Early December 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

FRONT ANNUAL DROPS 10% DESPITE COLD

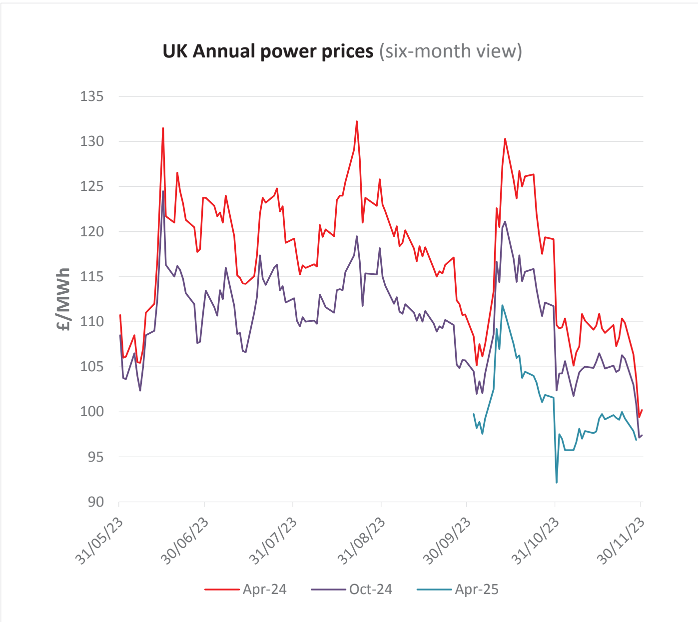
The UK power market has been facing its first real winter test as temperatures and renewable generation have plummeted, but while this has boosted short-term values, long-term electricity prices have been heading downwards after supplies held up with aplomb in the face of surging demand. Front Annual Baseload has fallen into double digits for the first time since August 2021 and is currently fractionally below £100/MWh, a drop of 10% since mid-November. October '24 and April '25 Annuals have meanwhile shed 9% and 6% over the last two weeks – reaching £97/MWh and £93/MWh respectively.

Mostly calm conditions towards the end of November have restrained wind production – while cold weather has bolstered demand – driving fresh volatility into the short-term market. At one stage National Grid enacted demand reduction measures – paying consumers to reduce power consumption – for the first time this winter. The dearth of wind generation pushed next-day power values all the way up to £142/MWh at the end of November – up from a fortnightly low of £78/MWh on the 23rd, when the UK wind fleet delivered more than 15 GW on average – although today it was back down to £107/MWh as renewable forecasts have improved.

The previous front month (December '23) – normally closely correlated with the Day-ahead – briefly rose above £100/MWh during a couple of days when the forecasts turned cold, but the strength rapidly came off with the period ending November at £90/MWh, sliding 8% lower over the last fortnight. The current front month – January '24 – is trading around £101/MWh, which is about £6/MWh below next-day values. This represents a substantial shift in dynamics between short and near-term pricing. During the opening half of November short-term – next-day, next-week etc – power prices had been at a massive discount to the remaining winter months, but this relationship has now been reversed due to expectations the current paucity of renewables and bitter cold will be short-lived.

Elsewhere German front year power – a key benchmark for the continent – has been hovering around lows last seen more than two years ago, driven largely by downside in the gas and carbon markets. At the time of writing it was around EUR 103/MWh, having crumbled 12% over the latter half of November. Germany's installed generation capacity has increased by 4% this year – according to ENTSOE, the European networks association – with most of the addition coming from wind and solar, another factor that will have weighed on 2024 values.

Falling carbon has played into the losses across European power markets with EUAs slipping under EUR 72/TCO2e at the time of writing – down from close to EUR 80/TCO2e a couple of weeks ago – with mounting short trading positions, particularly from investment funds anticipating buying EUAs back at lower levels in the coming weeks, reportedly piling pressure on the market. UK carbon prices have been steadier and briefly rose to £46/TCO2e for the first time in more than a month, but have since come down to £40/TCO2e, which is in line with levels seen two weeks ago.



ELECTRICITY: OUTLOOK

The UK has switched to net power exports over the past couple of days – including to France – due to weak renewable generation on the continent and very low Scandinavian temperatures.

WEATHER

Milder temperatures and strong wind through the rest of December.

The UK Department of Energy Security and Net Zero has raised strike prices for next year's contracts-for-difference (CfDs) auction, with the maximum bid allowed for offshore wind set to increase by 66% to $44/MWh. CfDs top up the price of electricity sold on the wholesale market to reach the strike value, with any revenue above the agreed threshold returned to the state. The maximum allowed strike price will increase by 32% to £157/MWh for geothermal projects, 30% to £61/MWh for solar and 29% to £261/MWh for tidal. Additional support may also be available for the 2025 round if developers can prove they have reduced supply chain emissions. The move comes in response to an auction this year that did not secure any commitments for new offshore wind.

EU member states and the European parliament have reached a provisional agreement on reducing industrial emissions, including from mining and intensive farming. The plan aims to reduce air, soil, and water pollution from companies by revising existing rules on emissions and waste disposal. It will also apply to imported agricultural and mining products via a reciprocity clause. Assuming the rules are ratified the European Commission will review the agreement every five years from 2028.

NUCLEAR

Significant increase in French nuclear output with five reactions coming back online this week.

The CEO of EDF has said the French utility plans to build at least one nuclear reactor in Europe every year during the 2030s.

OIL PRICES

Holding steady despite uncertainty around impact of future OPEC production cuts.

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
100.2	-9.35	97.40	-8.15	92.72	-4.55	141.34	55.05	102.33	-15.58	104.88	-17.88

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
112.88	2.40	82.96	-0.54	40.25	-1.64	70.55	-8.00	73.72	-8.55	76.90	-8.50

All changes (chg) are compared to last report

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GAS

DEMAND SURGE FAILS TO LIFT MARKET

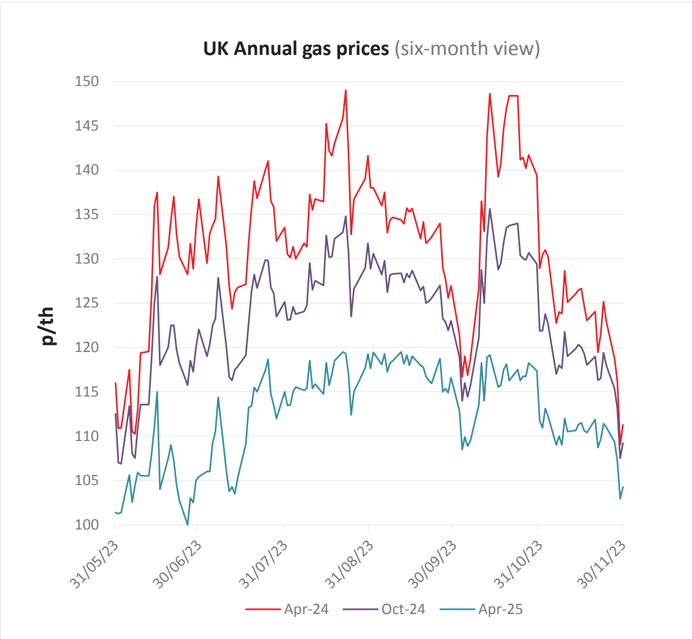
A cold snap enveloping the UK has pushed gas demand significantly above the seasonal average for the first time in Q4, but resilient supplies – as well as signs of milder conditions on the horizon – have helped to pressure long-term wholesale gas values over the past couple of weeks. While the short-term market has spiked – as has been the case on the power side – April '24 Annual gas has now slid to 111 p/th, falling 12% lower over the latter half of November. October '24 and April '25 Annuals have fallen 9% and 6%, respectively.

Gas demand over the second half of November has increased by about 10% compared to the opening half of the month to an average of 256 million cubic metres (mcm). Towards the end of November falling temperatures pushed consumption above 300 mcm and, on some days, offtake has been almost 30% higher than normal for the time of year. In addition to the cold, falling wind speeds have increased the use of gas-fired generation, but despite demand spiralling upwards the values of periods covering the remainder of the winter have been falling as supply has ramped up. Centrica has pulled volumes from the Rough storage site – recommissioned following Russia's invasion of Ukraine – for the first time this winter, while deliveries from LNG terminals have stepped up and imports from Norway have ticked higher.

Norwegian supply into the UK is fairly responsive to wholesale price moves and Day-ahead gas has been firmly in triple digit territory – peaking at 120 p/th – after falling below this threshold in the first half of November. The supply-side response to surging demand has provided confidence in supply margins for the remainder of the winter, pounding near-term values lower as a result. December '23 gas ended November at 104 p/th – shedding 13% since mid-November – and January '23 has tumbled 16% to 107 p/th.

The frigid conditions have been felt throughout the continent and in late November net withdrawals from EU storage sites started to kick in. However, the volume taken from sites was lower than many in the market had expected given the cold forecasts and the relative ease with which Europe coped with the cold snap provided assurance for the remainder of the winter, helping to pull gas prices across EU markets downward too. EU gas storage is currently at just under 97% of capacity – according to Gas Infrastructure Europe – compared to 92% at the same point last year and 84% on average at this point between 2018-22. The EU has doubled down on minimum filling requirements across member states, although this has lost some of its significance given the dent in demand – particularly from the industrial sector – now that Europe has squared up to life without plentiful Russian pipeline supply. Dutch January '24 gas – a key benchmark for the continent – is currently just above EUR 42/MWh, having slumped 13% since mid-November.

Elsewhere North Sea oil is currently just above $80/bbl – down fractionally from two weeks ago – with signals the OPEC+ cartel will continue to constrain output next year having little impact so far.



GAS: OUTLOOK

Below average temperatures are forecast in the UK across the week starting Monday December 4th – according to the EU Copernicus weather service – with early indications suggesting gas demand will remain above the seasonal average. From December 11th until early January average temperatures are currently projected.

CARBON

European and UK Carbon markets see further falls.

EU gas storage must be 45% full by the end of February – and preferably 55% full – under new targets announced by the European Commission. Targets are also in place for individual member states for May, July and September next year.

The European Commission is seeking EU approval to extend emergency measures – including the cap on gas prices at the benchmark Dutch TTF market – for an additional 12 months until February 2025. It also wants to extend the use of the joint gas buying system and default solidarity rules. Neither the gas price cap – activated when the Dutch front month moves above EUR 180/MWh or exceeds a global LNG reference by EUR 35/MWh for three days – nor the solidarity rules have been triggered since being implemented following the Russian invasion of Ukraine.

LNG SHIPMENTS

More LNG shipments into the UK due to weaker Asian energy demand.

Italy's Eni, which operates the Egyptian Damietta LNG plant, has said it will restart exports as early as December given an increase in Israeli gas supply.

EUROPEAN GAS INVENTORIES

around 95% full

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
111.28	-15.23	109.23	-11.10	103.61	-14.13	106.83	8.45	42.53	-6.34	82.96	-0.54

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