

ELECTRICITY

Multi-month highs reached

Prices not seen since last year have been reached on several UK power periods over the last few days, with Day-ahead spiking to a 19-month high and Month-ahead, Season-ahead and Annual-ahead hitting 8-month highs on a cocktail of reasons including the weather (too little in the UK and too much in the hurricane-stricken Gulf of Mexico), reactivated French nuclear concerns, tightening gas supplies and bouts of stronger demand.

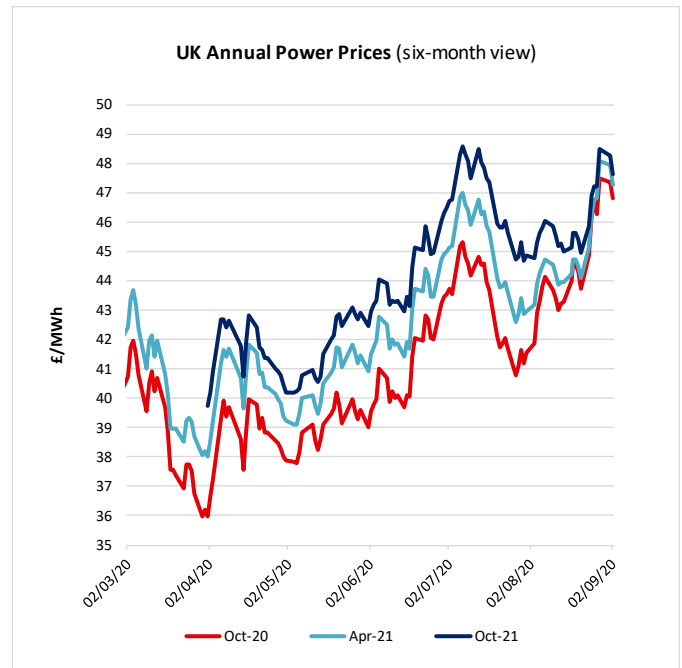
Day-ahead UK power roared to £55/MWh on the 26th August, its highest level since January 2019, as wind and solar output suddenly slumped to negligible levels, demand ratcheted higher and gas prices rallied sharply. This led to several coal-fired units being brought into service again, albeit briefly, to boost supply, as well as an increase in imports. A day later prices were tumbling lower again as a rebound in renewables output helped slacken the supply margin – falling back into the low £40's, where they now remain (still up on the mid to high £30's levels they adopted for much of August). August in fact saw UK renewables output drop to a 9-month low.

Forward UK power prices meanwhile were helped higher by more shuffling of nuclear maintenance programmes in France, with outages at two reactors at the Bugey plant being extended by up to 3 months, until the end of November, to repair corroded welds. While several other outages were shortened, others were also extended, fueling anxiety about the reliability of nuclear output there over the coming months. This drove French Q4 '20 prices up 15% over the last ten days of August, with knock-on bullishness spilling into other European power markets, including the UK.

Rallying gas prices, partly as a result of Hurricane Laura forcing the closure of half of US LNG export capacity and significant oil production infrastructure in the Gulf of Mexico (pushing oil prices to their highest level since March), also contributed, although the end of the storm has since helped deflate global energy prices again.

Month-ahead UK power prices rose to almost £43.5/MWh as a result, with Winter '20 rising to £50.8/MWh and October '20 Annual to £47.5/MWh – all reaching their highest levels since just before Christmas last year (before nudging lower). Other annuals have not been as bullish, meaning the difference between them has squeezed in again – October '21 Annual carrying a premium of just 80p to October '20 Annual, down from £3/MWh a month ago.

EUAs (CO2 emissions allowances that generators factor into costs) and coal prices also rose sharply towards the end of August. 2020 EUAs surged from EUR 25.5/TCO2 to nearly EUR 30/TCO2 again, helped by a wave of speculative buying, although as this disappeared they have since been yanked lower, to EUR 28/TCO2. Year-ahead coal rallied as much as 8%, almost reaching \$58/tonne, as industrial action started at a major Colombian producer, although prices have eased slightly over the last couple of days.



Source: Marex Spectron

Outlook:

↑ Drought-like conditions in France are likely to persist for a few more weeks, according to forecasters, keeping water levels low and continuing to restrict the cooling capabilities and operations of several nuclear stations there.

→ EdF has confirmed it will be closing the Hunterston B nuclear power station in Ayrshire by January 2022, earlier than the March 2023 date that had previously been announced. One reactor at the plant is currently returning onstream after a long-term outage with another scheduled to return in mid-September.

UK energy supplier has been fined £2 million by regulator Ofgem for failing to announce quickly enough that it had signed an agreement with National Grid to keep three units running at its Fiddler's Ferry coal plant in March 2016, after previously saying the units were set to close in April of that year. "It is likely this led to some market participants paying more for wholesale electricity than they should have," Ofgem said. SSE said it acted in good faith by announcing the agreement when it was finalised on March 30th 2016, although Ofgem says the announcement should have been made on March 22nd, when a non-binding version of the agreement was signed.

↓ Economic downturn fears after Covid-related government support schemes end and tax rises are potentially unveiled in the UK and elsewhere could dampen general energy usage over the coming months.

Key Power indicators:				Short-term UK (£/MWh)				European power (£/MWh)			
Long-term UK (£/MWh)				Month-ahead index				Germany Cal '21			
Oct '20 Annual	chg	Apr '21 Annual	chg	Day-ahead index	chg	Germany Cal '21	chg	France Cal '21	chg	France Cal '21	chg
46.83	2.83	47.25	3.00	43.40	6.03	40.00	0.59	41.83	2.43	47.50	2.62
Key Other indicators:				EUA '20 (€/TCO2)				EUA '21 (€/TCO2)			
Coal (\$/MT) '21	chg	Oil (Brent) \$/bbl	chg	EUA '20 (€/TCO2)	chg	EUA '21 (€/TCO2)	chg	EUA '21 (€/TCO2)	chg	EUA '22 (€/TCO2)	chg
56.65	0.90	44.92	-0.25	28.23	1.93	28.58	1.93	29.06	1.90		

All changes (chg) are compared to last report.

GAS

Uptrend continues

The uptrend in UK gas prices, particularly for the next two years, has continued over the last few weeks, with Day-ahead, Month-ahead and the front annual all reaching their highest levels since January. Several factors have reinforced the move higher, including North Sea outages, Hurricane Laura, higher Asian prices and deteriorating EU-Russian relations in the wake of the poisoning of Russian opposition leader Alexei Navalny.

Hurricane Laura forced significant oil production and LNG export capacity in and near the Gulf of Mexico to be shut in, driving oil prices to \$46 – their highest level since March, and also elevating global gas price discussion. Although Laura has now passed, leading to some easing in supply fears in the US, there are still concerns over further disruptions as the hurricane season approaches its peak, with three further tropical storms/hurricanes having already developed in the Atlantic since Laura.

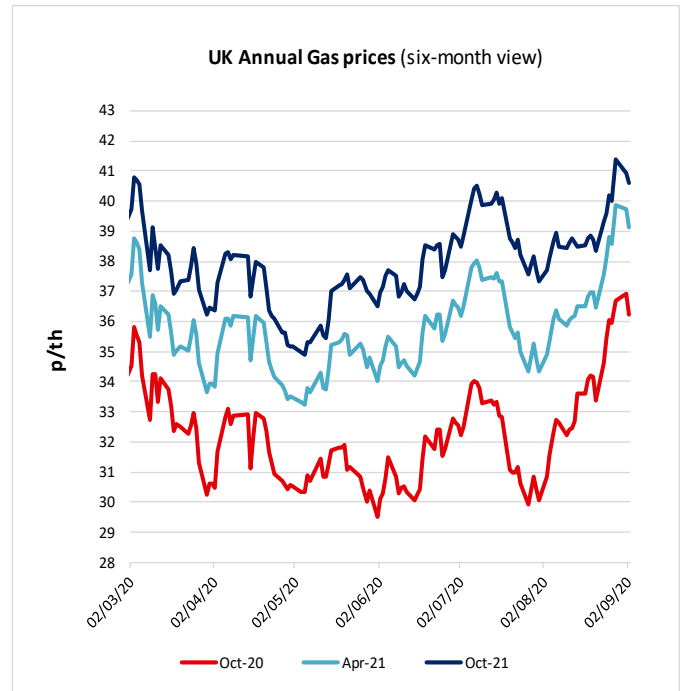
Increased LNG buying into China for the restocking of storage sites ahead of the winter has also shored up Asian LNG discussion, as has the extended shutdown of part of the giant Australian Gorgon LNG production facility – pushing October benchmark prices there up 18% over the last ten days of August.

Alongside a fairly heavy scheduled maintenance programme in the North Sea there have also been a number of unexpected outages – including in the Entry Segal and Bacton Seal pipelines and at the Kollsnes gas processing facility, while Norway's Skarv and Aasta Hansteen fields have returned onstream at a slower than expected rate. This has helped tighten supply from these sources, although plentiful supplies coming from elsewhere and in storage sites (European inventories are now at 92% fullness, above normal levels for this time of year) has offset much of this physical shortfall.

A sharp reduction in exports has helped shore up supplies (although interconnector exports have still accounted for around 10% of UK gas system offtakes), as has an increase in LNG send-outs into the UK grid – running at 0.26 BCM over the last week of August, up from 0.16 BCM/week in mid-August. (UK LNG imports in August as a whole were reportedly up eight-fold on August last year.)

Variable wind levels in the UK and across Europe have also led to sporadic surges in generator buying when renewables output has faltered, also underpinning discussion.

Day-ahead and Month-ahead were trading just under 29 p/th at the time of writing, up 39% and 28% respectively on where they were in mid-August (they have both now rebounded by over 15 p/th since the end of July), while October '20 Annual was valued at 36.3 p/th, up 10%. Progressively smaller gains have again been seen in the seasons and annuals further forward, wiping away more of the premiums that future years have been carrying. October '20 Annual is now valued at 6 p/th below the most expensive talked annual – October '24 Annual – up from a 12.5 p/th discount a month ago.



Source: Marex Spectron

Outlook:

↑ “North-western Europe will see a gradual build-up of high pressure conditions which are expected to bring more settled weather towards mid-September,” says Marex Spectron’s meteorology desk. If wind levels drop this could increase generator gas-burn and shore up prices. “There is a possibility for low pressure areas to track from the Atlantic towards the UK later in the forecast period (10-14 days), although the confidence is still low,” they add.

→ German opposition parties have called for the country to scrap its support of the Nord Stream 2 gas pipeline, which is currently being built between Russia and Germany, following the poisoning of Putin critic Alexei Navalny.

↓ “We see European [LNG] imports having the strongest seasonal winter ramp-up in history,” according to analysts at Bank of America, who cite opening arbitrage opportunities from the US once the European storage withdrawal season starts in October.

Key Gas indicators:											
Long-term UK (p/th)				Short-term UK (p/th)				European gas (€/MWh)			
Oct '20 Annual	chg	Apr '21 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	TTF 2021	chg	Oil (Brent) \$/bbl	chg
35.75	2.64	38.63	2.61	28.37	5.57	27.11	6.36	13.83	0.98	44.92	-0.25
All changes (chg) are compared to last report.											

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