Early June 2024

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

PRICES BOUNCE ON GAS CONTAGION

The power market has rallied, retreated and then rallied again, partly as a result of potential supply disruption on the Continent and strength on carbon, but mostly catalysed by wholesale gas where competition with Asia and yet more (potential) Russian supply problems have pumped risk into forward prices. October '24 Annual Baseload has now pushed above £91/MWh – a 15% hike over the last fortnight – and is at levels last seen in early December. April '25 Annual was not far behind at just shy of £90/MWh at the time of writing – up 12% – while October '25 Annual has gained 11% to £83/MWh.

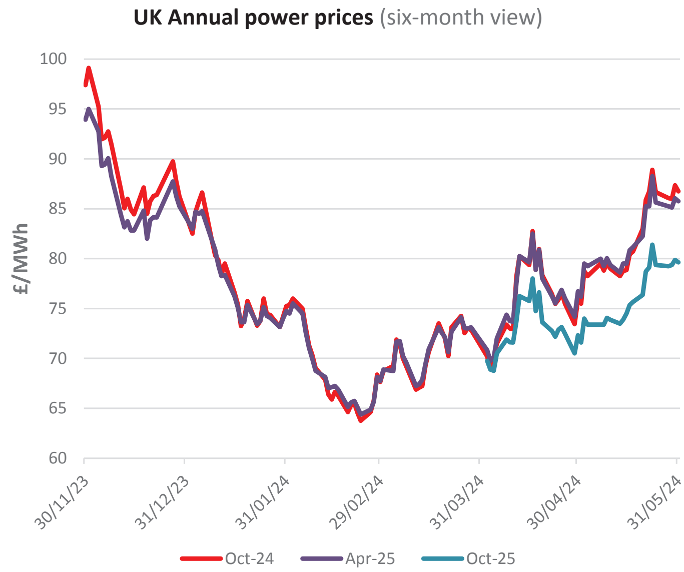
The situation in Ukraine remains fraught with the country in talks with the EU to increase the amount of power it can import. Given Russia continues to target Ukrainian energy infrastructure – and vice versa – the issue looks unlikely to subside any time soon and the coming winter could be a challenge for regional suppliers. Winter '24 has been the one of the strongest periods for UK power in the past two weeks and has leapt 17% – to £97/MWh currently.

At the front-end conditions have been comfortable as wind generation has increased to around 5 GW on average – more than 30% higher than during the previous couple of weeks – while imports have jumped by nearly 40%, with inflows from France particularly strong after full capacity was restored on the IFA cable. In addition, demand has continued to wane as the summer progresses but strength on gas has offset soft electricity fundamentals and June '24 ended May just over £74/MWh, 15% higher than two weeks ago. The new front month – July '24 – had been changing hands at £84/MWh at the time of writing, a rise of nearly a quarter.

Elsewhere the European Commission has announced plans to curb oversupply in the carbon market by reducing the number of allowances offered through Emissions Trading Scheme (ETS) auctions by 267 million from September 1st and transferring these into the market stability reserve (MRS), a mechanism used to reduce surpluses. Benchmark EUAs gained 3% following the news and have edged above EUR 76/TCO2e, almost 10% higher than levels seen two weeks ago. Partly in response, year-ahead German Baseload – a major benchmark for the Continent – has been lifted 9%, to above EUR 100/MWh.

Carbon price moves in the UK – which tend to mirror the EU market – have been even stronger with values now approaching £50/TCO2e, bouncing up by more than 25% since mid-May. Exchange reports indicate that speculative traders have reduced net short positions in the carbon market to a seven-month low, suggesting sentiment on emissions prices is becoming less pessimistic.

Apart from minor supply disruptions in South Africa, coal fundamentals have weakened further with imports of the fuel into northwest Europe stalling on low demand from power generators. despite this coal values for delivery next month are up to the highest level since October last year at $127/tonne, nearly 17% higher than a fortnight ago. As with the power market, gas has been cited as the crucial driver lifting coal.



France could be warmer and drier than average between June and August – according to a forecast from Meteo France – which could lead to cooling issues at nuclear power plants as well as stronger demand. The national forecast company said there is a 50% chance of above average temperatures, a 30% chance conditions will be in line with seasonal norms, and a 20% possibility of below-average temperatures.

CARBON PRICES

Carbon prices continue to increase, up 25% since mid-May

SUPPLY PROBLEMS

Supply problems in Russia have put risk in forward pricing, pushing the baseload above £91/Mwh

Construction on the 1.4 GW NeuConnect – a power cable that will link the UK to Germany – has started, with it expected to become operational in 2028. Germany was a net power importer last year, the first time this has occurred since information on cross-border flows started to be collated in 2006.

UK energy storage company Statera has submitted a planning application for a 500 MW battery project, which – if built – would become the country's largest. Statera said the Oxfordshire-based facility could be operational in 2027. The UK currently has just over 4 GW of installed power storage capacity.

The EU has signed the Net-Zero Industry Act into law – legislation akin to the US Inflation Reduction Act – setting a benchmark that will require at least 40% of net zero technology deployed within the bloc to be manufactured domestically by 2030. It has also established a target for the storage of 50 million tonnes of carbon dioxide annually by the end of the decade.

The UK's Department for Energy Security and Net Zero has announced that Anglesey in North Wales is its preferred site for a large-scale nuclear power plant that would have a similar capacity to Hinkley Point C and Sizewell C – both 3.2 GW – which are currently under development. It said the government will now start talks with energy firms that could build the facility.

WIND GENERATION

Wind generation has increased, more than 30% higher than the previous couple of week.

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
86.75	8.00	85.75	6.25	74.25	9.47	74.44	4.09	98.55	5.18	83.88	1.50

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
128.50	17.83	81.26	-1.23	48.54	11.44	74.12	4.02	77.25	4.24	19.98	-56.35

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GAS

RALLY LIFTS FRONT ANNUAL TO 100 P/TH

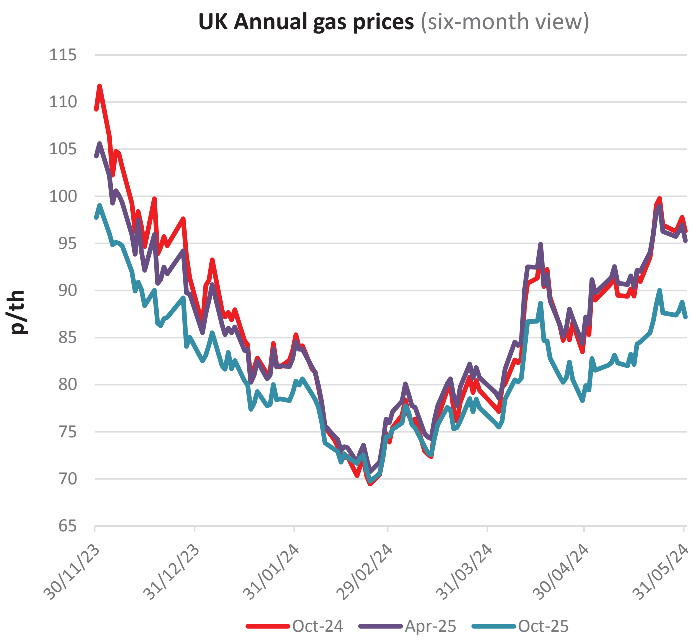
Robust Asian LNG demand, more Russian pipeline worries and outages on the Norwegian continental shelf have boosted gas prices in recent weeks, with key periods reaching new 2024-highs. October '24 Annual gas has moved into triple digits for the first time since November last year and was hovering around the 100 p/th mark at the time of writing. This represents a 13% gain in the past fortnight, while April '25 and October '25 Annuals have both moved 10% higher, to about 98 p/th and 89 p/th respectively.

South Asian LNG imports in May were reportedly 20% above the same month last year as a heatwave has driven up gas demand from the power sector. The Philippines and Vietnam – which only started importing LNG last year – have also purportedly increased purchases in recent months. Forecasts in Japan point to above average temperatures from June to August – although weather predictions beyond a couple of weeks out always come with a heavy caveat – while China has warned of potential power shortages as consumption rises.

Supply from UK LNG terminals into the grid has slumped to less than 10 million cubic metres (mcm) over the last two weeks – down 47% against the opening half of May – while pipeline imports from Norway have slipped 4% lower due to planned summer maintenance and several unexpected outages. This helped June '24 to end May at nearly 83 p/th – spiking 16% – and July '24 is currently even stronger after gaining 23%, to 88 p/th currently. Day-ahead gas has seen a similar rise and is up to nearly 90 p/th, despite continuing soft demand that has been more than 30% below the seasonal average.

Yet another supply-side threat has emerged over Russian pipeline gas deliveries into central Europe after a statement from Austrian energy company OMV warning of a potential cessation in imports from Gazprom Export due to a court decision. The ruling, if enforced, means OMV may have to pay a European company – i.e. not Gazprom Export – for volumes that it receives from Russia. OMV has said that previous legal proceedings involving other parties have led to Gazprom Export halting deliveries to customers entirely. Austria is one of the few countries still receiving pipeline volumes from Russia via Ukraine, although the Ukrainian transit contract is due to expire at the end of this year. It is worth pointing out that given last year Gazprom announced its first loss in 25 years and China is reportedly hard bargaining over terms of a new supply deal – jeopardising the prospect of another Russia-China pipeline project – Russia may be more reluctant than ever to give up a source of revenue.

Elsewhere the OPEC+ group has agreed to extend oil production cuts of 3.66 million barrels per day until the end of next year amid concerns of weak demand growth, elevated interest rates and rising output in the US. The group also extended a voluntary supply reduction of 2.2 million barrels – affecting the activity of eight members – until the end of September this year, although some had expected a larger extension. North Sea oil is now just above $81/bbl, slipping by about 2% since the middle of last month.



The US-based Glenfarne Group has asked the Federal Energy Regulatory Commission (FERC) for a five-year extension to bring an LNG export plant in Texas into service. The company received permission to construct Texas LNG – which is expected to have a 4 million tonne capacity – in 2019 and was given until November this year to build and commission the facility.

Glenfarne said delays to building the plant – which it is now looking to commission in 2029 – have been due to environmental challenges and issues with state permits.

GAS VOLUMES

Gas hits a 2024 high, moving into triple digits since November-23 – Hovering around 100 P/th.

National Grid has announced plans to sell the Isl of Grain LNG terminal – the UK's largest with a 16 million tonne annual import capacity – to fund investment in the gas and power networks.

UK regulator Ofgem will reduce the energy price cap – the maximum consumers can be charged per unit of electricity or gas – by 7% from the start of July.

NORTH SEA OIL

North Sea oil is now just above $81/bbl, slipping by about 2% since the middle of last month.

Norwegian producer Equinor has announced plans to invest around EUR 1 billion into new gas production at the North Sea Troll West field, which the company says will enable the production of some 55 billion cubic metres (bcm) of gas. Peak production from Troll West is expected to be around 9 bcm per year. Troll is Norway's largest gas field – it has the capacity to deliver 129 mcm per day – and meets around 10% of European demand. Additional output from the new wells at Troll West is expected to add 20 mcm of daily capacity.

UK LNG SUPPLY

UK LNG supply into the grid has slumped, more than 47% down compared to the start of May.

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
90.18	3.52	91.55	4.35	72.18	-0.17	70.01	-2.30	35.35	1.45	82.49	-5.20

All changes (chg) are compared to last report

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