mid May 2019

ELECTRICITY

Double bounce on weather, oil

UK power and gas prices have bounced twice over the last fortnight, the first general bounce coming as the weather turned colder and gas outages tightened supply and the second coming as Middle East tensions boosted global oil and energy markets, although there have again been some directional differences between short and longer-term markets.

October ’19 Annual UK power has bounced between £52 and £54/MWh, while other Annuals have seen similar £2/MWh swings.

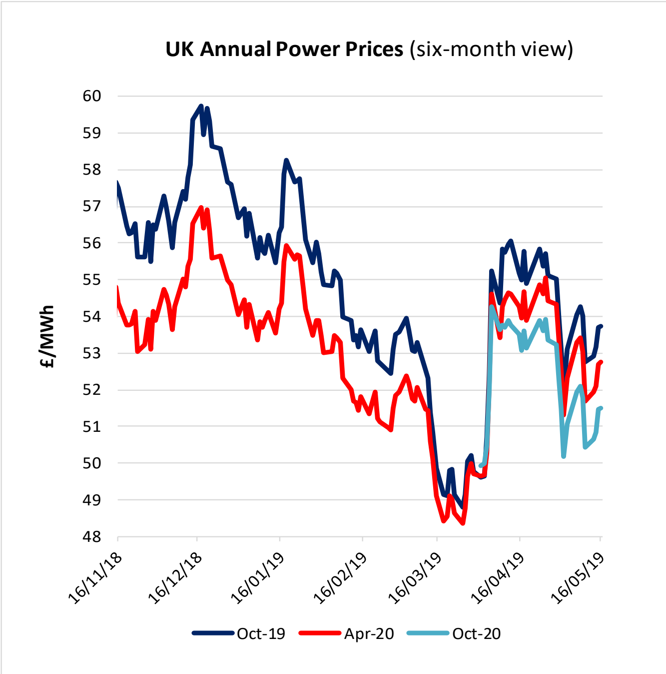
A chilly and cloudy start to May, with temperatures dropping 5°C below seasonal norms, helped ramp up demand and depress solar output, driving Day-ahead UK power from below £42/MWh to £46/MWh, sporadic bursts of wind keeping gains in check. As the cold spell ended another bout of wind then pushed prices back down to £42/MWh, before the wind dropped away and levels rallied to £47/MWh. Sunny and breezier weather mid-May has since pummeled prices back to £41/MWh, with high levels of imports helping.

Month-ahead (June) has at the same time seen price tags push from £42/MWh up to £44/MWh, before reversing.

Prices further forward have however resisted the pressure coming from the short-term markets over the last few days, caught up in the bullish mood spilling over from the oil market, which has rallied towards $73/barrel again amid increasing tensions in the Middle East – as “credible” Iranian threats caused the US to evacuate its non-emergency embassy staff in Baghdad, four oil tankers were reportedly attacked in the Persian Gulf and drones sabotaged Saudi Arabian production facilities. Rising crude oil inventories in the US failed to dampen the run-up in prices.

Year-ahead coal prices have meanwhile thrashed between $69.5 and $71.5/tonne, mixed views on future demand in China and volatility in adjacent energy markets driving the oscillations. (The UK meanwhile witnessed its first full week (since the 1880’s) without any coal-fired power generation – between May 1st and 8th.)

EUAs (CO_2 emissions allowances that generators factor into costs) rallied back up to EUR 27/TCO2 in the first week of May, before dropping back to settle around EUR 25/TCO2 over the last few days. Speculation ahead of an announcement by the European Commission on how many EUAs will be withdrawn from the market in the year from September 2019 as part of the Market Stability Reserve (MSR) scheme helped drive prices higher then lower (the official number when it was released was 397 million EUAs), while a EUR 2/MWh rise and fall in Year-ahead Continental electricity prices also contributed.



Source: Marex Spectron

Outlook:

↑ The restart of the Hunterston B reactor has been delayed for a third time, from May 14th to May 30th. Market observers are wary of further delays.

→ “Weather models are predicting unexceptional weather over the next 7-10 days – with temperatures in the UK likely to hover at seasonal normal levels, although wind levels are set to be low. On mainland Europe, there may be more wind and rain than usual, but mainly just in southern parts,” says Marex Spectron’s meteorology desk.

↓ The Fiddler’s Ferry coal-fired plant is no longer set to close by next winter, improving the supply outlook, analysts suggest.

Europe’s solar capacity is on course to increase by 20.4 GW this year and a record 24.1 GW next year, according to lobbying group Solar Power Europe. The surge in installations is being driven by a further fall in costs and increasingly ambitious EU renewables policy, it said.

Key Power indicators:											
Long-term UK (£/MWh)				**Short-term UK (£/MWh)**				**European power (€/MWh)**			
Oct '19 Annual	*chg*	*Apr '20 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*Germany Cal '20*	*chg*	*France Cal '20*	*chg*
53.73	1.80	52.75	1.45	42.09	-0.54	41.21	-1.97	49.10	1.25	52.45	1.50
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*					**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2**	*chg*
69.80	-0.45	73.11	2.91					25.50	0.53	25.75	0.42
								All changes (chg) are compared to last report.			

mid May 2019

GAS

Annuals resist Day-ahead downswing

It has been a fortnight of some volatility on the UK gas market, with short-term prices swinging up and down by as much as 8 p/th and annuals by 2.5 p/th. Weather changes and outages have driven the movements in the short-term, while longer term markets have also been influenced by the oil market.

Day-ahead saw prices rise over the first few days of May, to peak at almost 38 p/th on the 9th May, as outages at several Norwegian gas facilities, including the Oseberg and Troll fields and Kollsnes gas processing plant, crimped supplies, just as cold weather bolstered end-user demand, pushing it well above seasonal norms.

But prices have since tumbled as low as 30 p/th as supply has improved and end-user demand slumped in the face of unseasonably warm weather this week. Strong LNG imports – a cargo a day at one stage – have swelled supplies and meant LNG has accounted for up to a third of UK gas supply, helping to offset sporadically strong gas demand from generators as wind levels have fluctuated. As the second half of May began and temperatures cooled off towards seasonal norms prices held steady, with several more LNG ships expected to dock in the coming days.

Exports through the main interconnector (between the UK and Belgium) have meanwhile remained consistently around 39 mcm/day, notwithstanding a drop from the 10th to 13th of May – to as low as 24 mcm/day, as UK demand spiked.

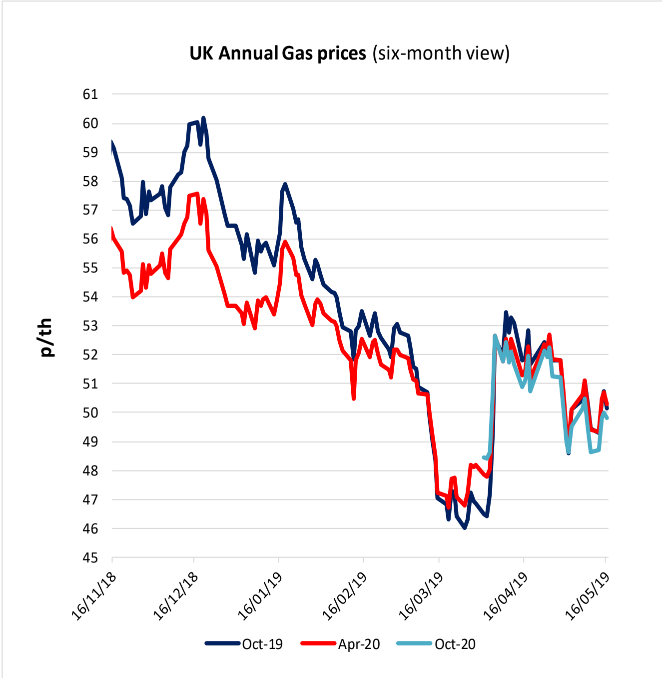
European gas storage site capacity is currently at around 52% fullness – up from 31% at this time last year.

Month-ahead UK gas (June) has been less volatile than the Day-ahead, but still essentially tracked it lower – and is now discussed at 30 p/th too.

Further forward, the seasons and annuals – while appearing to step in line with the broad directional ebb and flow of the short-term markets for much of the last fortnight – started to resist the short-term bearishness by mid-May, shored up by a sharp rally in oil prices, the impact of which has been exacerbated by a weakening pound (down 3.5% against the dollar over the last two weeks as Labour-Conservative Brexit compromise talks foundered).

Oil prices have ratcheted up by $3/barrel to $73/barrel over the last week amid escalating tensions between Iran and other states, including Iraq, the US and Saudi Arabia, with the latter blaming attacks on oil tankers and Saudi oil production facilities on Iran-backed forces. Rising stocks of crude oil in the US and US-China trade war fears provided limited bearish counter-drag.

Winter ’19 has oscillated between 54 and 56 p/th as a result, with October Annual ’19 shuffling either side of 50 p/th.



Source: Marex Spectron

Outlook:

↑ Any further escalation in Middle East tensions is likely to drive up oil prices and other energy markets in turn. The International Energy Agency has also said that global oil supply may swing from a surplus into a deficit this quarter. OPEC member states are meeting in Jeddah this weekend, with observers hoping they will provide clarity on whether or not the current production cutback programme will be extended into the second half of this year.

→ Labour has outlined plans to renationalise National Grid and other gas and power network operators if it gets into office. The transmission system would be run by a new body, the National Energy Agency, which it says would “prioritise tackling climate change, fuel poverty and security of supply.” The Conservatives have blasted the plans, saying they would cost £100 billion, while National Grid has said the plans are not in the interests of consumers and would provide “enormous distraction, cost and complexity”, slowing down essential investment in infrastructure.

↓ LNG prices into Japan, the world’s largest LNG importer, hit a three-year low in April, according to official statistics. If they continue to come under pressure, due to high stocks, warm weather and nuclear plant restarts, this will keep helping to drive cargoes elsewhere, including to the UK and Europe. China raising tariffs on US LNG to 25% from June 1 may also help push more US cargoes into Europe. Meanwhile Shell has confirmed it will start shipping LNG from its new Australian LNG facility, Prelude, within the next two months.

Key Gas indicators:											
Long-term UK (p/th)				Short-term UK (p/th)				**European gas (€/MWh)**		**Crude Oil**	
Oct '19 Annual	*chg*	*Apr '20 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*TTF 2020*	*chg*	**Oil (Brent) $/bbl**	*chg*
50.15	1.55	50.30	1.30	31.40	-1.84	31.74	-2.47	19.30	0.36	73.11	2.91
								All changes (chg) are compared to last report.			