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early July 2019

ELECTRICITY

Choppy conditions continue

Volatile conditions continued on the UK power market over the second half of June and into the start of July, with Day-ahead seeing prices swing by as much as £12/MWh, as weather changes and outages threw supply and demand. The end-June heatwave helped push short-term levels to another fresh two-year low – as the UK weather remained windy as well as sunny, ratcheting up renewables output, although prices have since rebounded.

Longer-term periods have also been choppy, although in much tighter trading ranges, with Winter '19 UK power for example swinging up and down within a £2/MWh price span. Forward periods were also supported by rebounds in emissions and oil prices.

EUAs (CO2 emissions allowances that generators factor into costs) rallied from EUR 25/TCO2 to over EUR 27/TCO2. Increased fossil fuel-fired generation in mainland Europe as record June temperatures prompted a surge in air-conditioning and cooling demand in several countries – including France, Spain and Poland – helped trigger the rally. With the peak of the heatwave having now passed, this has brought prices back down to around EUR 26/TCO2.

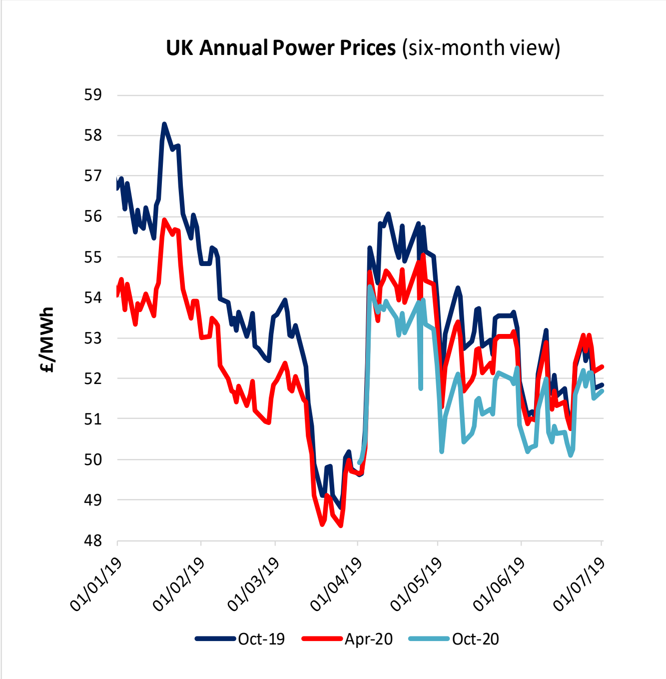
Oil meanwhile rallied amid talk of some OPEC members pushing not only for the extension of current production cuts by oil states into the second half of 2019 but also for deeper reductions, while a surprise drop in US oil inventories also bolstered sentiment. North Sea oil was propelled from below $61 to almost $67/barrel as a result. As July started OPEC ministers formally met and agreed to extend the cuts by up to nine months but not to increase them. Prices initially held up on the news but at the time of publication were starting to tumble as the market refocused on other factors, including weak global demand forecasts. Norwegian oil workers calling off a strike provided limited down-drag too.

October '19 Annual is currently valued at £51.5/MWh, having swung from below £51/MWh to almost £53/MWh. It has also dropped below April '20 Annual for the first time, to carry a discount of £0.4/MWh – coming under relatively more pressure from the weakness on the short-term market.

Day-ahead UK power slipped back beneath £40/MWh for much of the third week of June, in the face of good supply. It then surged at the start of the fourth week – to over £47/MWh – as wind output dropped sharply away in the face of strong demand, forcing coal plant to quickly fire up. (At the same time network system prices hit £375/MWh – their highest level in 15 months.) Prices then tumbled as output picked up, to their lowest level since June 2017 – below £35.50/MW, helped by a crash-off in Day-ahead gas prices…but have rebounded again, an unplanned outage in the Belgium-UK NEMO interconnector and gas surge contributing.

Month-ahead UK power prices meanwhile similarly slid – to their lowest level since August 2016, July going off the board under £37/MWh.

Year-ahead coal prices have rebounded in recent days too, having also hit a two-year low in the third week of June – climbing from $62 to almost $65/tonne, helped by summer maintenance starting in South African export infrastructure.



Source: Marex Spectron

Outlook:

↑ Six 48-hour strikes have been scheduled by workers at Britain's largest power plant, Drax, beginning on July 14th and proceeding on a monthly basis until the end of the year. The operators of the 3.9 GW plant claim that output will not be affected, but unions claim it will; the risk of disruption may in any case contribute to supply nerves over the coming weeks/months.

The restart of the Hunterston B nuclear reactors has been delayed again, for the fifth time, to July 22nd and October 1st respectively.

→ Renewables output in the UK is set to surpass output from traditional fossil-fuelled plants this year for the first time, according to National Grid.

EU leaders have failed to back an initiative for the bloc to go carbon neutral by 2050, after opposition from Poland, the Czech Republic and Hungary.

↓ Warmer than normal weather is expected to return to the UK and much of Europe towards the middle of July, according to forecasters. If it is windy too then short-term prices may come under pressure again.

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*
51.83	0.25	52.30	0.97	38.60	-0.45	37.00	-2.25	49.28	2.13	52.15	1.57
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*
64.43	0.67	64.86	2.68			26.92	1.87	27.26	1.91	27.72	1.99
								All changes (chg) are compared to last report.			

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GAS

Forwards buoyed as short-term wilts

While an unplanned outage at the Aasta Hansteen gas field and deepening issues at the key Nyhamna gas processing plant choked Norwegian supplies at the start of July, driving short-term prices higher, this came after a fortnight of significant softening, with the end-June heatwave reducing demand and seeing prices wilt to their lowest level since September 2016. This bearishness rippled out across all periods to October ’19 Annual, although prices beyond this have been buoyed by future supply uncertainties and a much firmer oil market.

Day-ahead UK gas slipped to a low beneath 24 p/th, down more than 7 p/th on mid-June levels, as temperatures rocketed, with Day-ahead gas prices in Holland, the main European hub, at the same time dropping below EUR 9/MWh for the first time in ten years. At the time of writing, however, prices had recovered sharply, in the face of cooler, less windy weather, better demand and the Norwegian outages – UK price tags rallying above 28.5 p/th (and Dutch levels above EUR 10.5/MWh).

Gas export flows through the main interconnector (between the UK and Belgium) have meanwhile been increasingly variable, swinging between 56 mcm/day, their highest level in nearly a year, to as low as 18 mcm/day.

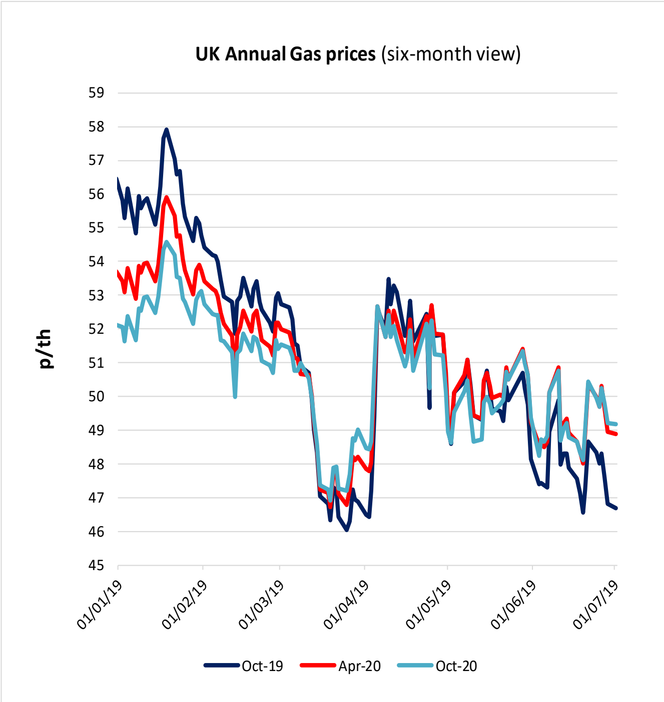
A cluster of LNG cargo arrivals also helped apply price pressure in late June, although with few cargoes now on the horizon this has injected some bullishness into discussion. A fire at an Algerian LNG export complex on July 1st also added to the nerves.

Month-ahead UK gas has tightly tracked the Day-ahead market and also pushed briefly below 24 p/th – to its lowest level since September 2009, before rebounding above 27 p/th.

Prices into next winter have been pulled down by the well-supplied short-term market, with Winter ’19 slipping to a 14-and-a-half month low of 49.6 p/th, partly on expectations of storage facilities being amply stocked. European gas storage site capacity is currently at around 73% fullness – up from 51% at this time last year.

The winter weakness has in turn put pressure on October ’19 Annual, pressing it beneath 47 p/th. With all annuals beyond this being buoyed by a surging oil market, expectations of lower LNG and storage levels next year and fears that Russia and Ukraine may fail to agree a new gas transit deal at the end of this year, this means its discount to them has widened. It is now valued at a discount of at least 2.2 p/th to all other annuals.

Oil prices clambered higher, by up to $6/barrel, ahead of an expected OPEC decision to extend the current “OPEC+” production cutback programme it has in place with Russia and other oil producers into the second half of the year. But once this was agreed and ratified, the market turned, and at the time of writing it was shunting lower again. A lack of confidence in a US-China trade truce appears to have been one reason behind the sell-off.



Source: Marex Spectron

Outlook:

↑ Should there be further unscheduled issues in the North Sea then this could continue to shore up prices, especially as scheduled summer maintenance programmes reach their peak over the next couple of months.

→ The UK’s first project to blend hydrogen with gas in a gas network, with the aim of reducing emissions (as burning hydrogen only creates water), is to start in September in part of Keele University’s gas network. The project, which will see whether gas can be blended with up to 20% of hydrogen and still have similar properties, is seen as a potentially simple way of reducing the CO_2 emissions currently produced from gas use, without requiring any change in infrastructure or domestic appliances. If successful the trial will be rolled out into public gas networks in the north of England from next year.

↓ Having rallied strongly, oil prices may correct lower again, for example if US oil inventories and output rise or the US-China trade war resumes.

Russia is aiming to increase its LNG production by up to 5 times its current output by 2035, according to its energy minister, and aims to take a 20% share of the global market.

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*
46.70	-1.18	48.90	-0.02	26.35	-1.71	26.78	-1.50	17.75	-0.50	64.86	2.68
								All changes (chg) are compared to last report.			