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mid October 2019

ELECTRICITY

Oct Annual '20 hits 6-month low

Over the first few days of October annual UK power prices were knocked lower by a broad £2/MWh, as oil and gas prices sank further and residual French nuclear concerns all but disappeared. But they have since partially rebounded, ignoring weakness on the short-term market, which has seen Day-ahead dropping to its lowest level since Christmas Eve 2015 (and what appears to be its lowest non-Christmas value in more than ten years).

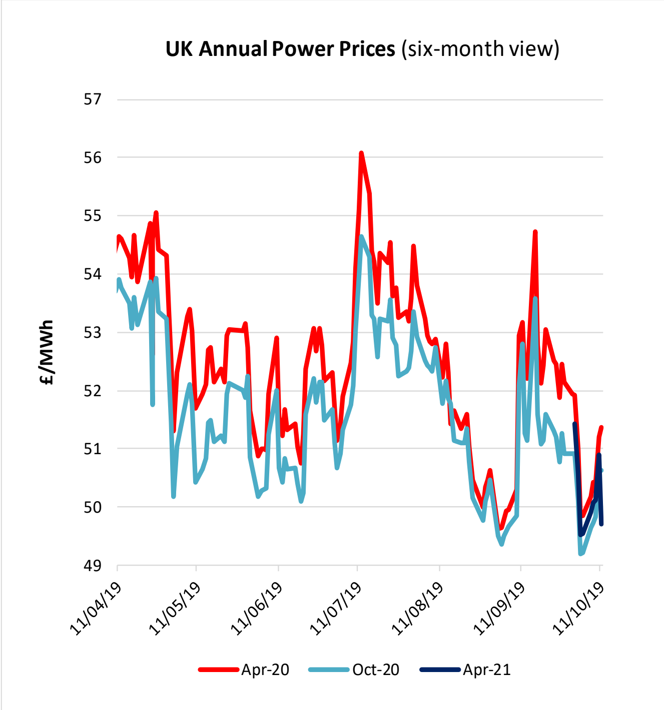
As the French nuclear regulator ASN gave the manufacturer of the substandard nuclear plant components found at six plants two months to reply to an official data request and said it would not rush into a decision about what to do about the affected power stations, fears about associated plant shutdowns faded further, helping apply pressure across European forward power prices, including the UK.

April '19 Annual UK power slipped beneath £50/MWh, while October '20 Annual dropped to almost £49/MWh, a six-month low. French Year-ahead prices meanwhile softened beneath EUR 49.5/MWh – to early September levels, and German Year-ahead prices fell to a four-month low, under EUR 46.5/MWh.

Further weakness in the markets for coal, oil and EUAs (CO_2 emissions allowances that generators factor into costs) helped the bearishness. 2019 EUAs slid to a six-month low – near EUR 22/TCO2 – in light buying, with expectations of a no-deal Brexit and potential allowance dumping weighing on talk, while coal hit $65/tonne, as high stock levels continued to dominate discussion. Oil prices at the same time were pressured by reduced oil demand growth expectations as the escalation of the US-China trade war further fueled global economic slowdown and recession fears.

But energy prices have generally rebounded over the last few days, getting an extra shot in the arm mid-month from a missile attack and explosion on an Iranian tanker off the Saudi coast, which pushed oil prices up by $2/barrel (the issuing of a near 8% cut in oil demand forecasts for next year from the IEA (international Energy Agency) just after the explosion appeared to limit its market impact though). Colder weather forecasts and an apparent breakthrough in Brexit talks have helped the uplift, which has seen April '10 Annual push back up towards £51.5/MWh. Coal prices have also been boosted by news that one of Colombia's largest mines is to reduce output by up to 18% this year, citing a weak market, amid fears that a local environmental dispute may force further output cuts.

On the short-term UK power market Day-ahead index prices slipped beneath £30/MWh at one stage – their lowest level in more than three-and-a-half years, in the face of very high wind output and limited demand. They have since rebounded sharply higher – above £41/MWh, amid forecasts of calmer and colder weather and another rally in Day-ahead gas prices. Month-ahead (November) meanwhile shed £2/MWh over the first week of October, as it slipped towards £48/MWh, but has since clawed back half of these losses.



Source: Marex Spectron

Outlook:

↑ Any escalation in Middle East tensions may drive oil prices higher, as may any decision by the OPEC-led oil alliance (OPEC+) to deepen production cuts. OPEC+ is to meet in December and will make "decisions that will set us on the path of heightened and sustained stability for 2020," according to OPEC chief Mohammad Barkindo.

→ The UK government has committed to invest £220 million in a UK -based project (the Spherical Tokamak for Energy Production – STEP) to develop a commercially viable nuclear fusion plant by 2040. Nuclear fusion is considered to be much safer than the nuclear fission technology on which all global nuclear plants currently run.

↓ "We anticipate no additional adequacy or operability challenges for the coming winter as a result of the UK's planned exit from the EU. We have tested our planning assumptions in a broad range of scenarios…The margin on the electricity system is greater than last winter," National Grid says in its Winter Outlook.

Key Power indicators:											
Long-term UK (£/MWh)				**Short-term UK (£/MWh)**				**European power (€/MWh)**			
Apr '20 Annual	*chg*	*Oct '20 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*Germany Cal '20*	*chg*	*France Cal '20*	*chg*
51.38	0.38	50.63	0.50	48.90	-1.01	41.11	3.36	48.10	1.00	51.43	1.18
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*
68.95	3.55	60.17	2.67			24.44	0.25	24.63	0.23	24.98	0.18

All changes (chg) are compared to last report.

GAS

A tale of two markets

Short-term and longer-term UK gas prices have been moving in opposite directions since the start of October, the former rising in the first week and then falling in the second largely on the back of weather changes and outage news, and the latter conversely slipping lower in the first week and then partially rebounding in the second, amid shifting outlook perceptions and oil market movements.

Oil prices fell below $58/barrel in early October as global economic fears reduced demand expectations. They were then nudged higher as OPEC hinted it was considering ways of reducing the global supply surplus, before jolting up to $60.5/barrel after an explosion on an Iranian tanker near Saudi Arabia – reportedly following a missile attack.

The UK gas annuals have been helped higher over the last few days by oil's gains, but their direction has also tracked changes in other markets, including emissions, coal and Continental gas and power markets, which have all dipped and then recovered.

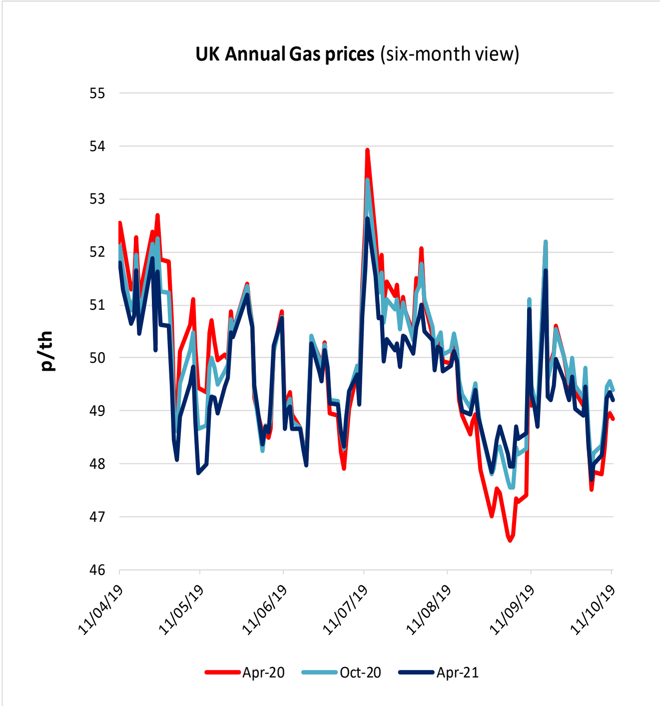
April '20 Annual is now discussed just under 49 p/th, 1.5 p/th up from its lows. All talked annuals are now valued in a tight cluster around this level having been valued as much as 2.5 p/th apart last month. The only slight outlier is October '20 Annual, which is talked at a 0.5 p/th premium, partly amid expectations that next winter may not be as oversupplied as this one.

Short-term UK gas prices have been very volatile over the last fortnight – with Day-ahead swinging as high as 30 p/th and as low as 20 p/th, although even at the high end of this range they are still at their lowest level for the time of year since 2009. The volatility has come as colder, sporadically blustery weather has given way to unseasonably warm weather with consistently high wind levels. Demand has been pushed to more than 20% below seasonal norms over the last few days as a result.

Supply has been helped by more LNG deliveries and there being no export flows through the main interconnector with Europe (IUK) this month. A smattering of unscheduled outages in the North Sea – at the Kvitebjorn, Gullfaks and Oseberg fields, as well as in pipes leading into the St. Fergus terminal in Scotland – has kept prices from falling further.

13 LNG cargoes are reportedly expected to dock in the UK this month, while analysts have talked of an unprecedented number of "stranded" LNG cargoes – ships that are looking for a home (possibly after being turned away from their original destination) in European waters. (Spain, Europe's biggest importer, turned away 11 cargoes last month, with analysts suggesting 9 may follow this month and that they are likely to head north.)

The amount of gas in storage sites across Europe continues to reach new highs, according to data from GSE (Gas Storage Europe – the storage operators association). Sites are now at 98% fullness, up from 84% fullness at this time last year.



Source: Marex Spectron

Outlook:

The start-up of Norway's Martin Linge oil and gas field, which has estimated gas reserves of 25 BCM, has been pushed back from the start of next year to Q3 2020. (One of Norway's biggest ever oil fields has meanwhile just come onstream – the Johan Sverdrup field is Norway's biggest oil discovery since the 1970's and is set to boost national output by a third.)

Russia, Ukraine and the EU are set to meet again for trilateral talks on October 28th to agree a new Russia-Ukraine gas transit agreement, which is crucial to Europe's supplies as over a third of the gas it imports from Russia comes via the Ukraine. EU negotiators have said a deal is likely, although the contract will not be as long as the current 10-year agreement which expires at the end of this year.

The Pierce oil field in the UK sector of the North Sea is to be modified to allow the export of gas from the site from 2021. Estimates have previously put the field's gas reserves at 5.5 BCM.

"Our analysis in relation to the UK's planned exit from the European Union shows margins that are sufficient even in a scenario with no interconnector flows between GB and continental Europe; however, the market would need to attract regular LNG supplies to the UK…Gas demand for electricity generation is forecast to be lower this winter than last winter due to growth in renewables," National Grid says in its Winter Outlook.

Key Gas indicators:											
Long-term UK (p/th)				Short-term UK (p/th)				**European gas (€/MWh)**		**Crude Oil**	
Apr '20 Annual	*chg*	*Oct '20 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*TTF 2020*	*chg*	**Oil (Brent) $/bbl**	*chg*
48.85	0.45	49.40	0.75	42.15	-0.52	23.20	-4.19	18.03	0.61	60.17	2.67
								All changes (chg) are compared to last report.			