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early August 2019

ELECTRICITY

Downtrend snags on wind-drop, gas

UK power prices have generally eased over the last fortnight, falling back from the spike in levels seen in mid-July, amid improved supply and softer adjacent energy markets. However, prices tripped higher as July ended and August began, particularly on the short-term market, helped by a sharp drop in wind levels and a rallying short-term gas market.

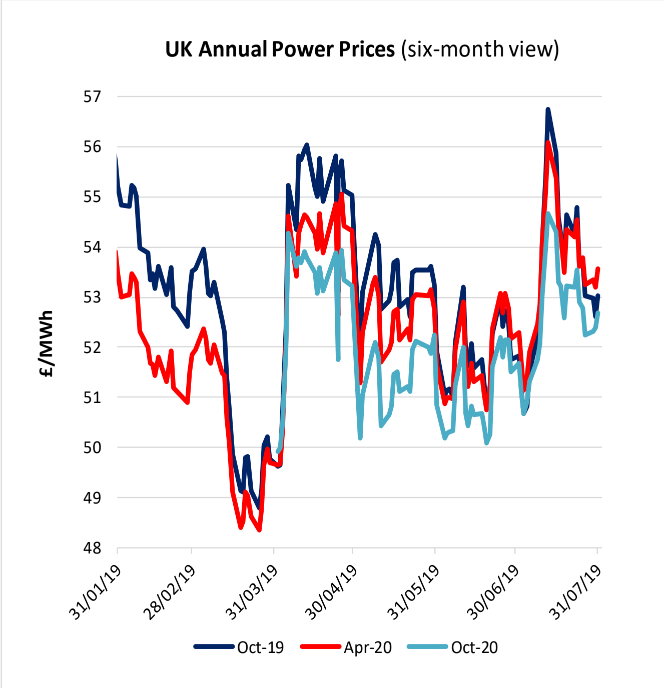
An acute heatwave in France, Switzerland and Germany in the fourth week of July helped drive short-term prices there to their highest level since February– Day-ahead powering above EUR 52/MWh as cooling demand spiked and several conventional power stations were forced offline or to scale back operations due to heating restrictions. Demand for UK power exports surged as a result with the UK interconnectors with France, Holland and Belgium all flipping into export mode for several days. Day-ahead UK power rose above £43.5/MWh as a result, high wind power output in the UK preventing prices running higher. As the heatwave and export demand faded prices then slipped back beneath £38/MWh, although they have just clambered back up to £42/MWh, a fall in UK renewables output (solar as well as wind) providing the upthrust.

October ’19 Annual meanwhile reached a low of £52.5/MWh this week, 7% or £4/MWh down on levels seen in the mid-July run-up, as it also slipped back to a discount to April ’20 Annual, which reached a low of just over £53/MWh. At the time of writing both had rebounded by around £1.5/MWh from these levels, helped by the gains in the short-term markets, as well as buoyant emissions and oil markets.

EUAs (CO2 emissions allowances that generators factor into costs) have hit a new 13-year high of EUR 29.73/TCO2 over the last few days, reduced EU state auction volumes in August again appearing to provide much of the bolster. Boris Johnson’s appointment as UK Prime Minister helped stem any gains, increasing the likelihood of a no-deal Brexit and the UK leaving the European Emissions Trading Scheme (ETS) – with a consequent dumping of UK allowances. However, the weaker pound that also accompanied his appointment helped offset this, as did suggestions that many UK companies have now transferred their allowances to non-UK affiliates or sold them.

Oil meanwhile has edged higher over the last few days, having slumped sharply as the second half of July got underway, Iran’s seizure of a UK-registered oil tanker and falling US inventories adding upside, although a stronger dollar and reduced tropical storm threat in the Gulf of Mexico have provided some down-drag. North Sea oil is currently pegged around $65/barrel, towards the middle of its $62-67/barrel two-week trading range.

Coal prices rallied during the Continental heatwave as generators ramped up coal-fired plants to meet the surge in cooling demand, but have since retraced, Year-ahead coal dropping from $71 to $67.5/tonne.



Source: Marex Spectron

Outlook:

Any escalation of Iran-West tensions is likely to push oil prices higher, and other markets in turn. Meanwhile EUAs appear to be meeting upside resistance at EUR 30/TCO2, but if they break through this level they may race yet higher.

French energy regulator CRE has said that 3 planned new interconnectors between France and the UK are unlikely to be built as their benefits “are insufficient to justify new investments”.

The start-up of France’s Flamanville nuclear reactor will be delayed at least another three years while embedded welds are repaired, its operator EDF has said. The plant, which is of the same design as the Hinkley Point plant that is currently under construction in the UK, was originally due online in 2012 and has seen its costs more than triple.

Cooler and wetter weather than normal is forecast for much of Europe in August. This could improve hydro output, reduce operational restrictions at nuclear plants and limit consumption, potentially weighing on prices.

Rising internal Chinese coal production and reduced import demand may put further pressure on global coal prices, injecting some bearishness into European power discussions.

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*
53.03	-3.73	53.58	-2.50	41.25	-4.30	41.06	-4.84	50.75	-1.73	52.40	-2.08
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*
67.50	-1.25	65.16	-1.67			27.98	-0.81	28.33	-0.86	28.84	-0.90
								All changes (chg) are compared to last report.			

GAS

Rally ends a weak fortnight

UK gas prices, across all periods, saw significant softening over the second half of July, as they peeled back from the mid-July price spike in the face of a much improved supply picture. However prices were running higher again at the time of writing, helped by a ramp-up in generator buying and the start of several summer maintenance outages.

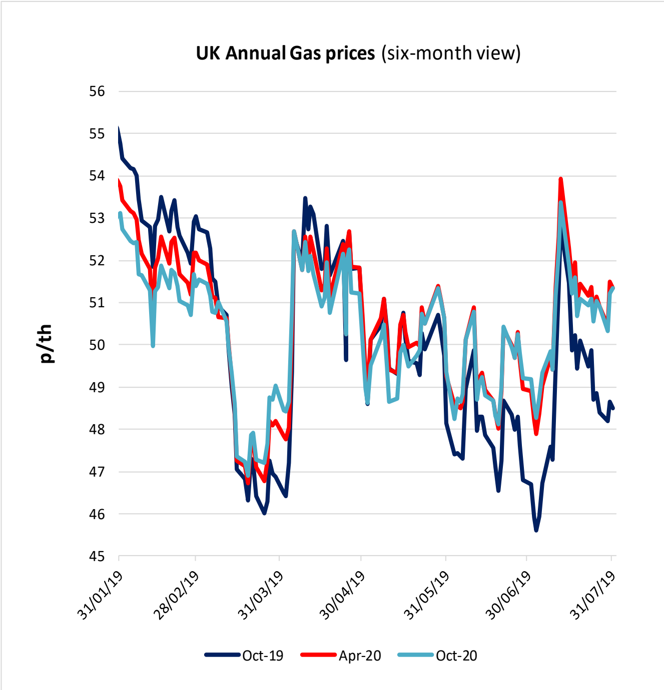
One of these is a ten-day outage in the Bacton Seal gas terminal, which started as August began. Coming against a backdrop of continued sporadic unscheduled outages in the Norwegian offshore, this tightened supply just as wind levels dropped sharply. A dearth of LNG ship arrivals has also rattled nerves.

Day-ahead UK gas, which had spiked up to 38 p/th mid-July, fell back to a low beneath 27 p/th at one stage, but has since rallied back towards 31 p/th. At the same time Month-ahead slipped almost 8 p/th, or 23% in value, below 27.5 p/th, before bouncing back to 31.5 p/th. Even at its low however, this was still well up on the nine-and-a-half year low of 24 p/th it reached in late June.

Progressively less volatility was seen further forward. Winter '19 fell back to almost 50 p/th, down from its peak of over 56 p/th almost three weeks ago, before curling back above 51 p/th. October '19 Annual buckled towards 48 p/th in turn, down almost 9% from its spike high, before clawing back a penny over the last couple of days. Other Annuals tumbled too, to a lesser degree – being more immune to the short-term bearishness and shored up in part by the oil market – meaning October '19 Annual has been pushed back to a discount to all other talked annuals again.

Oil prices have been volatile, tumbling in the third week of July on economic jitters and the restart of output in the Gulf of Mexico after tropical storms passed, but have been rising since Iranian marines seized control of a British-flagged oil tanker, worsening tensions between Iran and the West. Lower than expected oil stocks in the US and talk of an expected US interest rate cut stimulating economic growth and potentially boosting oil demand have also been bullish drivers, although a stronger dollar has helped offset their impact. A new 13-year high in CO_2 emissions allowance prices has also underpinned forward gas market discussion.

Gas export flows through the main interconnector (between the UK and Belgium) have seen a significant drop over the last fortnight, falling below 6 mcm/day at times – just one-fifth of flow rates seen at the start of July. Swelling European gas stock levels have helped crimp export interest – with European gas storage site capacity currently at 82.5% fullness, up from 61.5% at this time last year.



Source: Marex Spectron

Outlook:

↑ The schedule of summer maintenance in North Sea infrastructure is set to intensify over the next few weeks, making the market more sensitive to any unplanned issues.

→ US LNG exports to Europe in the first five months of this year quadrupled compared to the same period last year, according to the EIA (Energy Information Administration). The US is currently experiencing the lowest summer gas prices in 20 years, which should only reinforce this export interest, although exports to the UK specifically are currently low.

↓ "Cooler, wetter and windier weather is in prospect for much of Europe and the UK over the next ten days as a more typically winter-like positioning of the jet stream flows across the continent," says Marex Spectron's meteorology desk.

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*
48.50	-4.33	51.35	-2.58	29.11	-5.36	29.30	-4.76	18.20	-1.76	65.16	-1.67

All changes (chg) are compared to last report.