

ELECTRICITY

Forwards dip and rise as DA spikes

UK power annuals are back to where they were being discussed at the start of the month, having all slipped as much as 4% over the first eight days of September. A surge in emissions prices, French nuclear supply concerns, rising forward gas and coal prices and a spike in short-term prices across Europe as a mini-heatwave hit the continent have all helped pull prices higher, although at the time of writing some periods were edging lower.

UK Day-ahead prices for the 15th September spiked above £57/MWh, for the first time since January 2019. As daily wind output dropped to less than 0.8 GW, from 9 GW a couple of days before, and cooling demand surged, intraday UK prices on the 15th briefly reached as high as £1,090/MWh (in Germany they hit EUR 4,000/MWh, while in France, Holland and Belgium they also breached EUR 1,120/MWh — outages at conventional, non-renewable generation plants helping the supply squeeze). UK Day-ahead values then slumped back below £44/MWh, before roaring back up to £53/MWh at the time of writing, on forecasts predicting a last blast of summer weather on Monday.

Further forward, Month-ahead levels have generally nudged higher over the last week, climbing above £43.5/MWh for the first time since last Christmas, while Winter '20 prices have pushed to a nine-and-a-half month high, above £51.5/MWh.

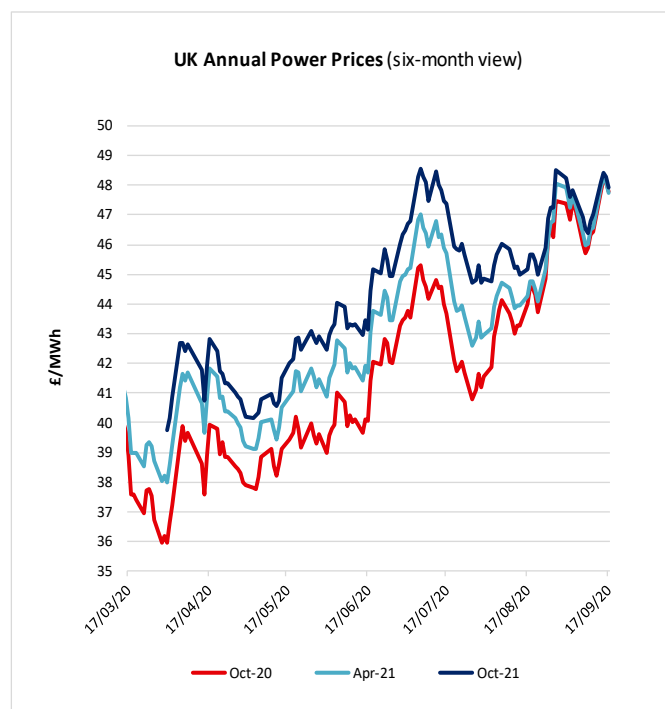
News that EdF is to extend planned outages at all of its reactors between 2021-2023 bolstered forward discussion, although EdF said the changes would not affect the overall output of its nuclear fleet.

EUAs (CO2 emissions allowances that generators factor into costs) meanwhile witnessed a sharp 14% rally in the second week of September, rising above EUR 30/TCO2 to within 50 eurocents of their all-time high, as the EU announced plans to increase the scheduled cut in the bloc's emissions – by 55% from 1990 levels (up from 40% currently) – alongside the inclusion of the shipping industry in the European Emissions Trading Scheme. The buying wave has petered out over the last couple of days though, with 2020 EUAs dropping back to around EUR 28.5/TCO2.

Coal has rebounded too, Year-ahead coal nearly reaching \$58.5/tonne, with industrial action by coal workers in Colombia, higher Russian prices and concerns that a La Niña weather pattern could disrupt global production all contributing.

Another hurricane in the Gulf of Mexico, Sally, has also propped up oil and forward gas prices again by leading to the shut-in of 30% of production capacity there (less than the more powerful Hurricane Laura that swept through at the end of August).

October '20 Annual, having slipped below £46/MWh over the first few weeks of September, is now valued back near £48/MWh, with the differential between other annuals squeezing in towards zero.



Source: Marex Spectron

Outlook:

📈 France could face power shortages in late November/early December if the weather is colder than normal then, according to French network operator RTE, citing potential extended outages at nuclear plant.

The increasing likelihood of a La Niña weather event this winter (reportedly now with a 70-75% probability), could shore up global coal prices as it threatens to bring heavy rain and potential flooding and disruption to key coal-producing countries such as Australia and Colombia.

→ Hitachi has formally withdrawn plans to build two nuclear power stations in the UK – a 2.7 GW plant at Wylfa Newydd in Anglesey and a 2.9 GW plant at Oldbury in Gloucestershire. The plans were put on temporary hold last January.

📌 Global oil demand may never recover to pre-pandemic levels, with consumption potentially falling 70% from last year's levels by 2050 because of an increasingly aggressive decarbonisation drive, according to BP. "The scale and pace of this decline is driven by the increasing efficiency and electrification of road transportation," it says in its World Energy Outlook. It adds however that "the outlook for natural gas is more resilient", underpinned by its role in supporting fast-growing developing economies as they reduce their reliance on coal.

Key Power indicators:																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
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GAS

Rebound falters

UK gas prices have shown some volatility since the start of September. The month began with many periods reaching their highest levels since January, before they eased amid an improved supply outlook, only to climb higher towards the middle of the month — helped by new outages, improved generator buying amid a heatwave, and rallying oil prices. However, at the time of writing they were moving lower again.

October '20 Annual has been meandering between 36.5 p/th and just under 34.5 p/th, hovering around half-way between these two values at the time of writing, while April '21 Annual and October '21 Annual continue to carry premiums of 3 and 4 p/th to it respectively.

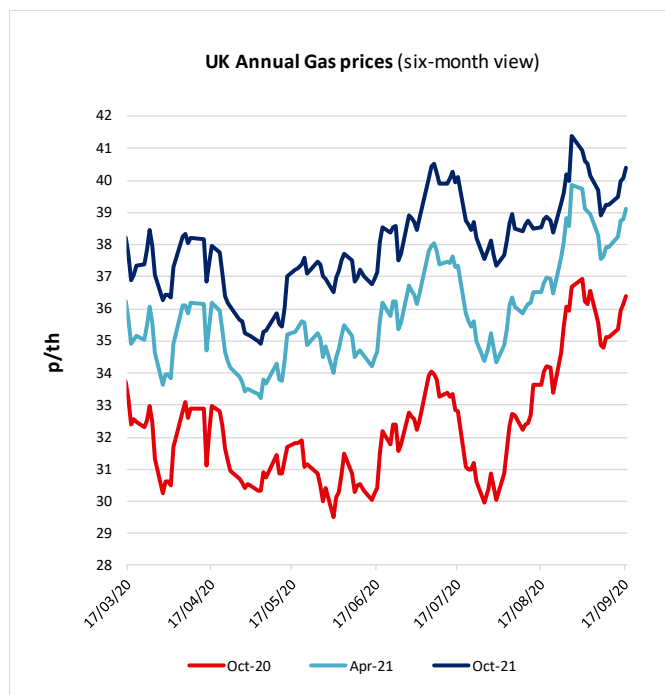
The passing of Hurricane Laura in the US helped remove one supporting factor for global gas and oil price sentiment, although by mid-September another storm, Hurricane Sally, was forcing the further shut-in of gas and oil production facilities in the Gulf of Mexico, providing further (if smaller) bolster. Oil prices came under pressure for most of the first half of September, dropping to a three-month low beneath \$40/barrel by mid-month, as the IEA and OPEC both slashed their global oil demand forecasts for this year amid the current resurgence in Covid cases in many countries, and the US reported a large build in oil stocks. But a subsequent drop in oil inventories, and OPEC urging increased quota compliance (alongside Hurricane Sally), helped trigger a rapid 9% rally in prices as the second half of the month got underway.

A winter outlook from the French power grid operator, suggesting more optimism about nuclear supplies there until November, was cited by some commentators as helping to ease supply concerns and prices for gas over the next two months.

Asian LNG prices have meanwhile dipped and rallied, while changing perceptions over whether the Nord Stream 2 pipeline between Russia and Germany will proceed (in wake of the poisoning of Russian opposition leader Alexei Navalny and Russia's potential interference in Belarus) have also caused sentiment to waver.

While the unscheduled North Sea outages of late August have all been resolved, several new unplanned shutdowns, including at the Sleipner, Oseberg and Kviteseid fields have all helped keep physical supply tight at times, as have bouts of unseasonably warm and windless weather, which have ratcheted up buying from the power sector to satisfy increased cooling demand as renewables supply has dropped (gas-fired power has accounted for up to 60% of daily power production). Ongoing scheduled gas infrastructure outages have also proved supportive, as has some continued replenishment buying for European storage sites, which are now nearly at 94% fullness, in line with last year, according to Gas Storage Europe, the storage operators' association.

As a result Day-ahead UK gas prices have oscillated between just under 27 and 30 p/th and Month-ahead between 28 and 30 p/th.



Source: Marex Spectron

Outlook:

↑ “More summer-like weather will be followed by a much colder pattern during week 39 (next week), with temperatures predicted to fall well below the norm. While winds will also pick up and likely be the strongest in the first half of the week they may ease thereafter, with temperatures potentially remaining below average,” says Marex Spectron's meteorology desk.

→ The number of ships using LNG as a fuel is set to more than double by 2030, according to Malaysian oil and gas company Petronas. However the growth is from a low base, as less than 400 out of a total of more than 80,000 registered ships globally are currently LNG-fuelled, Refinitiv reports.

↓ A new government-forced reduction in Chinese power prices could slash gas import demand there as gas-fired plants become unprofitable to run, according to consultants Woodmac. This could limit LNG shipments to the region, improving global LNG supplies and weighing on prices.

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
35.90	0.15	38.61	-0.03	30.06	1.69	29.78	2.67	13.63	-0.21	43.24	-1.68
All changes (chg) are compared to last report.											

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