Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

DOWNTREND RUNS OUT OF STEAM

It has been a mixed couple of weeks for UK power prices as strong renewable generation, weak demand and falling gas prices have competed with forecasts of gentler winds this month and a resurgent carbon market. At the time of writing April '24 Annual Baseload power had edged below £84/MWh, down from peaks of more than £90/MWh seen in the final week of December but less than 1% lower than levels seen a fortnight ago. October '24 and April '25 Annuals have also shifted by less than 1% – in either direction – to £84/MWh and £83/MWh, respectively.

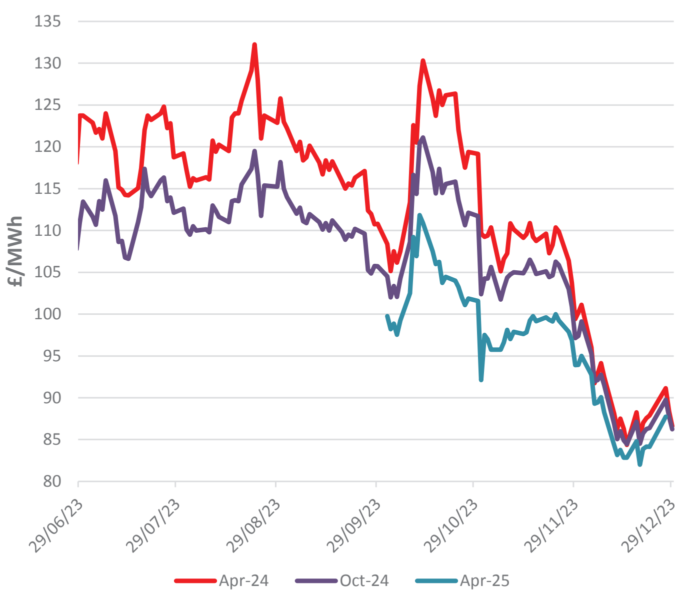
In contrast to the long-term market, short-term values have been dropping fairly consistently as wind farms delivered more than 13 GW on average over the latter half of December – likely a new record over a two-week stretch – while multiple bank holidays over the Christmas and New Year period crushed demand. The UK Day-ahead Baseload index averaged just under £50/MWh in the final fortnight of 2023 – about 45% lower than during the preceding two weeks – but next-day power has now moved back up to £66/MWh as forecasts point towards much lower wind generation this month. The calmer outlook also drove strength into January '24 Baseload late last year with the period ending 2023 just over £85/MWh, about 7% higher than in mid-December. The new front month – February '24 – is currently around £84/MWh, ticking up by 2.5% in the last couple of weeks.

The UK power network reached a new milestone in the final days of December when the 1.4 GW Viking Link to Denmark started commercial operations – becoming the first electricity connection between the two countries and the seventh interconnector between the UK and continental Europe – although only 800 MW of capacity has been made available to the market so far. Net power flows on the Viking Link have been towards the UK since then, which is likely to be the case most of the time given Denmark's large renewable capacity relative to its low population (and limited demand). Overall net UK imports through all interconnectors have increased by more than a fifth compared to the opening half of December as strong wind farm generation in Ireland curbed the need for exports west across the Irish sea.

Elsewhere German power for delivery in 2024 rallied 10% in late December to end the year just over EUR 94/MWh following predictions of falling temperatures and lower wind speeds on the continent, which helped to provide a lift to the key benchmark for EU electricity. Rising emissions values also played into the strength with EUAs gaining 10% as the volume of allowances auctioned to the market declined and the prospect of lower wind output signalled that demand for carbon should start to increase, as fossil-fuelled generation ramps higher to plug the gap. UK carbon prices followed a similar trajectory with UKAs now above £45/TCO2e, the highest level since late November.

Meanwhile, month-ahead coal for delivery into northwest Europe has been sliding towards lows last seen in July as buoyant wind generation subdued demand for the fuel and reports emerged that volumes held in storage along the River Rhine were more than 50% higher than normal for the time of year.

UK Annual power prices (six-month view)



EDF has said that it will extend planned outages at up to five French nuclear reactors by an average of 30 days this year and in 2025 for work related to corrosion repairs. The company added that it is then targeting 335-365 TWh of nuclear output in 2026 – similar to expected production in 2025 – and confirmed it is aiming for 315-345 TWh this year. EDF has also said that it expects the 1.6 GW Flamanville reactor now to come online in the middle of 2024 – 12 years behind schedule – with the facility set to deliver 14 TWh before its first planned outage in 2026.

WEATHER

Forecasts for January predict colder than average temperatures, pushing up gas demand for heating.

National Grid has started to upgrade power lines in southern England – starting the work a year earlier than originally planned – in a move it says will cut network connection times for 175 projects from seven years to just six months.

INCREASED DEMAND FOR OIL & ENERGY

Recent economic stimulus packages in China expected to increase demand for oil and energy products into 2024

The UK is set to add a carbon levy for imported goods from countries that are deemed to have weaker climate rules from 2027, mirroring the EU Carbon Border Adjustment Mechanism (CBAM). Both policies are aimed at ensuring that domestic companies do not face unfair competition by having to adhere to emissions rules in the UK or EU that producers from elsewhere do not have to comply with.

NUCLEAR GENERATION

Additional French nuclear generation available after maintenance shut-downs and repairs were completed successfully over the holidays.

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
86.63	0.33	86.25	1.35	85.25	2.46	38.83	-40.17	96.43	5.80	95.50	5.38

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
97.98	-4.35	77.31	0.42	41.24	7.55	77.71	10.86	86.65	16.92	83.07	10.92

All changes (chg) are compared to last report

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GAS

MARKET SINKS LOWER DESPITE DEMAND LIFT

Mild weather, strong renewable generation and abundant EU storage levels have all helped to pull UK gas values downwards over the final two weeks of 2023 and into the new year. April '24 Annual gas has shed 6.5% to just under 87 p/th currently, with the period eyeing new lows. The front Annual briefly spiked up to 97 p/th after it was reported that LNG cargoes were being diverted from the Red Sea following attacks on some cargo ships – carried out by the Houthi movement based in Yemen – although the gains came off fairly quickly after an initial panic. October '24 and April '25 Annuals have slid 4-5% to 89 p/th ad 87 p/th currently.

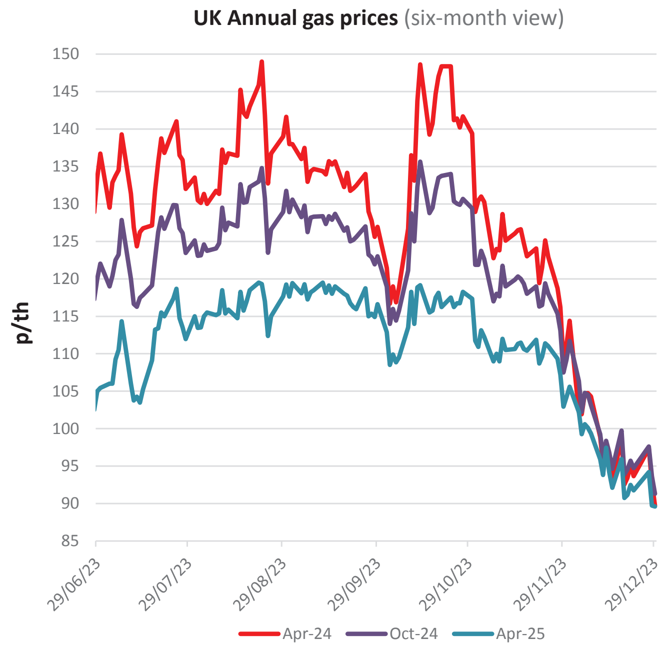
At the end of 2023 Q1 '24 gas ceased trading at 80 p/th having lost 25% during December. The prime driver of this was storage, with EU sites at about 87% of capacity – compared to 83% a year earlier and 74% on average at this point during the previous five-years – providing assurance on the supply side for the remainder of the winter. The new front quarter – Q2 '24 – is about 8% lower than values seen a fortnight ago, at 78 p/th.

A cold start to December gave way to mild conditions through the second half of the month and gas demand dropped back below normal levels. Gas use has been 8% lower than the seasonal average over the past couple of weeks and would have been even lower had it not been for a continuation of exports to the continent due to stronger prices in markets on mainland Europe. UK gas for delivery in January ended 2023 just below 80 p/th, collapsing by a third over final month of last year. This equates to EUR 31/MWh – more than EUR 1/MWh lower than the same period in the Netherlands – suggesting UK exports are likely to continue this month.

The new front month – February '24 – is currently around 78 p/th, about 5% lower than a fortnight ago. Interestingly UK gas months out to June '24 have converged and are trading practically flat to each other in a sign that there is little remaining risk for Q1, but that the market is more nervous about supply levels for the summer. Normally the months covering Q2 and Q3 would be at a substantial discount to those of Q1 because demand is so much lower over the summer months. The same is true on the continent with Dutch months out to August '24 all dealing just below EUR 31/MWh at the time of writing.

Elsewhere North Sea oil has been given a lift by the tensions in the Red Sea and is currently around $79/bbl – about 2.5% up from mid-December values – although weak economic conditions continue to act as a counterweight to crude prices.

Further afield a massive earthquake in Japan served as a reminder of the Fukushima disaster almost 13 years ago, which led to surging gas prices in the country that diverted LNG supply from the Middle East away from Europe for years. Regulators in Japan have not reported any damage to the country's nuclear fleet so far and LNG prices for delivery into Asia had not responded to the news at the time of writing.



GAS: OUTLOOK

Below average temperatures have been forecast throughout most of Europe for the week starting January 8th – according to Copernicus – signalling gas demand should inch upwards.

Tensions continue to mount in the Red Sea with Iran reportedly deploying a war ship to the area after Houthi rebels – based in Yemen – have been targeting cargo ships en route to Israel. Energy majors including BP and Equinor have already diverted oil tankers away from the Suez Canal, which is also a major shipping channel for LNG tankers.

OIL PRICE RISES

Oil prices rise after Iran sends warship to the Red Sea

Shell has resumed operations at the Australian Prelude LNG export plant in time for the peak northern hemisphere demand period of Q1, after maintenance forced the closure of the site in August. This should increase the volume of cargoes bound for markets in Asia and free up volumes for delivery into Europe from producers closer to the Atlantic.

GAS STORAGE

Gas storage levels across Europe remains above 90%

German supplier SEFE – formally a subsidiary of Russia's Gazprom that is now owned by the German state – has signed a long-term gas supply deal with Norwegian producer Equinor. The agreement is for 10 billion cubic metres (bcm) per year from January 2024 until 2034, with an option for an additional 29 bcm over another five years. This equates to around a third of German industrial gas demand.

PRICE CAP INCREASE

The UK domestic price cap increase went live on 01 January 2024

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**
89.75	-6.28	91.32	-5.49	81.89	-6.87	79.16	-3.34	34,35	-1.75	77.31	0.42

All changes (chg) are compared to last report

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