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early November 2019

ELECTRICITY

Annuals shed £2, Month-ahead £5

Forward UK power prices have swung lower again since mid-October, more than wiping away the gains seen in the first half of the month, with November slumping by £5/MWh and April '20 Annual slipping £2/MWh, in the face of improving supply expectations for gas and power over the rest of the winter and into next year. Shorter-term prices, meanwhile, have been volatile, on the back of changeable wind levels and a choppy short-term gas market.

Rallying oil and emissions markets have failed to bolster longer-term levels while a firmer pound (up 5% versus the dollar and 3.5% against the euro over the last month) – and consequent reduction in energy import costs – has added to the down-drag.

With forecasters widely predicting that the current cold weather is to give way to seasonally normal to mild temperatures this helped apply significant pressure across the front winter months, and November in particular, which tumbled to £44.5/MWh as it went off the board. The extension of outages at two reactors at the Flamanville nuclear plant in northern France – by a month and eight weeks due to "complex maintenance activities", helped stem the sell-off briefly at the end of October, as the impact of a EUR 3/MWh jump in French prices filtered across the Channel, although once the news had been absorbed prices pushed lower again. (Meanwhile the French nuclear regulator ASN has formally confirmed that none of the six reactors recently found to have substandard welds needs to be shut down for repair work at this stage.)

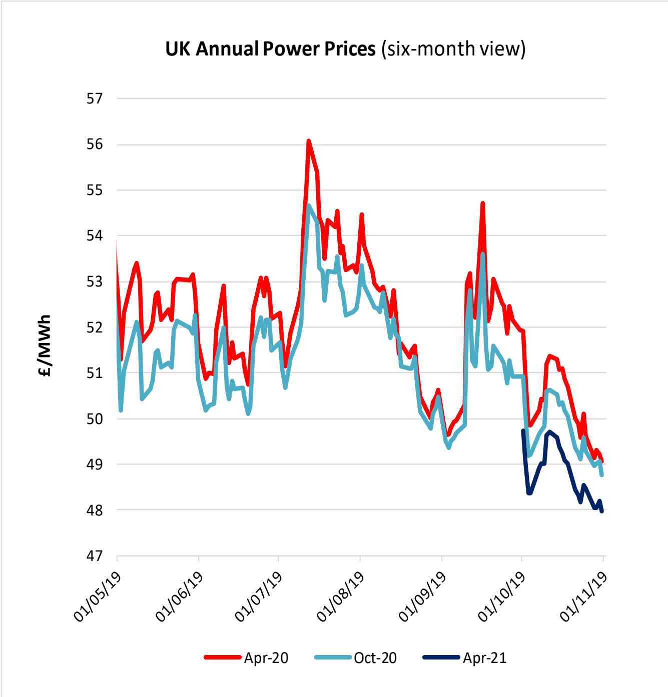
April '20 Annual UK power is currently pegged just above £49/MWh and October '20 Annual just below £49/MWh, both at their lowest levels in seven months.

Oil markets nudged higher over most of the second half of October, amid further talk of OPEC+ nations extending and potentially increasing current production curbs – rising from $59/barrel to almost $62/barrel – although they have since slipped back a couple of dollars as shrinking Chinese economic growth and rising US inventories have brought lower demand expectations back to the fore.

EUAs (CO_2 emissions allowances that generators factor into costs) at the same time have also rallied, albeit in a meandering fashion, from EUR 24.5/TCO2 to EUR 26/TCO2, as chances of a no-deal Brexit faded, reducing fears of allowance dumping.

At the same time coal prices, which rallied mid-October as Colombia announced production cutbacks, have since fallen sharply, with Year-ahead prices sliding 8.5%, to below $64/tonne – high stocks and unseasonably low demand globally contributing again.

On the short-term UK power market Day-ahead has swung as high as £43/MWh and as low as £33.5/MWh, dips in generally strong wind levels pushing it towards the highs of this range, while volatile gas prices have also been a major directional driver.



Source: Marex Spectron

Outlook:

↑ The restart of both reactors at the Dungeness nuclear power plant in Kent has been delayed by two months, until the end of January.

→ The UK's Capacity Market mechanism, which is intended to guarantee security of electricity supply by paying generators to keep capacity available, has been cleared to restart by the European Commission. The mechanism was suspended last year to allow the Commission to investigate whether it had breached state aid rule protocol in first approving it in 2014.

UK wind power output in October reached a record 21.2% market share, according to National Grid, up from 18.3% in October last year and 20.8% last month. Coal's share was 1.3%, down from 4% in October last year.

The French government has unveiled plans for the potential construction of six new nuclear reactors over the next fifteen years.

↓ Energy use in Germany, Europe's biggest energy consumer, is set to hit a more than 40-year low this year, analysts say, partly due to recession fears, but also due to the country's shift to a more services-orientated economy as well as energy efficiency drives there.

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*
49.08	-2.30	48.78	-1.85	44.50	-4.22	34.14	4.69	49.28	1.18	49.28	-2.15
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*
63.70	-5.25	60.19	0.02			25.60	1.16	25.76	1.13	26.02	1.04
								All changes (chg) are compared to last report.			

GAS

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April Annual at 18-month low

While reportedly record LNG inflows into the UK grid (accounting for up to 40% of UK gas supply) weighed heavily on short-term UK gas prices at the end of October, this came after another very volatile few weeks, which has seen prices swing by as much as 10 p/th – on the back of weather changes and North Sea output variability. Longer-term UK gas prices meanwhile have come under persistent pressure since mid-October, amid historically high European gas storage levels, a strong LNG supply outlook and milder weather forecasts emerging for the second part of November and beyond.

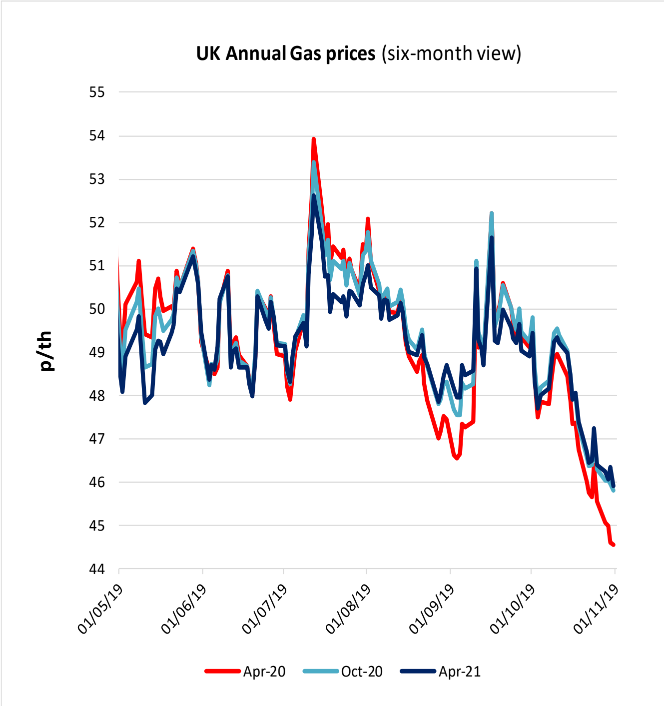
November (month-ahead) took a particularly strong bearish hit, especially towards the end of October, falling to 35.5 p.th – down 8% over the last fortnight, although all residual Winter '19 periods also crumbled too. The weakness spilled into next summer, with Summer '20 sliding from 43 to 39.5 p/th, amid concerns that storage sites may still be unusually full and therefore replenishment buying unusually light then if the winter is mild.

Prices from next winter and beyond were much less bearish. As a result April '20 Annual slipped to a clear and significant 1.5 p/th discount to the other talked annuals, which are now all clustered just beneath 46 p/th. At 44.5 p/th, April '20 Annual is now also at its lowest level in 18 months. Denmark announcing that it will allow the Nord Stream 2 pipeline from Russia to cross its territory also appeared to weigh on talk – as it removes one of the final obstacles to the completion of the pipe next year, which could potentially lead to more Russian gas flowing into western Europe (although the pipe is seen by many as just offering a more direct route for existing gas that currently flows indirectly through other countries, such as Ukraine).

Oil has had limited influence, as oil prices firmed for most of the second half of October, peaking just shy of $62/barrel amid expectations of producer cutbacks. Rising US inventories and global economic concerns have helped chip prices lower over the last few days though.

Short-term UK gas prices have again been volatile – surging and crashing twice since our last report (and surging again at the time of writing…). Day-ahead has thrashed between 21 and 31 p/th. Unplanned Norwegian outages, colder forecasts and wind lulls have been behind the run-ups (including the current one), while outside of these supply from the offshore and from LNG has been plentiful, pressing prices lower.

The amount of gas in storage sites across Europe meanwhile remains at record highs and has not been diminished by the colder weather. According to data from GSE (Gas Storage Europe – the storage operators association), sites are still at 98% fullness, up from 87% fullness at this time last year.



Source: Marex Spectron

Outlook:

"Colder than normal weather is expected for the UK and north-western Europe over the next fortnight, with wind levels dropping off in the second week," says Marex Spectron's meteorology desk.

The UK government is set to announce a ban on new fracking operations imminently, according to press reports.

Denmark has approved plans for the Nord Stream 2 gas pipeline to cross its seabed. Completion work on the pipeline, which will increase direct pipeline capacity from Russia into western Europe, has been on hold while the Danish government mulled whether to grant approval. It is now expected to be operational in the first half of next year.

Global LNG usage for shipping fuel could surge to 40 BCM by 2030, according to analysts (European usage was 0.5 BCM last year) as new legislation for limiting sulphur in shipping fuel comes into effect from January.

"Most of the NWP (Numerical Weather Prediction) models suggest that, beyond the next two weeks, the winter could be milder than normal, particularly in December," says Marex Spectron's meteorology desk.

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*
44.55	-4.30	45.80	-3.60	35.34	-6.82	24.31	2.25	16.45	-1.58	60.19	0.02
								All changes (chg) are compared to last report.			