ELECTRICITY

Forwards pressure persists…

Forward and short-term UK power prices have again moved in different directions over the first half of November, annuals sliding – to a 19-month low, just as Day-ahead has rallied – to a seven-month high, the former coming under continued pressure from a healthy gas supply outlook just as the latter has been bolstered by a lingering cold spell and supply disruption. An earthquake in southeast France on November 11th, which forced the closure of three nuclear reactors at the nearby Cruas power station, caused some jitters on mainland European markets although these were short-lived and failed to spill through to the UK market.

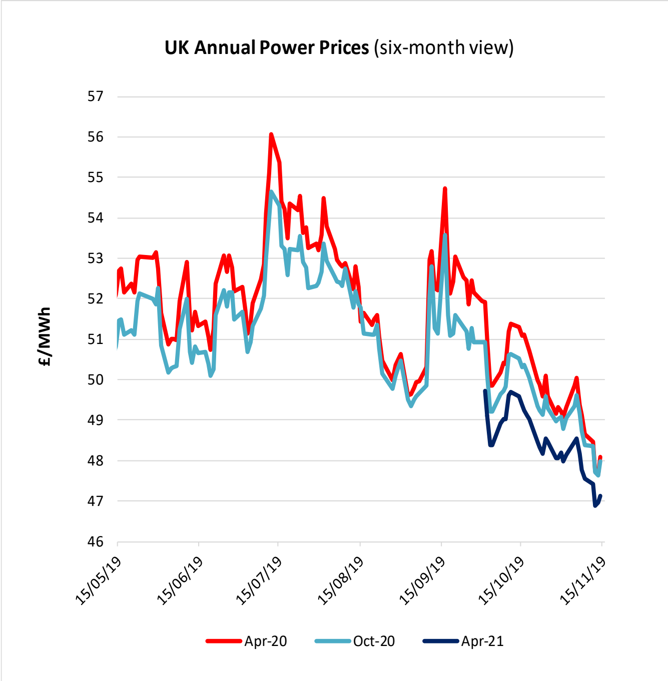
The restart of Cruas, which accounts for up to 5% of France's power output, has since been delayed until December but EdF, its operator, says this is for purely administrative reasons, allaying market fears that the plant might face an extended shutdown.

April '20 Annual has fallen beneath £48/MWh over the last couple of days – the lowest front annual price since the start of April last year – and slipped to parity with October '20 Annual, which has come under slightly less relative pressure. Forward prices did rally briefly at the start of November, caught up in a bullish flurry across gas and oil markets, but then started chipping lower again, since shedding almost 5% in value. High gas storage levels, expectations of a continuing LNG glut and forecasts of a milder than normal winter all continue to weigh strongly on discussion.

Oil's early November rally, which saw it rise nearly 5%, or $3/barrel, to $63/barrel, came amid optimism about US-China trade talks. It has since nudged slightly lower, oscillating either side of $62/barrel amid shifting confidence over the trade talks and varying US oil inventory statistics.

Coal and emissions markets have at the same time eased. EUAs (CO_2 emissions allowances that generators factor into costs) have fallen from over EUR 25.5/TCO_2 to below EUR 24/CO_2, and coal from $65/tonne to as low as $62.5/tonne, with a Chinese cap on coal imports for the remainder of this year and Germany announcing plans to accelerate the closure of its old coal-fired power stations from next year both appearing to contribute to the bearishness.

On the short-term UK power market prices have been firmer, with Day-ahead trading above £43/MWh for much of the last fortnight, and as high as £51/MWh by mid-November (having dropped as low £33.5/MWh at the end of October). A surge in Day-ahead gas prices – due in part to the cold weather boosting demand – has been a major factor, while wind has again played a key role, the highs coming as wind levels dropped sharply. As a result coal-fired power plant has also switched on and ramped up to its highest levels since last February, while electricity imports have also increased sharply.



Source: Marex Spectron

Outlook:

↑ The cold spell is expected to persist for another week, say forecasters.

→ The Market Making Windows (10:30-11:30 and 1530-1630) on the UK power market are to be suspended from November 18th, Ofgem has just announced. Designed to encourage market liquidity when they were introduced five years ago, they made it mandatory for the "Big Six" electricity companies to post bids and offers on the market during these time windows. However, following divestments in assets only two of the original six market makers are now still participating, meaning the windows are "less effective" and impose "disproportionate and potentially unfair costs" on the remaining parties, Ofgem said. Ofgem acknowledged the suspension could result in wider bid-offer spreads in the market, but said it had not seen any clear evidence that this will lead to higher market prices.

Boris Johnson has pledged to boost offshore wind power capacity in the UK by a third, or 10 GW, over the next 10 years, if the Conservatives win the upcoming election. He also pledged to spend £800 million on carbon capture and storage and £500 million on reducing emissions from energy-intensive industry.

Europe's wind power potential is nearly 34,000 TWh/year, more than 31,000 TWh/yr greater than current demand, the IEA (International Energy Agency) says in a new report.

↓ Wet weather has boosted hydropower reservoir levels in several European countries. French reservoirs have nearly reached a five-year high, while Swiss reservoirs are 33% fuller than normal. This will help Europe's power supply potential over the winter.

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*
48.10	-0.98	47.98	-0.80	47.03	2.53	45.30	11.15	45.35	-3.93	48.13	-1.15
Key Other indicators:											
Coal ($/MT) '20	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '19 (€/TCO2)**	*chg*	**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*
63.80	0.10	62.71	2.52			23.96	-1.64	24.11	-1.65	24.34	-1.68
								All changes (chg) are compared to last report.			

GAS

...as short-term bucks higher

Short and longer-term UK gas prices have converged over the last fortnight, with Day-ahead and front Annual price tags closing into just 4 p/th of each other at one stage (having been as much as 28 p/th apart last month). This has happened as Day-ahead prices have surged on the back of strong demand and outages while longer-term levels have been pushed lower on expectations of plentiful gas supply in the coming months.

April '20 Annual has fallen to a 19-month low, around 43 p/th, while Day-ahead has powered to a seven-month high, around 39 p/th.

The higher Day-ahead levels have come despite continued very strong LNG inflows into the UK grid, often accounting for at least 30% of UK supplies. (Send-outs into the network from the Isle of Grain terminal in Kent, Europe's largest LNG terminal, meanwhile reached record daily levels – of 65 mcm (million cubic metres).) A cluster of new unplanned outages in the North Sea – including in the Entry Segal pipeline system and at the Gullfaks field – have helped bolster levels, as has stronger than normal demand: for heating due to the cold spell, and from generators as wind levels have dipped.

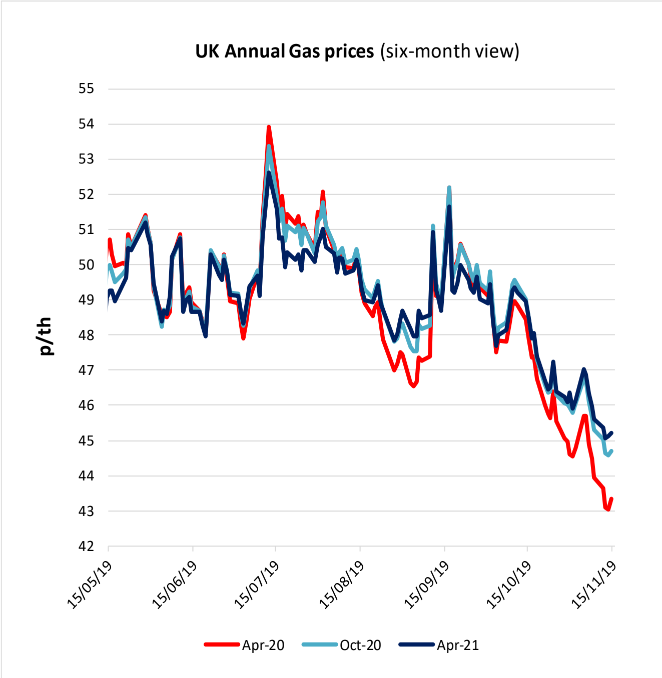
Annuals remain pressured by high European gas storage levels, further forecasts of a warmer than normal winter across much of Europe, and expectations of a lingering LNG supply glut (in turn fueled by forecasts of a mild winter in Asia and reduced gas import demand from China, whose economy is slowing).

An oil market rally (on perceived progress in US-China trade talks) and the sudden and strong short-term market gains prompted a brief uptick in forward UK gas prices at the start of November, but the downtrend has since resumed, with Annuals shedding as much as 6% in value. This is despite oil prices dipping only slightly and short-term UK gas levels holding firm. Wavering sentiment over the US-China trade talks and OPEC+'s plans have buffeted oil prices up and down, with changes in US oil inventory levels also contributing – although Iran announcing the discovery of massive new oil reserves had no immediate impact.

Month-ahead (December) UK gas has again seen some of the greatest bearishness, and is off 9% over the last ten days, at just over 40 p/th, as most forecasters have reinforced their view that the month will be milder than normal.

While April '20 Annual has seen significant weakening, there has once more been progressively less weakening on the seasons and annuals beyond this, with the supply glut seen as unlikely to continue much beyond next year. April '20 Annual has therefore extended its discount to the other annuals, while October '20 Annual has slipped to become the second weakest annual, valued just over 44.5 p/th.

The cold weather has only led to minimal net withdrawals from gas storage sites across Europe. Sites are still at 97% fullness, compared to 98% at the start of the month.



Source: Marex Spectron

Outlook:

↑ "Wind levels look set to struggle to pick up over the next week, while the cold will initially linger, gradually giving way to normal to above normal temperatures," says Marex Spectron's meteorology desk. "While the consensus of weather centres is for a mild December/January, we are now more cautious on advising for such a bearish development" it adds.

The annual production quota at Troll, Norway's largest gas field, has been reduced by 5% by the government there, following requests from the field's operator, which appears to have been concerned a high rate of extraction at Troll would affect oil and gas extraction in other nearby fields.

→ The UK government has announced a moratorium on fracking, as expected. However, Business Secretary Andrea Leadsom has said the ban is temporary "until the science changes" and that shale gas is still a "huge opportunity for the UK".

↓ The full start-up of the new Aerfugl Norwegian gas field has been brought forward by three years, with production to start in the first half of next year. The field has estimated reserves of 30 BCM.

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*
43.35	-1.20	44.70	-1.10	40.59	5.25	38.40	14.10	16.26	-0.19	62.71	2.52
								All changes (chg) are compared to last report.			