Mid November 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

ANNUALS EDGE UP AS VOLATILITY SAPPED

It has been a relatively calm fortnight for the UK power market with mild weather, strong wind generation and buoyant imports competing with rising demand as daylight hours continue to dwindle and a slight uptick in gas prices. April '24 Annual Baseload electricity is currently around £112/MWh, creeping 2% higher since the end of October and back in line with levels seen during early Q4. Volatility has waned substantially with the difference between high and low closing values on the front Annual less than £7/MWh in November to date, compared to a £17/MWh swing over the latter half of October. The next two Annuals – October '24 and April '25 – are at £107/MWh and £99/MWh, after ticking up by 4% and 7% respectively.

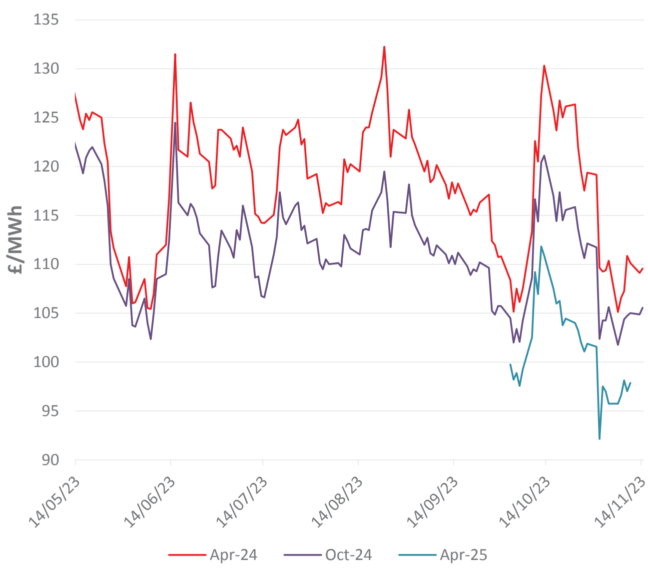
Prices nearer in have conversely dipped. A blustery start to the month, with UK wind generation swelling to an average of more than 9 GW – a boost of 15% compared to the latter half of October, has led the Day-ahead power index to average just over £83/MWh, around 13% below the average over the previous fortnight. Forecasts of continuing windy conditions in the coming weeks have also helped front month power to slide fractionally lower to just under £102/MWh, while Q1 '24 electricity has eased down by 2%, shifting below £116/MWh.

Stormy conditions affecting the French power grid – as well as extensions to maintenance – have meant nuclear generation in the country has declined by around 8% compared to the latter half of October, although output has started to tick upwards over the last few days as network issues have been rectified. But the unsettled weather has been a boon to renewable generation – offsetting the impact of reduced nuclear activity – with French hydro generation roaring 60% higher and wind farms delivering about a third more power than during the previous two weeks. This has allowed French exports to the UK to average 2.5 GW, in line with deliveries over the second half of October. Strong renewable output had been helping French Baseload values to dip, before a small uptick lifted December '23 to EUR 105/MWh – a 2% gain this month – and the Year-ahead by 1.5% to EUR 123/MWh.

French power values – which provided a floor price for the continent back when its massive nuclear fleet was more reliable – remain higher than the likes of Germany, which has added an enormous 10 GW of new solar capacity this year and more than 2 GW of new wind. German electricity prices for delivery next year are currently EUR 119/MWh – up from just under EUR 117/MWh at the start of the month – although the period remains close to two-year lows.

Elsewhere, coal prices have started to come down following strong gains in late October. Month-ahead coal for delivery into northwest Europe is now around $115/tonne, sliding 3% lower since late last month. EU carbon had been heading down towards EUR 75/TCO2e in early November as buying interest slumped, but the fall acted as a catalyst to the upside as industrials stepped in to buy up allowances at discounted prices. EUAs have now moved back towards EUR 80/TCO2e, in line with prices seen two weeks ago. Carbon prices in the UK remain a fraction of values on the continent, despite rising 3% over the last two weeks – to £40/TCO2e at the time of writing.

UK Annual power prices (six-month view)



Planned maintenance has taken 640 MW offline at the Torness nuclear power plant. Full capacity is not expected to be restored until December 10th.

The UK is planning to impose a border carbon tax from 2026 – according to reports – emulating the Carbon Border Adjustment Mechanism (CBAM) that has been introduced by the EU. The goal of CBAM is to prevent companies from circumnavigating EU emissions rules by locating manufacturing outside the trading bloc.

WEATHER

Mild and windy weather forecast for Europe for the rest of November

ENERGY PRICES

Uncertainty remains over potential impact on energy prices & supply from a wider confrontation in the middle east.

OIL PRICES

Oil prices tracking lower due to dollar strength, higher US inventories and lower China demand.

UK energy regulator Ofgem has approved changes to the network connection system giving National Grid the power to introduce strict milestones into agreements and terminate projects that do not reach them. The rule change will come into force on November 27th and terminations could start next year. This moves away from the current first-come, first-served approach that Ofgem says has left almost 400 GW of new capacity languishing in the grid connection queue.

National Grid has offered to connect 19 power storage projects with a combined capacity of 10 GW to the electricity network four years earlier than previously agreed through an initiative aimed at accelerating clean energy deployment. The network operator said it has contacted more than 200 developers keen to fast track their projects, with 16 looking to connect in the next 12 months and another 180 within two to five years. Through the initiative it also expects to add around 10 GW of new renewable generation capacity up to five years earlier than originally envisioned.

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '24	chg	France Cal '24	chg
109.55	-0.08	105.55	3.18	97.27	-1.16	86.29	11.55	117.90	0.28	122.75	-1.63

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
110.48	-8.70	83.50	-4.37	41.89	2.62	78.55	-0.86	82.27	-1.06	85.40	-1.56

All changes (chg) are compared to last report

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GAS

PRICES CREEP HIGHER AFTER TENTATIVE DIP

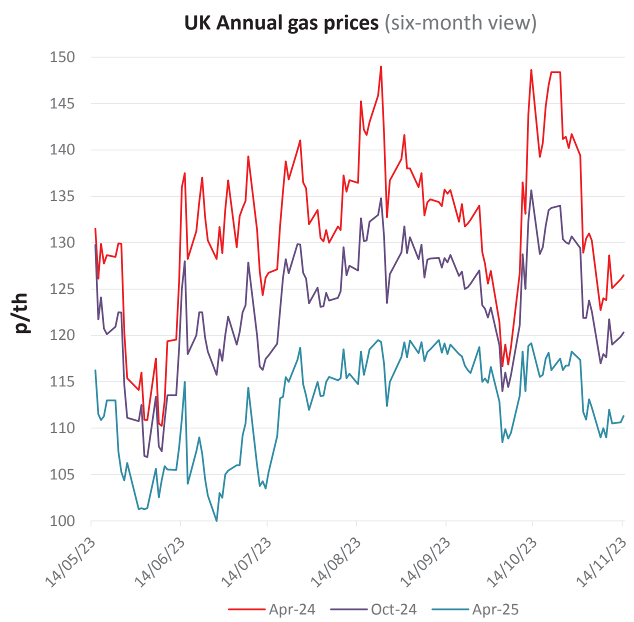
The UK gas market had been meandering lower as warm conditions, strong renewable generation and relatively steady supply helped to pressure periods, before a slight uptick over the last few days as demand picked up and helped push prices just above levels seen at the end of October. The start of the winter season has been characterised by benign fundamentals, but the risk of cold weather, low LNG imports and the background noise of Russia's invasion of Ukraine and Middle East tensions have all conspired to prevent significant downside. April '24 Annual gas is currently at 129 p/th, less than 1% higher than a fortnight ago. As with the power sector, shifts in front Annual gas have been limited, with the lowest closing value being 124 p/th and the highest 131 p/th, compared to a range of 129 p/th and 147 p/th over the final half of the previous month. October '24 and April '25 Annuals have meanwhile risen marginally to 122 p/th and 113 p/th.

Interestingly a lot of risk has been priced into the winter next year with the period now more than 7 p/th higher than Q1 '24, which is partly a reflection of the current storage situation. Lacklustre demand on the continent through the early part of the winter has allowed net injections to continue into EU sites – with aggregate fullness now at more than 99%, compared to just under 90% on average at this point between 2017 and 2022. The current premium on Winter '24 values – relative to near term prices – suggests a lack of confidence sites will be as full at this point next year.

Although some will be breathing a sigh of relief that cold weather has not been felt this month, it is still far too early in the winter cycle for full storage tanks to start draining risk from the highest-demand periods. For instance, Dutch January '24 and Q1 '24 gas are currently hovering around EUR 50/MWh, a couple of euros higher than at the start of November.

In the UK demand has also been limited with just one day during November so far where gas use has aligned with the seasonal average. Gas use has been more than 10% lower than normal for the time of year as mild conditions have limited residential offtake and booming renewable generation has restricted the pull from the power sector. If we remove exports to the continent – which have accounted for about 8% of demand this month – the fundamental picture looks even softer. This has created a wide discrepancy between short-term UK values and periods covering the remainder of the winter. Day-ahead gas had been trading about 25 p/th below December '23 and almost 35 p/th under Q1 '24, although the gap has started to narrow in recent days.

Elsewhere it has been reported that Russia is regularly circumnavigating the $60/bbl cap imposed on seaborne crude oil exports. Average export values from the country last month have been more than $20/bbl above the threshold – imposed by western nations following the invasion of Ukraine – and officials are looking at ways to strengthen enforcement. Month-ahead North Sea oil is currently just under $82/bbl, dipping 2% since the start of the month.



LNG supply into the UK is set to remain limited in the coming months as prices continue to lag markets in Asia, meaning any cargoes with flexibility in their destination will head towards the likes of China and Japan ahead of the UK.

The US Energy Information Association (EIA) has forecast that North Sea oil will average just over $93/bbl next year, a downwards revision of 2% but still 11% higher than expectations for 2023 as global supply tightness pushes prices higher. Month-ahead North Sea oil is currently around $82/bbl.

LNG CARGOES

9 LNG cargoes due into the UK across the rest of November

NORWAY

Export nominations from Norway higher as recent outages at Oseberg and Gulfaks are now mostly resolved.

EUROPEAN STORAGE

European gas storage at close to 100% capacity

Legislation has been introduced in parliament to initiate annual licensing rounds for oil and gas exploration in the UK North Sea, up from every two years currently. The government has argued this will help to shore up energy security and reduce dependence on imported fossil fuels, but critics have said that declining production at mature fields means the overall impact on the supply balance will be negligible.

Norwegian producer Equinor has said it has made a commercially viable gas discovery near the key Gina Krog field and could start production this year using existing infrastructure. Volumes from Gina Krog are processed at the Sleipner platform, which delivers to the UK via the Langeled pipeline – the largest connection between the UK and Norway – as well as to France and Belgium.

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2024:	chg	Oil (Brent) $/bbl:	chg
126.50	-2.43	120.32	-1.55	117.75	1.38	98.38	-7.03	48.87	-0.56	83.50	-4.37

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