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mid June 2019

ELECTRICITY

Annuals spike and slump

Having tumbled as June started, Annual UK power prices then flatlined for several days before spiking and then slumping back. Colder weather, tighter supply and a jittery oil market all contributed to the spike, which saw Annuals gain as much as £2/MWh.

October '19 Annual is currently valued at £51.5/MWh, having reached £53.2/MWh, while April '20 Annual is pegged at a 20p discount to this and October '20 Annual at a £1/MWh discount.

Oil prices rose and fell in two waves – the first coming as Saudi Arabia and Russia suggested they were likely to push for the extension of production cuts among OPEC states and allies into the second half of this year, and as the US appeared to step back from escalating a trade dispute with Mexico. However the US-China trade war continued to weigh on the global oil growth outlook and general discussion, pulling prices lower soon after. The attack on two oil tankers in the Gulf of Oman, which the US blamed on Iran, then propelled oil prices higher again, although high US petroleum stocks and output, alongside the trade war, kept any gains in check and pressed levels lower again.

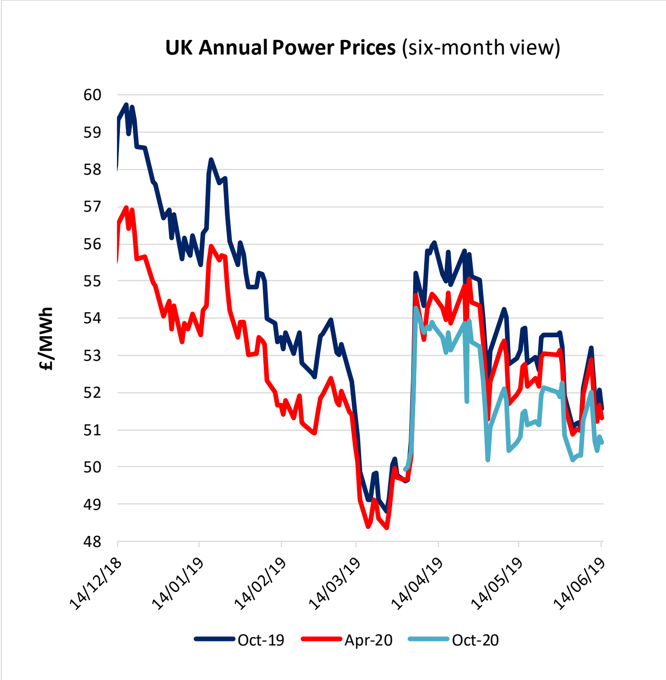
Day-ahead UK power ended May at a fresh two-year low, of £36/MWh, shunting up to around £38/MWh over the first few days of June (with the record spell of no coal-fired power production ending on June 4th, after 18 days and six hours). Since then prices have climbed further, becoming focused mainly between £39-40/MWh, although at the time of writing they had pushed up again, to £41.5/MWh.

Firmer gas prices have provided much of the bullishness, with new outages at the Drax and West Burton power stations, alongside ongoing nuclear plant outages and low solar output, helping to offset the impact of increased wind farm production.

Month-ahead (July) meanwhile similarly started June near a two-year low – and has meandered above £39/MWh over the last few days.

Another two-year low was also reached by Year-ahead coal prices at the start of June, as price tags fell to just over $63/tonne, plentiful European stocks and sluggish global demand weighing on talk. While prices then rallied to almost $67/tonne in the general energy markets bounce seen at the start of the second week of June, they have since dropped back beneath $64/tonne.

EUAs (CO_2 emissions allowances that generators factor into costs) at the same time have had another mostly steady fortnight – 2019 prices focused on EUR 25/TCO2, and 2020 prices around 30 eurocents above this – in the absence of any fresh fundamental news.



Source: Marex Spectron

Outlook:

↑ "A high pressure cell is likely across north-west Europe in the second half of June, leading to warmer, sunnier, drier and less windy weather generally. While the UK may not itself be directly bolstered by this, it may see some bullishness spill through from tightening markets in mainland Europe, particularly Germany and the Nordic countries," says Marex Spectron's meteorology desk.

The 1500 MW Fiddler's Ferry coal-fired power station is to shut by the end of March next year, its owners have confirmed, saying its financial losses had "deteriorated to unsustainable levels".

→ The UK has committed to cut net greenhouse gas emissions, including CO_2, to almost zero by 2050. It had previously committed to cut greenhouse gases by 80% from 1990 levels by 2050.

Spanish power company Iberdrola has announced plans to build a 590 MW solar power farm – set to Europe's largest – in western Spain by 2022.

↓ French grid operator RTE has said France faces a significant oversupply of power from the end of June to the end of August, due to a sharp increase in renewables capacity this year, which will lead to strong exports to neighbouring countries, including the UK.

Both the IEA (International Energy Agency and OPEC have revised their oil demand forecasts for this year lower. The IEA blamed "a global economic slowdown, lower growth in the petrochemical industry and warmer than normal weather in the northern hemisphere", while OPEC cited "an escalation of trade disputes, among numerous other challenges to world economic development."

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*
51.58	-0.35	51.33	-0.32	39.05	0.32	39.25	3.25	47.15	0.39	50.58	0.53
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*
63.75	-0.45	62.18	-2.80			25.05	0.59	25.35	0.64	25.73	1.70
								All changes (chg) are compared to last report.			

GAS

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Outages & LNG drop boost short-term

Having started June near a two-year low, short-term prices have moved higher over the last fortnight, albeit in a very jagged fashion, amid fluctuating wind levels, sub-seasonal temperatures and a cluster of Norwegian outages. A drop in LNG deliveries has also contributed to the uptrend. Forward prices at the same time have been less volatile, but did witness a price spike either side of the second weekend of the month, helped by a rallying oil market.

Day-ahead UK gas was trading at just over 30 p/th at the time of writing, up almost 5 p/th since the beginning of the month. An unscheduled outage at the Nyhamna gas processing facility – which has tightened Norwegian flows – is one of the latest bullish factors, coming after a rash of unscheduled outages at the Gina Krog and Kristin fields and annual scheduled maintenance at the major Troll field and Kollsnes processing plant.

Colder weather has also boosted end-user demand over the last fortnight while cloudier skies have reduced solar power production (although there has been limited change in demand from generators, who have benefitted from increased wind levels). Overall demand surged to as much as 35% above seasonal norms at one stage.

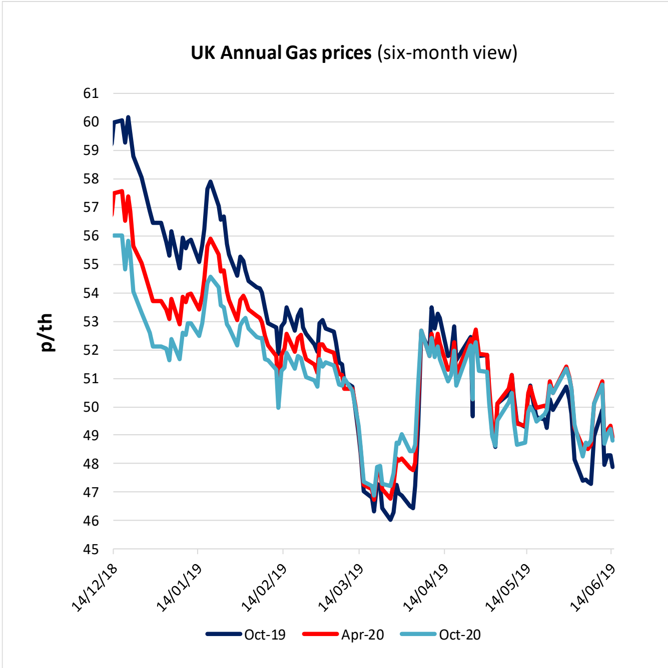
A slowdown in the number of LNG cargoes docking in the UK and in LNG send-outs into the UK network has also tightened supply, with weekly volumes entering the grid dropping from 500 mcm/week in late May to around 75 mcm/week so far in June. Withdrawals from storage sites have increased to help make up the shortfall.

The volatility in the short-term market has been exacerbated by sudden and significant swings in export volumes through the main interconnector (between the UK and Belgium), which has generally seen fairly consistent flow rates over the last four months. Having exported a steady 41 mcm/day throughout the second half of May, volumes fell as June started and they have thrashed between 19-37 mcm/day since.

Month-ahead UK gas (July) has had a similar choppy upwards trajectory to the Day-ahead, fluctuating from a three-year low below 27 p/th to over 29.5 p/th.

European gas storage site capacity is currently at around 66% fullness – up from 43% at this time last year.

October '19 Annual UK gas, after holding below 47.5 p/th for most of the first week of June, spiked to almost 50 p/th on June 10th as temperatures plunging to as much as 9°C below the seasonal norm forced short-term prices higher while oil prices also rallied, amid reports of a Saudi-Russia agreement to extend production cuts into the second half of this year. But as the weather quickly improved and oil retraced under the weight of US-China trade war fears and rising US oil inventories, levels slipped back. Limited further uplift was provided a few days later by the explosions on two oil tankers in the Gulf of Oman, although the impact of this has now largely dissipated.



Source: Marex Spectron

Outlook:

The Dutch government is planning to bring forward output cuts at the giant Groningen field, with a 12 BCM/year cap to be introduced this October, two years ahead of previous plans. The 38% cut in output, follows a 3.4 magnitude gas extraction-related earthquake in the region in May.

US President Donald Trump has said he is considering issuing sanctions on companies involved in the proposed Nord Stream 2 gas pipeline between Russia and Germany, which could severely hinder the project's development.

European LNG import terminal capacity usage was 57% in the first five months of this year, up from 29% in January-May last year, according to analysis by Refinitiv.

The new Culzean gas field in the North Sea has come onstream ahead of schedule. Culzean, one of the largest gas discoveries in the North Sea over the last 25 years, is expected to meet around 5% of UK gas demand once it has ramped up to full production next year.

A very low level of scheduled outages in the Norwegian offshore in July could keep export volumes from there high, analysts say.

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*
47.88	-0.27	48.93	-0.33	28.06	0.42	28.28	1.28	18.25	0.05	62.18	-2.80

All changes (chg) are compared to last report.