early June 2019

ELECTRICITY

June starts with a tumble

Short and long-term UK power and gas prices have taken a tumble over the last few days, warmer and windier weather helping to reduce demand at the same time as bolstering renewables output, while a slump in oil and other energy markets has also finally taken its toll on forward prices despite being shrugged off for much of the second half of May.

Day-ahead UK power started the third week in May holding above £41/MWh, but has since spent most of the time beneath £40/MWh, even dropping below £37/MWh at one stage – its lowest level since June 2017. Falling gas prices and sporadically high power imports from Continental Europe have helped apply the pressure, alongside the generation-friendly weather and robust output from conventional power stations.

Month-ahead (June) has also been pulled lower in turn, and was yanked under £40/MWh too as May ended.

Further forward, prices for next winter have generally been meandering slightly lower over the last fortnight, while seasons beyond nudged higher, coaxing all Annuals beyond October '19 Annual higher too. Unusually this happened despite some weakness in the oil, coal and emissions markets, with a sense that the ample gas supply seen this year may not be replicated in the next few years appearing to contribute to the firmer talk.

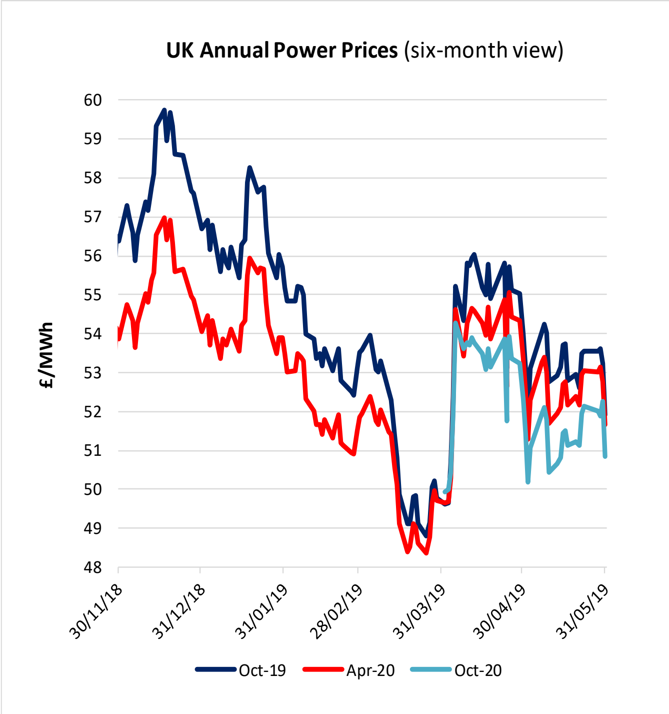
But as a $3-4/barrel oil loss extended to a $10/barrel drop, this proved impossible to ignore and all forward UK power and gas periods buckled sharply.

Oil prices sank as the escalating US-China trade war cut growth prospects and as oil stocks rose in the US, while a perceived reduction in Middle East tensions also contributed.

October '19 Annual UK power slipped back beneath £52/MWh as a result, with October '20 Annual slipping beneath £51/MWh.

Year-ahead coal prices have meanwhile tumbled too – dropping 10% in value, to $64/tonne for the first time in two years – again fears of US-China trade war economic fallout and high stocks in Europe in the face of low demand applying the pressure. (The UK meanwhile set another coal-free record – witnessing its first full fortnight (since the 1880's) without any coal-fired power generation.)

EUAs (CO2 emissions allowances that generators factor into costs) moved within a steady price range of EUR 25-26/TCO2 over most of the second half of May, but fell below this range at the end of the month, as Theresa May's resignation increased chances of a no-deal Brexit and potential EUA dumping by UK companies, while a raft of upcoming new EU state EUA auctions were expected to swell supply.



Source: Marex Spectron

Outlook:

↑ There has been another delay to the restart of the Hunterston B nuclear reactors 3 and 4, to July 31st and June 24th respectively. The Sizewell B nuclear power station has also been shut down for maintenance until July 22nd.

→ While there will be a dip in UK temperatures over the next week, solar and wind power generation across Europe will remain "around normal levels for the next month", according to forecasters Energy Quantified.

↓ Tidal power generation costs have been slashed by 15% over the last 18 months, according to EnFAIT, the EU tidal energy project. It claims that costs will have been reduced by 40% by 2022 "which could spark an explosion of interest in tidal power from global investors". Meanwhile IRENA, the International Renewable Energy Agency has said the global weighted average cost of power generated by both solar PV and onshore wind farms fell by 13% last year compared to a year earlier.

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*
51.93	-1.80	51.65	-1.10	38.73	-3.36	36.00	-5.21	46.76	-2.34	50.05	-2.40
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*					**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2**	*chg*
64.20	-5.60	64.98	-8.13					24.46	-1.04	24.71	-1.04
								All changes (chg) are compared to last report.			

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GAS

Market crumbles on European glut

After a directionally mixed second half of May, with shorter-term prices trending lower and longer-term prices trending higher, all periods slumped as May rolled into June, amid a Europe-wide supply overhang, weak demand and a strong sell-off on the oil market.

Day-ahead UK gas prices slid to almost 25 p/th, a near two-year low, amid plentiful LNG and Norwegian imports and strong indigenous UK output, in face of very few unscheduled outages. Reduced end-user buying amid much warmer weather and a tail-off in generator buying as wind levels increased also weighed on talk.

Day-ahead prices in mainland Europe – at the key Dutch TTF hub – meanwhile have fallen to a nine-and-a-half year low, below EUR 10/MWh.)

LNG imports into the UK have been persistently strong, with LNG continuing to satisfy around 20-28% of national demand over the last fortnight, although fewer cargoes are expected this month.

Exports through the main interconnector (between the UK and Belgium) held pretty steadily above 40 mcm/day for most of the second half of May, then dipped as low as 30 mcm/day as June started and Continental prices fell.

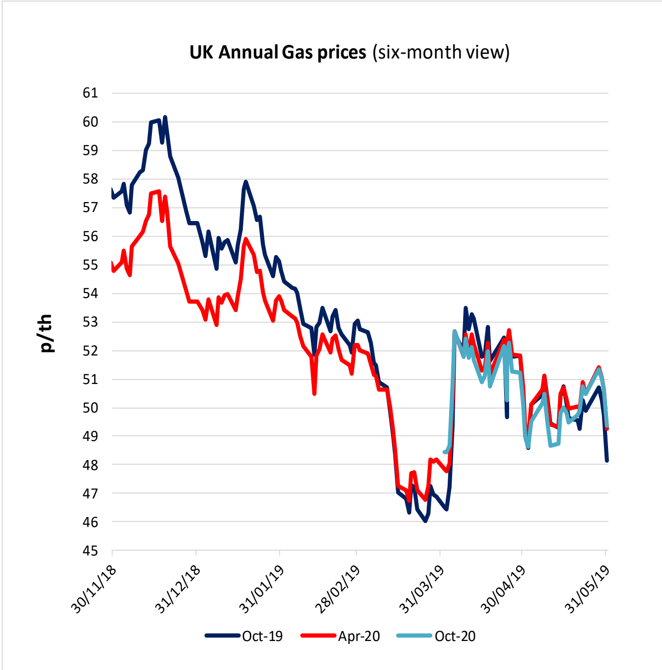
European gas storage site capacity is currently at around 59% fullness – up from 37% at this time last year.

Month-ahead UK gas (June) followed Day-ahead lower, to 27 p/th, the lowest Month-ahead value for the time of year since 2009 and the lowest absolute Month-ahead value in three years.

October '19 Annual has been brought down too by the general down-talk; having oscillated either side of 50 p/th for much of the last two weeks, it had been pummeled down to below 47.5 p/th at the time of writing, with its winter component being particularly bearish.

Forward seasons and annuals had actually been registering gains of as much as 4% since mid-May ahead of the sell-off. With some even still showing slight gains over the period, this has meant October '19 Annual has swung from being the most expensive to the cheapest annual; it is now carrying a discount of 1.25 p/th to October '20 Annual.

Oil markets have had a very weak fortnight, North Sea oil dropping 13%, from over $73/barrel to around $63.5/barrel, as oil demand forecasts were revised lower in the face of the increasingly aggressive US-China trade war and as the US reported higher than expected oil inventory levels. The forward UK gas annuals initially shrugged off the oil bearishness but were forced to yield and bend lower as the oil tumble accelerated.



Source: Marex Spectron

Outlook:

A 3.4 magnitude earthquake at Groningen in Holland has fuelled calls to lower the production cap at the Groningen gas field, once Europe's largest, from 19.4 BCM/year to 12 BCM/year. Output at the field has been slashed by 64% since 2013 in an attempt to reduce extraction-related earthquakes in the surrounding area.

Norway has around 50 gas discoveries that remain undeveloped but could be tapped as technological advances drive down development costs, according to Gassco, the country's pipeline operator.

The US Department of Energy has approved the export of LNG, which it is now referring to as "molecules of US freedom" or "freedom gas" (in reference to its political importance), from the Freeport LNG facility under construction in Texas. Commissioning has also started at the Cameron LNG export facility in Louisiana, the fourth large LNG facility to come onstream in the US.

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*
48.15	-2.00	49.25	-1.05	27.63	-3.77	27.00	-4.74	18.20	-1.10	64.98	-8.13
								All changes (chg) are compared to last report.			