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mid July 2019

ELECTRICITY

Prices surge; EUAs hit 11-year high

UK power prices across all periods have reared higher over the last fortnight – short-term levels being propelled upwards by low wind power output and tightening gas supply and longer-term levels by rallying emissions, oil and coal markets.

EUAs (CO2 emissions allowances that generators factor into costs) have just hit a new 11-year high of over EUR 29/TCO2, reduced EU state auction volumes in August and talk of Germany removing allowances from the market as it phases out coal-fired power stations being key drivers, while analyst chatter of even higher prices next year added to the bullish mood.

Oil at the same time has rebounded in the face of escalating tensions between Iran and the West, tropical storms disrupting US output and a weakening dollar – North Sea oil jumping from $62.5 to $67/barrel.

This helped catapult Winter '19 UK power above £61/MWh at one stage, up almost 14% on where it was at the start of July.

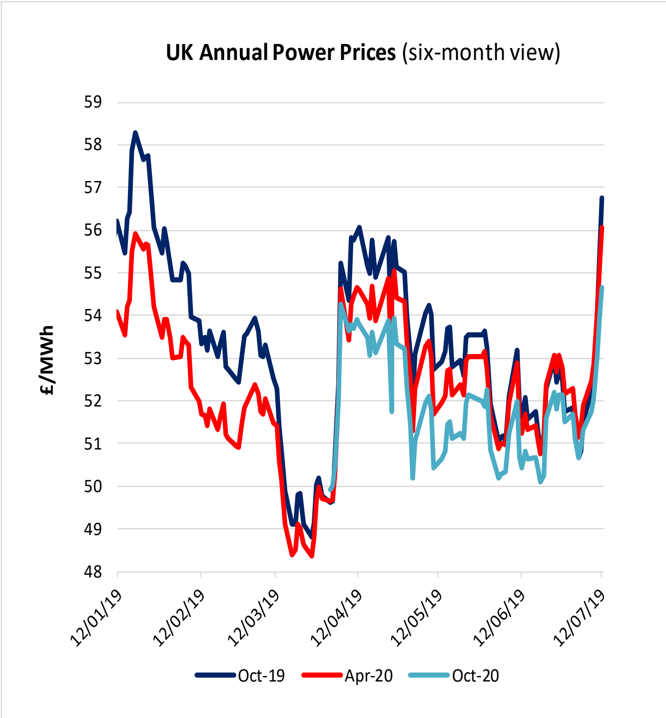
October '19 Annual – which had slipped to a three-month low beneath £51/MWh in the first few days of July – soared higher in turn, to above £57/MWh, a gain of almost 12% in less than a fortnight. It also recovered its premium to April '20 Annual (having dropped below it for the first time in late June), and is now back at a £2/MWh premium to October '20 Annual too, having edged towards parity with it two weeks ago.

A strong short-term market has also been instrumental in the gains further forward. Day-ahead UK power has traded up to £49.5/MWh – its highest level since early April, having dropped to a near two-year low at the start of this month. The 40% gain is attributable to a dramatic rebound in gas prices, a fall in both wind output (to less than 2% of supply) and solar output (due to cloudy weather) as well as summer maintenance in infrastructure tightening supply.

The gains in Month-ahead UK power prices have been nearly as striking, levels roaring up £10/MWh from a near three-year low of less than £37/MWh (a 27% gain since late June).

The calling-off of a series of planned monthly 48-hour strikes at Britain's largest power plant, Drax, after workers secured a better pay deal, failed to stem the upside.

Year-ahead coal prices meanwhile have also rebounded sharply – climbing from $64 to $69/tonne, albeit on thin volumes, with tightening freight markets said to have contributed, while German and French year-ahead power have both hit their highest levels this year, of EUR 53/MWh and EUR 55/MWh respectively.



Source: Marex Spectron

Outlook:

↑ Hot, dry weather has started affecting nuclear plant output in France, by increasing the temperature and reducing the level of water in rivers that are used for cooling systems. At the same time the restarts of two French nuclear reactors, Flamanville 2 and Paluel 4, which were due online over the next few weeks, have been pushed back to the Autumn due to technical issues.

→ "While much of Europe is likely to be hit by a new heatwave from the end of this week, it is only likely to touch the southern part of the UK, with much of the country set to have cooler and windier weather," says Marex Spectron's meteorology desk.

↓ Such a sudden and sharp rally can be followed by a downwards correction, particularly if some of the reasons for the rally reverse. Just as this report went to press some directional doubts appeared already to be creeping in, with prices on several periods turning lower.

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*
56.75	4.93	56.08	3.78	45.55	6.95	45.90	8.90	52.48	3.20	54.48	2.33
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*
68.75	4.33	66.83	1.97			28.79	1.87	29.19	1.93	29.74	2.02

All changes (chg) are compared to last report.

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GAS

Short-term soars 41%, Annuals 18%

In a dramatic directional turnaround, UK gas prices surged over the first half of July – with short-term prices up by 41% and annual prices up by as much as 18% since the month-start. This follows multi-year lows being reached on several key UK and Continental periods a fortnight ago. Norwegian output disruptions, low LNG deliveries, reduced Russian supplies into Europe and significant demand from the power sector in the face of very low wind levels have all contributed to the strong short-term picture, while longer term levels have also been shored up by rallying emissions and oil markets.

Another unplanned outage at the Aasta Hansteen gas field further restricted flows from Norway mid-July, following continuing technical issues at the key Nyhamna gas processing plant. This came as UK gas demand pushed as much as 70% above seasonal norms, helped by generator buying ratcheting higher in the face of low solar and wind output.

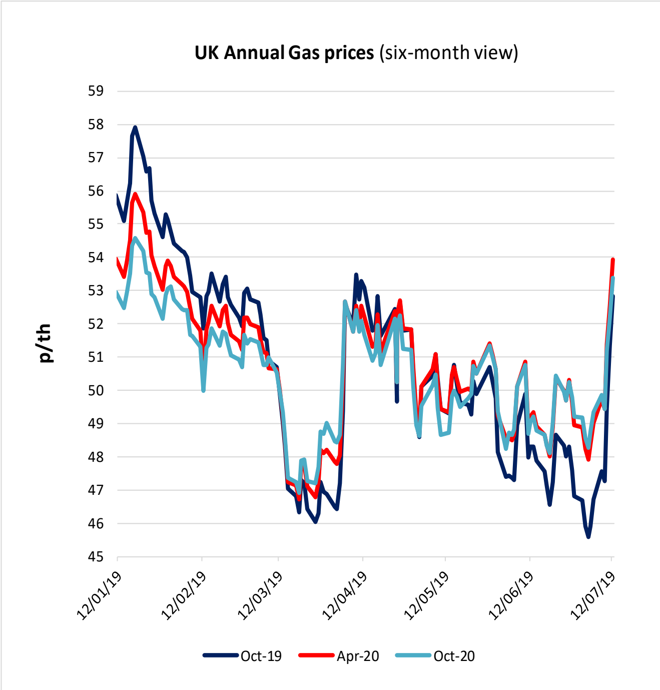
As a result Day-ahead gas price tags were driven up to 38 p/th (from below 24 p/th at the end of June) – their highest level since there was a similar sudden supply tightness and surge in early April. Month-ahead tracked the Day-ahead almost point-for-point and is discussed at similar levels – sharply up from the nine-and-a-half year lows it reached in late June. All talked months have also bounded higher in near unison. (Day-ahead gas prices in Holland, the main European hub, at the same time have recovered from their ten-year low beneath EUR 9/MWh, to break above EUR 13.5/MWh.)

Gas export flows through the main interconnector (between the UK and Belgium) have meanwhile edged lower over the last fortnight, dropping to around 14 mcm/day – half their level at the start of the month. The increased mainland European demand has been satisfied at times by net withdrawals of gas from storage sites, unusual at this time of year. European gas storage site capacity is currently at around 77% fullness, up from 54% last July. Meanwhile UK LNG cargo arrivals and LNG send-out volumes into the grid have remained low.

The European CO2 emissions allowance market has reached a new 11-year high over the last few days, which has also provided price support to the forward gas market, as has another rebound in oil prices, this time on the back of more Middle-East tensions – as Iran attempted to intercept a UK tanker in the Straits of Hormuz, US output being affected by storms in the Gulf of Mexico – 73% of production was forced to shut there at one point, and a weaker dollar.

This helped boost the annuals. After sagging as July started, to below 46 p/th – its lowest level since April last year – October '19 Annual saw the greatest rebound of the annuals, leaping from 45.5 p/th to 53 p/th, and pushing back above most future annuals, having slumped to a discount of more than 2 p/th to them all last month.

Just before publication, however, the bullishness appeared to be faltering, with many periods suddenly shedding value. An increase in Norwegian flows appeared to be one contributing factor.



Source: Marex Spectron

Outlook:

Norwegian scheduled offshore maintenance is to reach its peak in late August/early September, with the aggregated impact of planned outages affecting as much as 169 mcm/day of gas availability, according to Gassco, the Norwegian pipeline operator.

The Nord Stream pipeline from Russia to Germany is just about to shut down for maintenance until the end of July. Russian flows into Europe may be affected if they are not diverted via other routes.

Cuadrilla, the UK shale gas company, is to restart fracking at its Preston New Road site in Lancashire over the next couple of months using a thicker liquid, which it hopes will reduce earth tremors.

"Clearly [oil] market tightness is not an issue for the time being and any rebalancing seems to have moved further into the future," the IEA (International Energy Agency) said in its latest monthly report, adding that the decision by OPEC-led oil states to extend production cuts to March next year "does not change the fundamental outlook of an oversupplied market."

Global LNG oversupply will be 15 BCM in 2019, 20 BCM in 2020, and 12 BCM in 2021, before the market tightens, according to analysts at UBS.

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*
52.83	6.13	53.93	5.03	34.46	8.12	34.06	7.28	19.96	2.21	66.83	1.97
								All changes (chg) are compared to last report.			