ELECTRICITY

Prices surge on nuke and oil shocks

The gradual losses seen over the month of August on most UK power periods were all but wiped out in a single day on September 9th, as gas and power markets across Europe surged on the back of news of further nuclear plant issues in France. Prices then started to ease back but were given another shot in the arm a week later when a drone attack on a key Saudi oil facility sent oil prices rocketing.

An announcement by EdF that it had learnt of more potentially sub-standard components being supplied to some of its power stations ignited fears of a repeat of the French nuclear safety crisis of late 2016 (when a third of the French nuclear fleet was forced into rolling shutdowns, month-ahead prices quadrupled and record highs were seen across the forward curve there). Although EdF said the latest issue would only affect some plants and that it was too early to say which plants were affected and whether or not they would need to be shut down for remedial work, prices roared higher.

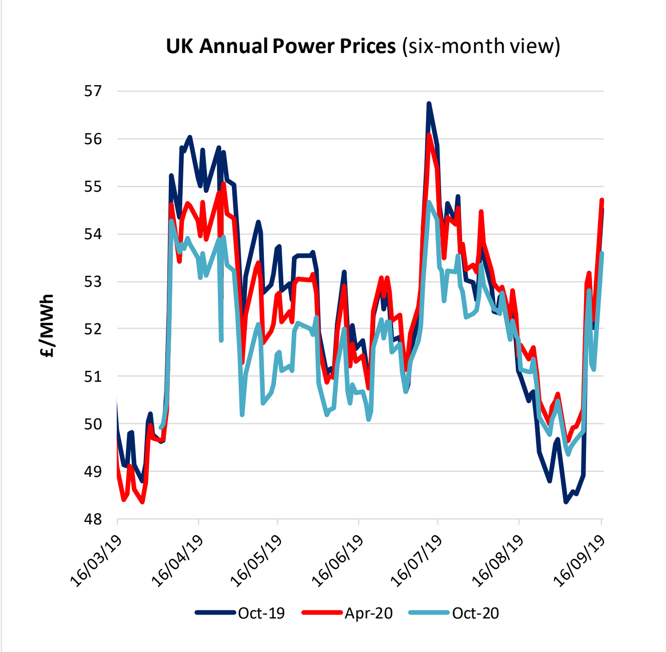
As the news broke October (Month-ahead) saw the greatest UK power gains, surging £5/MWh, or 12%, on the day, while Winter '19 jumped 9% and October '19 Annual 7%.

On the same day Holland confirmed it will phase out gas production faster and earlier than previously planned and an EU court ruled that Russian access to a key EU gas pipeline should be restricted, with both factors adding to the bullish up-thrust.

Over the next few days forward prices then started to soften, as supply fears ebbed, before the drone attack effectively halved Saudi oil output and ratcheted up US and Iran tensions, sending oil prices tearing higher. While North Sea oil saw one of its biggest ever single day jumps (up $12/barrel, or 20%, at one stage – before slipping back), only limited gains were seen on the UK power market initially – prices across all talked seasons and the front annual climbing around 2% – although this extended to 5% a few hours later (slightly greater gains were seen on the gas market).

Coal prices and EUAs (CO2 emissions allowances that generators factor into costs) were also bolstered by the general gains, with 2019 EUAs pushing up from EUR 25/TCO2 to EUR 27/TCO2, and Year-ahead coal from around $63.5/tonne to $71/tonne.

Short-term markets did not knee-jerk higher in line with other periods when the nuclear and oil news broke, however, with Day-ahead UK power and gas prices in fact slipping on those particular days, in the face of improved physical supply (including high wind levels). Strong winds also helped keep Day-ahead prices below £32/MWh for much of the first week of September, although since then colder and less blustery weather, alongside firmer gas prices, has led to prices ramping as high as £44/MWh.



Source: Marex Spectron

Outlook:

↑ The French nuclear authority ASN has said that "at least 5 reactors" are affected by the current sub-standard weld component issue. If it is confirmed that any reactors will need to shut down for these components to be repaired/replaced then winter supply fears could be further agitated.

→ Global investment in renewable energy (excluding large hydropower plants) this decade is set to hit $2.6 trillion by the end of the year, according to a new UN study. This is more than three times the amount of the previous decade, with half of this sum being invested in solar power. Investment has been helped by a sharp fall in costs, with the levelised cost of solar photovoltaics dropping 81% and the levelised cost of both onshore and offshore wind falling by at least 44%, it said.

↓ After such strong and sudden gains a downwards correction is possible – such as happened after the last major run-up in prices in July – especially if the oil, power and gas supply fears that triggered the spike dissipate, and short-term markets become well-supplied.

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*
54.53	4.85	54.73	4.10	47.09	7.19	37.13	-2.29	51.33	3.45	54.78	4.90
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*
70.95	6.82	67.54	7.14			27.04	0.72	27.28	0.71	27.68	0.73
								All changes (chg) are compared to last report.			

GAS

Double jump on bullish news cocktail

A potent cocktail of French nuclear plant issues, soaring oil markets, reduced Russian gas export capacity to Europe and the accelerated phasing-out of Dutch gas production has blown UK forward gas prices higher over the last fortnight.

October '19 Annual prices, for example, started September by slipping to a fresh 17-month low of almost 43 p/th, but have since rebounded by 16% – to above 50 p/th, Winter '19 gaining over 18% at the same time. October (month-ahead) meanwhile has rocketed by more than 25%. Prices further forward have seen smaller increases, with April '20 Annual up almost 12%, at 52 p/th.

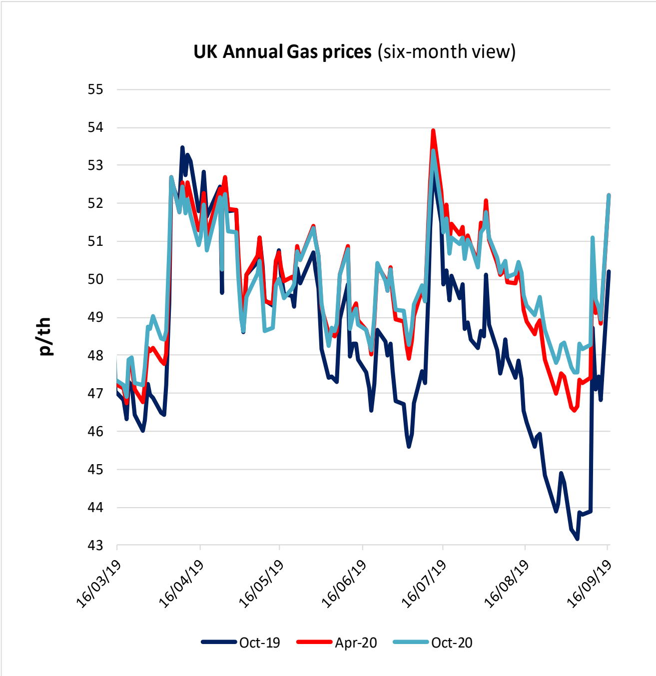
The rebound has come in two waves, the first and the biggest on September 10th as a "deviation from technical standards" was reported in weld components at several French nuclear plants, prompting fears of a wave of shutdowns. On the same day the Dutch economy ministry confirmed it was slashing the output cap at the Groningen field – once Europe's largest producing field – by 38% next gas year and would fully close the field eight years ahead of previously announced plans, in 2022 (due to extraction-related earthquakes). And then the European Court of Justice ruled that Russian gas flows via the Opal pipeline in Germany should be halved, after Poland claimed they threatened its security of supply, further adding to the bullishness.

Prices then pared lower over the next few days as some of the panic eased, only to be foisted higher again mid-September as a 20-drone attack on key Saudi Arabian oil infrastructure knocked out half of the country's production capacity, catapulting oil prices higher.

Short-term prices were not affected by the nuclear and oil news, with prices actually dipping on both of the days on which the bulk of the drama and forward price surges happened. Day-ahead prices also began September in very bearish form, slipping beneath 19.5 p/th for the first time in almost ten years, amid plentiful supply and limited demand, partly as a result of high wind levels. Similarly low prices were seen in mainland Europe, with Day-ahead gas on the main hub – TTF – dropping to almost EUR 7/MWh, amid claims prices had fallen below the actual cost of production.

But they have since witnessed a massive rebound, albeit for different reasons and with a different timeline than the forwards, on changes in physical supply and demand. The start of two weeks of intensive planned maintenance in the Norwegian offshore alongside unscheduled issues at the Gullfaks field has tightened imports, with flows through the key Langeled pipeline dropping to zero. At the same time a general drop-off in wind levels has cranked up gas burn from generators, helping to push overall demand well above seasonal norms. As a result Day-ahead UK gas has climbed as high as 32 p/th.

At the time of writing, however, all periods were chipping lower.



Source: Marex Spectron

Outlook:

↑ With the start of the gas heating season just a fortnight away, winter supply fears may start to creep in, particularly if the weather turns colder than normal in the second half of September – as several forecasters predict. Some forecasters are also saying tentative early indications suggest the winter may be colder than normal as a fading El Nino may lead to jet stream "blocking" (although not all agree).

Ongoing technical issues are reported at the Cameron LNG export facility in US – if these continue they could limit potential US LNG exports to Europe.

→ The EU, Russia and Ukraine are set for talks next week to hammer out a new long-term Russia-Ukraine gas transit agreement. Much of the gas Russia exports to Europe still comes via Ukraine and the current agreement expires at the end of this year.

↓ There are record high levels of gas in European storage sites – both for the time of year and in absolute terms. 106 BCM of gas is currently in storage, according to GSE (Gas Storage Europe – the storage operators association). Storage sites are now at almost 95% fullness, up from 77% fullness at this time last year.

A "surge" in oil output is expected from non-OPEC producers at the end of this year and into next year, according to the IEA (International Energy Agency). Increased production is expected from the US, Norway and Brazil in particular, it said.

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*
50.20	5.55	52.20	4.75	38.92	9.27	30.55	3.46	19.18	2.13	67.54	7.14
								All changes (chg) are compared to last report.			