

ELECTRICITY

Annals surge 12% – to 2018 levels

UK forward power prices surged over the first half of March – annals gaining up to 12% – with most of the gains seen during the second week of the month, as the signing of the \$1.9 trillion US stimulus package boosted general global economic optimism and energy sentiment, EUA carbon allowance prices rallied to a new record high, Asian LNG prices rebounded and short-term supplies tightened. While there was a general slight downwards correction across energy markets earlier this week prices are starting to edge back up again.

April '21 Annual UK broke above £60/MWh in the run-up – the highest price for a front Annual since December 2018, while October '21 Annual leapt above £58/MWh – gains of almost 12% and 10% respectively since the month-start.

EUAs (CO₂ emission allowances) have hit a fresh record high over the last few days – with 2021 EUAs reaching EUR 43/TCO₂, a 15% gain in value since the start of March, amid intensifying speculative buying, with an EU Commission vote to approve a carbon border tax and a looming April compliance deadline contributing. 2024 EUAs meanwhile broke above EUR 44/TCO₂.

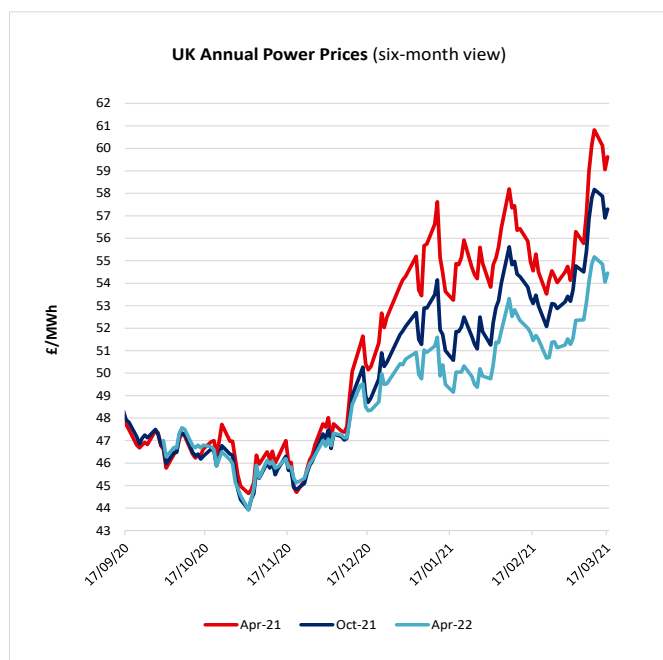
Firmer forward UK gas prices, helped by a rebound in forward Asian LNG prices on the back of strong regional buying for restocking and Russian and Australian supply concerns, also bolstered UK power talk.

Another rally in oil prices – to a 14-month of \$70/barrel, in the wake of OPEC+ nations agreeing to largely continue curbing output and as a major Saudi oil terminal was attacked by Yemeni rebels – added to the bullish cocktail, as did roaring power markets across Europe – with French and German Year-ahead prices similarly rallying to their highest levels since 2018, and pushing above EUR 57/MWh and EUR 56/MWh respectively.

Month-ahead UK power was also caught up in the upswell, April adding nearly £6/MWh as it broke above £57/MWh – before dropping back to £55/MWh and then rebounding again.

Day-ahead UK power, having crashed back from its £106/MWh price spike at the start of the month to below £46/MWh by the 10th of March as wind levels ramped up, also witnessed another sharp rally as mid-March approached – pushing briefly towards £68/MWh as an unscheduled outage in the BritNed interconnector stemmed imports and shutdowns at multiple gas-fired power stations, as well as the Ratcliffe coal-fired plant, squeezed supply. As most of these plants restarted and wind levels improved again price tags fell back to £56/MWh – although they pushed back up to £64/MWh today, helped by a slump in imports from France. On the nuclear side, while the Hunterston 7 reactor has gone offline, the restart of reactors at the Hartlepool and Heysham sites has offset this.

Coal, meanwhile, largely shrugged off the bullishness seen elsewhere – Year-ahead oscillating either side of \$69/tonne, with weakening end-Winter demand and a stronger dollar offsetting ongoing production issues in several countries, although it too was pushing higher at the time of writing, to a two-month high of \$71/tonne, as Asian buying kicked in.



Source: Marex Spectron

Outlook:

↑ The BritNed interconnector is expected to be out of service until at least May 8th for repair work following a cable fault. "Due to the nature of the work being undertaken, there is a chance that we will need to revise this estimated return to service due to adverse weather," its operators said. The cable was in import mode to the UK when it suffered the cable fault on March 9th, just a month after returning from a two-month outage to repair fire damage.

French power workers are planning industrial action on March 25th and April 8th, which could impact French electricity output, boosting import demand there.

→ "High pressure conditions will amplify to the northwest of the UK, over the next few days, leading to weak winds and more settled weather. The forecast for the next week is very uncertain though, with the likelihood of windier and wetter conditions slightly increasing," says Marex Spectron's meteorology desk.

The UK announced in the Budget that it is to hold the carbon tax (Carbon Price Support levy paid by generators on top of EUA prices) at £18/TCO₂ until 2023.

Actual EU ETS emissions fell 12.3% last year, according to a survey of analysts by newswire Montel.

↓ The recent rally in oil prices could spur a sharp increase in shale oil production in the US, limiting the chance of any further price upside, analysts have suggested. "At current prices, most U.S. onshore operators are economic, leaving a vast group of operators in good position to ramp up activity in 2H21 and build solid momentum for higher volumes in 2022," Reuters quotes JP Morgan analysts as saying.

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)				Month-ahead index				Germany Cal '22			
Apr '21 Annual	chg	Oct '21 Annual	chg	Day-ahead index	chg	Day-ahead index	chg	Germany Cal '22	chg	France Cal '22	chg
59.63	4.88	57.30	3.87	55.55	3.95	56.61	-48.72	55.96	3.26	56.54	2.85
Key Other indicators:				EUA '21 (€/TCO ₂)				EUA '22 (€/TCO ₂)			
Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	EUA '21 (€/TCO ₂)	chg	EUA '22 (€/TCO ₂)	chg	EUA '22 (€/TCO ₂)	chg	EUA '23 (€/TCO ₂)	chg
71.00	1.20	67.68	3.92	42.99	4.64	43.35	4.66	43.81	4.67		

All changes (chg) are compared to last report.

GAS

Summer gains most in general surge

After roaring higher in the second week of March – amid a burst of buying across global energy markets helped by the adoption of the US stimulus package – UK gas prices across all periods started peeling lower this week, with the suspension of the Oxford/AstraZeneca vaccine rollout across many EU states being one factor, as it dented economic recovery hopes in Europe. However prices have started to curl higher again over the last couple of days.

April '21 Annual UK gas had broken above 50 p/th on Monday – the highest front Annual price in 18 months, with October '21 Annual breaching 48 p/th. They both then pulled 2 p/th lower soon after...before clawing higher again.

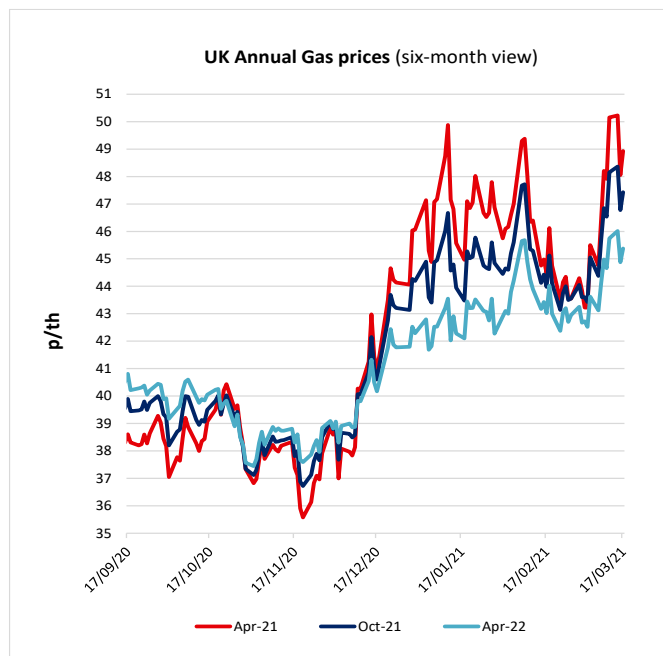
The run-up in prices – which was particularly acute in Month-ahead and Summer levels, both gaining almost 16% in value between March 1st and 15th – was helped by a rebound in forward Asian LNG prices, amid reports of strong Indian and Chinese buying, Russian supply glitches and news of a Q2 maintenance shutdown at an Australian production facility. UK gas annuals climbed as much as 13% and Day-ahead almost 10% over the same time frame.

Oil prices hitting a 14-month high of \$70/barrel) – after OPEC+ production cuts were extended and drone/missile attacks on Saudi oil infrastructure, amid the stimulus optimism – contributed to the bullish mood as did European carbon emissions allowances powering to a record high of EUR 43/TCO2. Oil has since eased on IEA reports that oil demand may not recover to pre-pandemic levels for five years and swelling US inventories, although other markets, including EUAs and LNG, are on the rise again after briefly deflating.

Day-ahead UK gas prices rose from 43.5 p/th to almost 48 p/th over the first half of March, with a cluster of Norwegian production outages, strong generator buying as renewables output and power imports dipped and colder weather spells all contributing. Prices then slumped back to month-start levels this week, amid softening demand, before rising back to 46.5 p/th at the time of writing. LNG arrivals and send-outs into the grid have continued to be strong, with LNG accounting for up to 40% of UK supply at times, which has helped dampen any upside.

Month-ahead (April) UK gas prices were bolstered by a 14% bounce in Q2 Asian LNG prices, rising to a high of 47.5 p/th – in line with where they were in early February, before shunting lower – although the situation is very fluid, as they continue to whip higher and lower.

European storage capacity has fallen to 32% fullness – compared to 56% fullness at this time last year, with absolute gas stock levels at their lowest since May 2018, according to Gas Storage Europe, the storage operators' association.



Source: I-Marex Spectron

Outlook:

↑ If the current unplanned outages at the Skarv field and Kårstø gas processing plant are extended they could limit Norwegian exports, particularly if there are glitches in other infrastructure. Several maintenance shutdowns are also scheduled in the Norwegian offshore next month – which are estimated to affect almost 50 mcm/day of output across the second half of April.

Further gains in EUA carbon prices, which continue to test fresh all-time highs amid strong speculative buying, are likely to keep buoying up UK forward gas prices too.

→ 25% of the UK's gas transmission pipelines could be converted to carry hydrogen instead within a decade, *The Times* reports. National Grid is said to be seriously considering such plans to help create a "hydrogen backbone" as part of the UK's decarbonisation drive. Pipes that are "effectively redundant" would be converted first, potentially starting in 2026.

↓ European LNG demand could drop by 18% from the record levels seen in 2019 by 2024, due to renewables growth and higher carbon costs, according to analysts at Poten & Partners.

Key Gas indicators:									
Long-term UK (p/th)				Short-term UK (p/th)				European gas (€/MWh)	
Apr '21 Annual	chg	Oct '21 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	TTF 2022	Oil (Brent) \$/bbl
48.93	5.08	47.43	3.83	44.35	3.71	43.56	-0.19	17.85	67.68
All changes (chg) are compared to last report.									

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