are now at higher prices than the same periods on the Japan-Korea Marker (JKM) – a key benchmark for Asia – suggesting the pace of European LNG imports should ramp up in Q4. Daily gas supply from UK LNG terminals has plummeted almost 85% since the start of July compared to May and June as

cargoes have been diverted towards higher-priced markets such as China and Japan.


UK Winter '23 gas had briefly moved above Summer '24 – restoring the normal relationship between the periods – although this has since reversed. Summer '24 also remains more expensive than the front winter on key continental markets such as the Netherlands and Germany.

Elsewhere oil values have been fairly static the past fortnight – after rebounding over the latter half of July – although expectations that demand could start to outweigh supply later this year may lead to some gains. North Sea crude is currently just over \$85/bbl, which is in line with levels seen at the end of July.

UK Annual gas prices (six-month view)



## GAS: OUTLOOK

 Workers at Woodside LNG – which operates three Australian LNG export plants – have voted to strike and could down tools in the coming weeks if talks with management are unsuccessful. The industrial action would affect deliveries from the North Rankin, Goodwyn and Angel facilities on the country’s west coast. Workers have also voted in favour of strikes at Chevron’s Wheatstone and Gorgon plants.

Dutch gas producer NAM has criticised government plans to resume production at the Groningen field in emergency situations – full closure of the site is expected from October – saying it is not technically possible to restart operations on short notice. The government announced the full shut down of Groningen earlier this year – following years of reduced activity due to earthquakes stemming from the extraction process – but had ordered the wells remain open for another year in case of winter demand spikes.



### WINTER

How harsh or mild Winter 2024 is will be a key driver for prices into next summer




### 2024-25


Prices for delivery in 2024 – 2025 less impacted

### EU STORAGE

EU gas storage is at 90% capacity, providing some downward pressure on markets



 A German environmental group has filed a lawsuit against Lubmin LNG terminal operator Deutsche ReGas – which commissioned the floating storage and regasification Neptune LNG unit in January – arguing the facility causes noise pollution and should not have been exempted from environmental permits. This follows separate legal action launched in July against plans for two floating terminals off the island of Ruegen in northeast Germany that have been fast-tracked by the government.

 Natural gas production has started at a new site linked to the Adorf onshore field in Germany – operated by Neptune Energy – adding just under 500 million cubic metres of annual supply.

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
128.89	5.36	136.45	2.93	87.00	21.12	80.46	15.72	51.80	0.67	86.42	0.91
<b>All changes (chg) are compared to last report</b>											

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