

ELECTRICITY

All periods in 10%+ August slump

August was a weak month across UK power and gas markets, with UK electricity prices tumbling at least 10% in value on most periods, amid good supply, weak seasonal demand and softer global energy sentiment. Prices did flick higher briefly as August ended, as long-term lows pulled buyers from the sidelines, but as September started prices started slipping again across the board.

Although a power blackout on August 9th – as lightning caused one gas-fired plant and one wind farm to suddenly trip off the grid, leaving a million homes without electricity for an hour – grabbed the headlines, it had little impact on the market, as it was a freak event. Day-ahead prices did move slightly higher in the days following the incident, reaching £43/MWh, but this was driven by a tighter gas market, while since then prices have been almost wholly beneath £40/MWh (dropping below £35/MWh at the time of writing), helped by higher wind levels.

At the same time Month-ahead (September) prices slipped £6/MWh, or 13%, over the course of August, going off the board under £40/MWh. The restart of the Hunterston B4 nuclear reactor, after several delays, was one factor – helping improve the supply outlook for the coming months – although the restart of the Dungeness nuclear plant has since just been delayed by another six weeks, offsetting the impact of this.

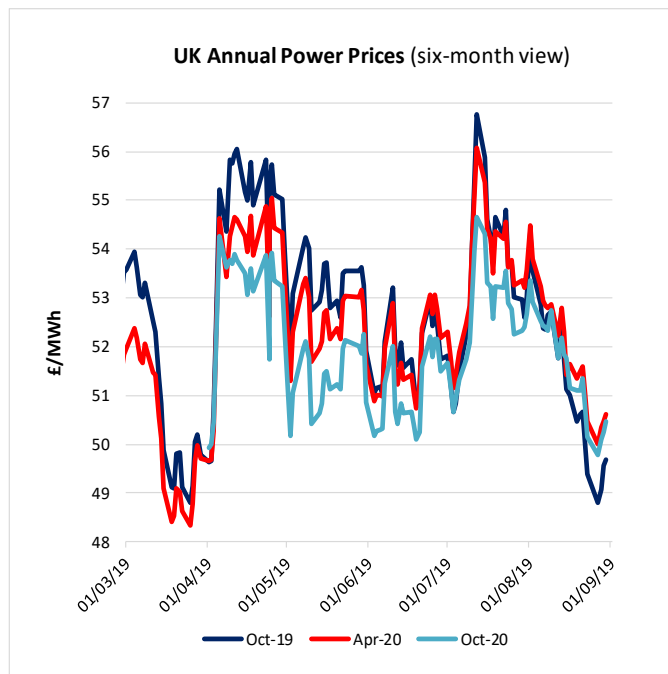
Over the first three weeks of August EUAs (CO2 emissions allowances that generators factor into costs) came off sharply from the 13-year highs they reached in late July, sliding from almost EUR 30/TCO2 to less than EUR 25/TCO2, as economic jitters – particularly in Germany – were said to have knocked sentiment, alongside increasing expectations of a no-deal Brexit. 2019 EUAs nudged back above EUR 26/TCO2 towards the end of August but have since slipped back beneath EUR 25/TCO2.

The oil market meanwhile crashed lower in the first week of August, as US-China trade war fears and high US oil stocks weighed on discussion, pushing North Sea crude oil prices from just under \$65/barrel to as low as \$56/barrel. Prices then rebounded and have been mostly swinging either side of \$60, amid fluctuating sentiment regarding US-China discussions, oil inventory levels, the state of the global economy and geopolitics. At this level, prices are still near their lowest since the start of the year, with downwards revisions in oil growth forecasts from the IEA (International Energy Agency) and OPEC providing a bearish overlay.

Coal prices too have buckled sharply, year-ahead levels shedding 8% in value over August, to slip beneath \$63/tonne, amid low buying interest from European generators.

The weakness in these adjacent energy markets helped weigh on forward power prices across Europe, including those in the UK. Winter '19 UK Baseload slipped beneath £51/MWh, a 16-month low, in turn pressing on October '19 Annual and pushing it below £49/MWh. While other Annuals also fell, they fell by less, making the October '19 Annual the cheapest of all talked annuals for the first time, with a £1/MWh discount to the other annuals.

Meanwhile French and German Year-ahead electricity prices have lost 9% and 11% in value respectively, slipping to two-month lows beneath EUR 49/MWh and EUR 47/MWh.



Source: Marex Spectron

Outlook:

🔴 The restart of both reactors at the Dungeness power station has been delayed by six weeks. If there are further delays to the units restarting this could increase supply sensitivities going into the winter.

→ Liquidity in short-term UK power markets is set to drop by 10-20% if the UK leaves the EU without a deal, as cross-border power trading grinds to a halt, the operator of the EPEX spot power exchange has told Reuters.

China's installed photovoltaic solar capacity has increased 20% over the last year, to 186 GW, accounting for 10% of the country's generation mix. The renewables growth there could stall/reduce China's demand for fossil fuels over the coming years (it is currently the largest importer of oil and gas in the world) potentially helping boost global gas, oil and coal availability, analysts suggest.

“High pressure cells will gradually shift away from the UK and west into the Atlantic, making way for low pressure systems which are set to lead to cooler and wetter weather over the next ten days. Winds will be predominantly from the north-west and may be strong,” says Marex Spectron’s meteorology desk.

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		
49.68	-3.35	50.63	-2.95	39.90	-1.35	39.42	-1.64	47.88	-2.87	49.88	-2.52		
Key Other indicators:													
Coal (\$/MT) '20		chg	Oil (Brent) \$/bbl	chg		EUA '19 (€/TCO2)	chg	EUA '20 (€/TCO2)	chg	EUA '21 (€/TCO2)	chg		
64.13	-3.37	60.40	-4.76			26.32	-1.66	26.57	-1.76	26.95	-1.89		
All changes (chg) are compared to last report.													

GAS

Front annual slides to 17-month low

Amid general global energy market bearishness, UK gas prices have seen some significant price losses over the last month, with annuals slipping by as much as 12.5% (the front annual, October '19 Annual, hitting a 17-month low) and short-term prices shedding as much as a third in value. The gradient of the price decay in longer-term levels has been much smoother than on the short-term market, however, with unexpected outages and changes in wind levels making shorter-term prices very volatile.

Record levels of gas in European storage sites have weighed strongly on prices from October. October itself has dropped 21% in value since the start of August, to under 31 p/th, on expectations that there may not be any of the customary late replenishment buying then if storage sites fill – European gas storage site capacity is currently at more than 92% fullness, up from 75% at this time last year.

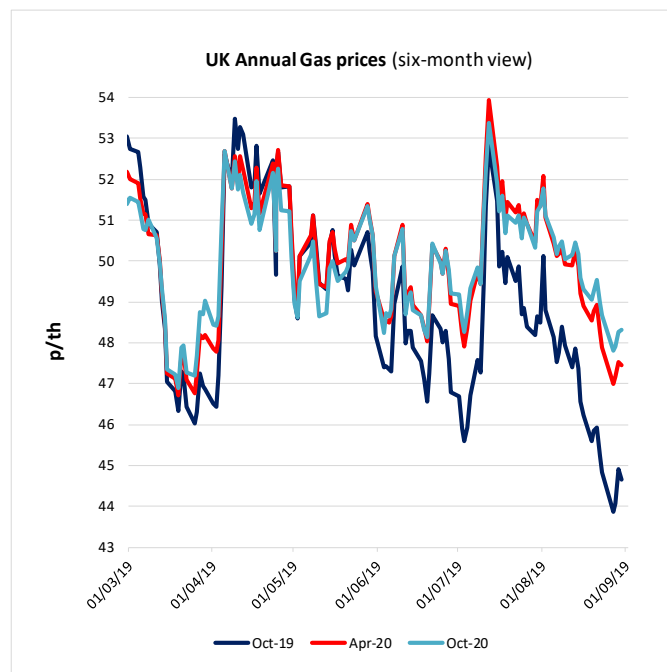
Winter '19 has in turn been the weakest season, slumping almost 14% in value, below 46 p/th – its lowest level since June 2017. It has also fallen to a record discount of over 6 p/th to Winter '20, as future seasons have softened by progressively smaller amounts.

As a result October '19 Annual has also extended its discount to the other annuals, and is now valued at almost 4 p/th below October '20 Annual. April '20 Annual, which was the priciest annual at the start of August has also bowed beneath the other future Annuals, as weak winter sentiment has spilled into Summer '20.

Falling oil prices have only reinforced the downtrend on the forwards market, with oil slipping beneath \$59/barrel at the time of writing – amid new US and Chinese trade tariffs coming into effect, reduced oil demand growth expectations and global economic jitters.

Short-term UK gas prices have rallied and slumped three times since late July, thrashing between 25-31 p/th, although each price swing has been progressively smaller than the last. A series of unplanned shutdowns in the Norwegian offshore has helped trigger the upswings, while changeable wind levels, consumption levels and interconnector export flows have also contributed to the choppiness.

At the time of writing, prices were tumbling, however, with Day-ahead trading below 22 p/th (nearly a three-year low) and Within-day gas even lower, below 19 p/th (a ten-year low). At the same time Day-ahead prices on Europe's largest market, the Dutch TTF, were also trading near ten-year lows, beneath EUR 8/MWh. An increase in LNG volumes being sent into the grid was adding to an already well-supplied system, which alongside better Norwegian flows, reduced exports and limited demand helped pummel prices lower. The end of summer maintenance at Troll, Norway's biggest field, this week has helped the general down-talk.



Source: Marex Spectron

Outlook:

↑ A number of new Norwegian gas field and terminal outages are planned in early September, which could limit gas flows to the UK.

The Groningen field in Holland – once Europe's largest producing field, which has seen tightening production caps over the last few years in an effort to reduce extraction-related earthquakes – will "no longer be necessary very soon," according to the Dutch Economy Minister, prompting talk that its full closure, last scheduled for 2030, will shortly be significantly accelerated.

LNG demand in Japan has been pushed higher by a heatwave boosting cooling demand there; it has also reportedly been buying re-exported LNG cargoes from China for the first time.

→ Three tremors within a week have been reported at the Preston New Road shale exploration site in Lancashire – one of them greater in magnitude than the 2011 tremor that led to operations stopping at the site for seven years.

The Nord Stream 2 pipeline between Russia and Germany could still be completed by early next year, despite Denmark considering forcing part of the pipeline to be rerouted, according to a major shareholder in the scheme.

Middle-East gas production is to overtake Russian gas production this year for the first time, according to energy analysts Rystad Energy.

↓ Gas output at the Zohr gas field – the largest in the Mediterranean – has reached 2.7 bcf/day (billion cubic feet per day) and is set to reach 3 bcf/day by the end of the year (equivalent to three-quarters of UK daily gas production).

US natural gas output set to reach a record 91 bcf/day this year, up more than 9% on last year, according to the country's Energy Information Administration.

Key Gas indicators:				Short-term UK (p/th)				European gas (€/MWh)				Crude Oil			
Long-term UK (p/th)				Day-ahead index				TTF 2020				Oil (Brent) \$/bbl			
Oct '19 Annual	chg	Apr '20 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	TTF 2020	chg	Oil (Brent) \$/bbl	chg	Oil (Brent) \$/bbl	chg	Oil (Brent) \$/bbl	chg
44.65	-3.85	47.45	-3.90	29.65	0.54	27.10	-2.21	17.05	-1.15	60.40	-4.76	60.40	-4.76	60.40	-4.76
All changes (chg) are compared to last report.															

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