

ELECTRICITY

Oil surge curbs downtrend

2019 ended on a low, with April '20 Annual becoming the weakest front Annual in more than 28 months, and Month-ahead and Day-ahead sliding off the board at their lowest levels for the time of year since 2015. The price rot continued as 2020 started, amid improved gas supply confidence following the formal signing of a new Russia-Ukraine gas transit agreement and amid warmer weather forecasts, although prices were shunting higher at the time of writing, after the US killing of Iran's top military official jangled oil supply nerves and drove oil prices up by 4%.

April '20 Annual UK power is currently valued at around £37/MWh, having dropped as low as £36/MWh. While this is still down on where it was in mid-December, the end-2019 downtrend was far from smooth. Prices roared higher in the third week of December as the Ukraine-Russia gas deal negotiations appeared to have hit an impasse, forcing the front annual up by 8%. Values crashed off again however a few days later as an agreement in principle was reached and then subsequently solidified into a full contract.

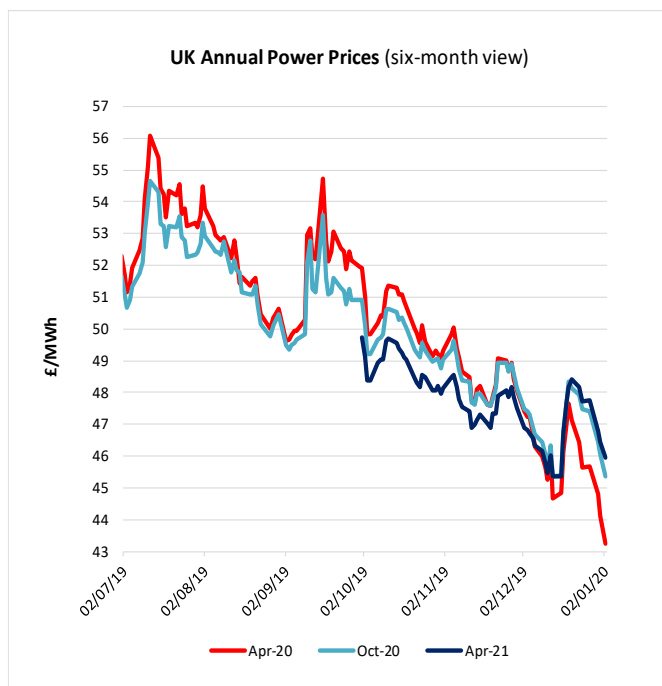
January and February prices also rose sharply and then tumbled – rising from around £44/MWh to £47/MWh, before sliding below £41/MWh, and then rebounding again today.

Further nuclear issues in France – where EdF was forced to repair potentially faulty electrical safety components at the Penly 2 reactor after a “significant” event and launch precautionary checks at other reactors, and outages were extended at both Flamanville reactors by another month, to the end of January and February respectively, due to maintenance “complexities” – were largely shrugged off by the market.

Wind levels have been generally good, although more variable than the first half of December, and alongside lower holiday-related demand have weighed on Day-ahead prices. Prices troughed beneath £33/MWh as the new year started amid a surge in wind – well below the £47/MWh seen in mid-December when there was a marked lull. High power imports from mainland Europe and Ireland have also added some pressure.

The weakness in the April '20 Annual has not been shared equally with the future annuals, however, with prices for October '20 Annual and April '21 Annual now above where they were two weeks ago, and carrying a premium of at least £2/MWh to April '20 Annual (having been at a discount to it until the start of December), influenced by relatively firm forward gas prices.

EUAs (CO₂ emissions allowances that generators factor into costs) meanwhile have swung from below EUR 25/TCO₂ to above EUR 26.5/TCO₂ and then down again over the last fortnight, taking their lead from other markets, while coal has slumped further – 2020 coal going off the board at just above \$56/tonne – a fresh three-year low.



Source: Ilex Spectron

Outlook:

↑ Ahead of the attack on Iran's leading general, oil prices were already on an uptrend, due to US-China trade deal optimism and falling US oil inventories. Any further gains could prove supportive to the rest of the energy complex.

If Brexit negotiations become protracted or difficult over the coming months, the pound could shed some of the strength it gained in the run-up to the UK election and Conservative victory. This may bolster UK gas and power prices by driving up import costs.

→ More UK power came from zero-carbon sources than fossil fuels in 2019 for the first time, according to National Grid, which called it “a historic moment”.

Operators of the Hornsea One wind farm have been fined £4.5 million for contributing to the UK power cut in August that was triggered by a lightning strike, while distribution grid operator UK Power Networks has agreed to pay £1.5 million for potentially jeopardising the network's recovery.

Wind accounted for a share of 46.9% of national power in Denmark last year, a record market share for any country, according to industry association Wind Europe.

↓ If the current forecasts of mild weather extend further into the Winter, and there are no major supply issues and good wind levels, prices could remain under pressure or buckle further.

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|--|--|-------|--|--------------------|--|-----------------------|--|-------------------|--|-------|--|------------------------|--|--------|--|------------------|--|-------|--|------------------|--|-------|--|
| 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 '21 | | chg | | France Cal '21 | | chg | |
| 43.25 | | -1.60 | | 45.35 | | -0.05 | | 41.08 | | -2.75 | | 32.90 | | -14.10 | | 43.92 | | -1.01 | | 45.80 | | -0.52 | |
| Key Other indicators: | | | | | | | | | | | | | | | | | | | | | | | |
| Coal (\$/MT) '21 | | chg | | Oil (Brent) \$/bbl | | chg | | | | | | EUA '20 (€/TCO2) | | chg | | EUA '21 (€/TCO2) | | chg | | EUA '22 (€/TCO2) | | | |
| 62.25 | | -2.50 | | 65.80 | | 0.30 | | | | | | 24.38 | | -0.70 | | 24.58 | | -0.72 | | 24.90 | | | |
| All changes (chg) are compared to last report. | | | | | | | | | | | | | | | | | | | | | | | |

GAS

More falls as Russian gas deal signed

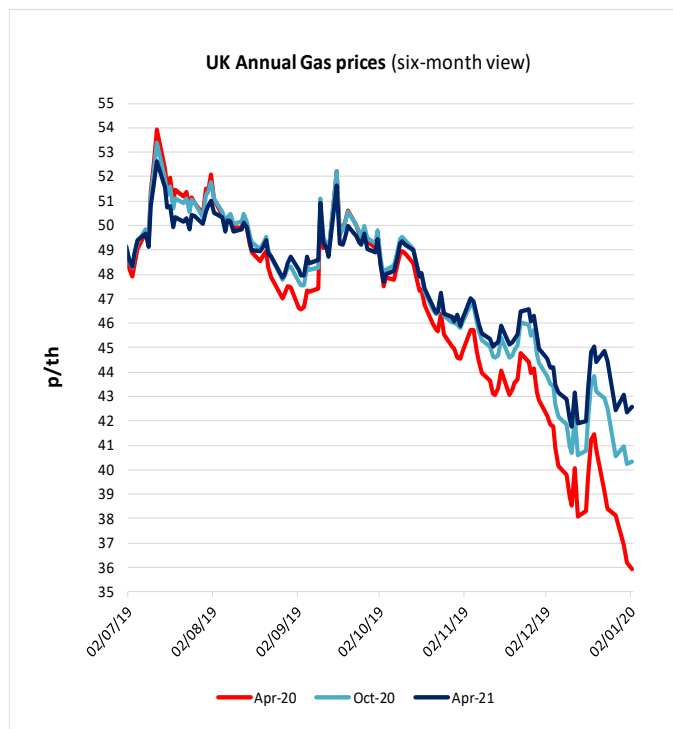
The official signing of a new five-year Russia-Ukraine gas agreement, also covering the transit of Russian gas into Europe – hailed as “a great day for Europe’s energy security” by the European Commission – applied further pressure to UK and European gas prices as 2019 ended and 2020 started, after several weeks of “will they-won’t they” created significant uncertainty and volatility. But prices were rebounding at the time of writing, as the US killing of an Iranian general said to be the country’s second in command ratcheted up geopolitical tensions and led to oil prices jumping 4%, to a three-and-a-half-month high. Reports of a drop in physical Russian export flows to Europe, despite the signing of the deal with Ukraine, also helped push short-term prices higher.

Day-ahead prices have generally come under pressure over the last fortnight, in the face of continuing good North Sea and LNG supplies, a festive drop in end-user demand and limited buying interest from generators amid good wind levels, with the period trading almost entirely sub-30 p/th, and as low 26.5 p/th (down from 32.5 p/th in mid-December). Unplanned outages at the Oseberg and Gullfaks fields in the Norwegian offshore provided little support.

Forward prices have followed a slightly different trajectory, climbing sharply in the third week of December as doubts over a Russia-Ukraine deal being reached ballooned suddenly, fueled by comments from the head of Ukrainian gas company Naftogaz that the chances of deal being reached by the end of 2019 were extremely small – “approaching zero by the minute”. But soon after this a provisional deal was struck and announced, sending prices reeling lower again. January UK gas saw some of the greatest resultant volatility – rising as high as 40 p/th, before chipping down to almost 30 p/th as it went off the board at the end of 2019 – the lowest Month-ahead price for the time of year in 15 years.

April '20 Annual at the same time first rose from 38 p/th to 41.5 p/th, before crumbling to under 36 p/th – its lowest level, and the lowest levels for any front annual, since May 2016. It is now discussed around a penny up from this low. Annuals further forward have also eased, but by much smaller amounts again, prising inter-Annual differentials much wider and reinforcing the market’s *contango* (whereby all periods step higher going forwards). October '20 Annual is now valued at a 4.5 p/th premium to April '20 Annual and the furthest talked annual, October '25 Annual, at premium of nearly 11 p/th (up from 2.5 p/th and 7 p/th respectively in mid-December). An expectation of a diminishing supply glut in future years is keeping prices relatively buoyed further out, albeit in thin discussion.

European gas storage sites are now at 88% fullness, compared to 68% fullness at this time last year, according to Gas Storage Europe, the storage operators’ association. At the same time UK LNG storage sites have swelled from 40% to 80% fullness over the last fortnight.



Source: Marex Spectron

Outlook:

↑ Iran has pledged “severe” revenge for the US killing of Iran’s leading general Qasem Soleimani. Any further escalation in US-Iran tensions is likely to drive oil prices higher, putting upwards pressure on other energy markets in turn.

→ Europe absorbed around 80% of new LNG supply in 2019, with LNG imports breaking above 100 BCM for the first time, IEA analysts told newswire Montel.

↓ “There is a strong likelihood of significantly warmer than normal temperatures throughout Europe over the next ten days. Intermittent high and low pressure systems could lead to a couple of blasts of windy weather, but very calm periods otherwise,” says Marex Spectron’s meteorology desk.

| Key Gas indicators: | | | | Short-term UK (p/th) | | | | European gas (€/MWh) | | | | Crude Oil | |
|--|-------|----------------|-------|----------------------|-------|-----------------|-------|----------------------|-------|--------------------|------|--------------------|------|
| Long-term UK (p/th) | | | | Month-ahead index | | | | TTF 2021 | | | | Oil (Brent) \$/bbl | |
| Apr '20 Annual | chg | Oct '20 Annual | chg | Month-ahead index | chg | Day-ahead index | chg | TTF 2021 | chg | Oil (Brent) \$/bbl | chg | Oil (Brent) \$/bbl | chg |
| 35.93 | -2.38 | 40.33 | -0.45 | 31.80 | -3.70 | 27.09 | -5.21 | 16.30 | -0.25 | 65.80 | 0.30 | 65.80 | 0.30 |
| All changes (chg) are compared to last report. | | | | | | | | | | | | | |

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