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ELECTRICITY

Bearishness returns as oil fears ease

UK power and gas forward markets have turned bearish again over the last week, as the oil market fears following the US killing of Iranian general Qasem Soleimani and subsequent bombing of US air bases have subsided, with the US and Iran both appearing keen to pull back from military conflict. High wind levels and milder than normal temperatures have at the same time boosted physical supplies and weighed on short-term UK power and gas prices.

Summer '20 and April '20 Annual UK power, having rallied alongside oil in the first few days of January, are now both at new long-term lows – April '20 Annual slipping below £42/MWh, the lowest price for a front annual since May 2017, and Summer '20 dropping to £37/MWh. Future seasons and annuals have also softened, but again not by as much, meaning inter-annual spreads have been prised slightly wider once more, April '21 Annual's premium to April '20 Annual swelling to more than £3/MWh.

Oil prices have now tumbled as much as $5/barrel, or 7%, since their early month peak, with good global supply, record high US output and rising US inventories helping the downwards correction, although the signing of a US-China "phase one" trade deal has bolstered sentiment over the last couple of days.

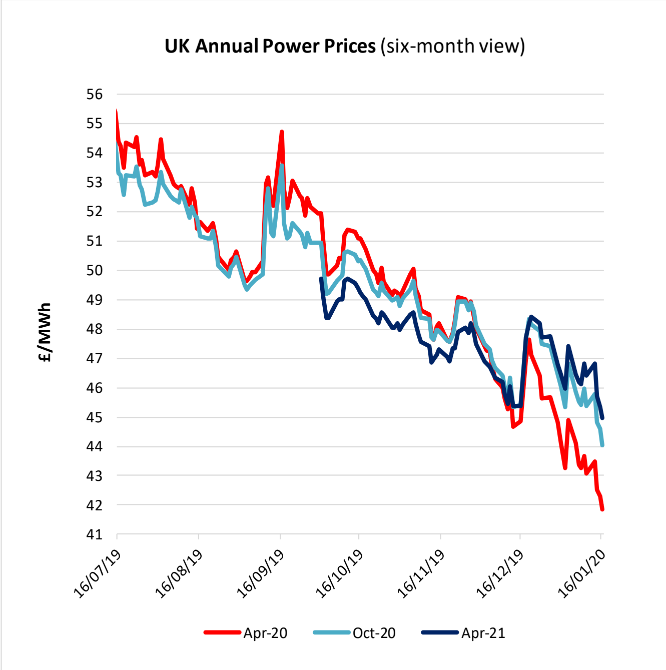
Not all energy markets have tracked oil higher and lower though. Notwithstanding a sharp sell-off mid-January, coal prices had been rallying fairly steadily since the end of last year, with flooding of South African mines, a reduction in Indonesian coal output and stronger Indian and Chinese buying (ahead of the Chinese New Year) all said to have contributed. Year-ahead coal rose from $62/tonne to $65.5/tonne as a result, before all off these gains were suddenly wiped away as buyers pulled to the sidelines – the release of figures showing rising port inventories in Europe, despite a recent increase in coal-burn by generators, appeared to be a key driver.

EUA emissions allowances at the same time have moved in the opposite direction, chipping down from above EUR 25/TCO2 to below EUR 24/TCO2, before rallying sharply mid-month. Expectations that the UK will launch its EUA state auction programme for 2019 and 2020 EUAs over the next few weeks have generally weighed on discussion, although Germany confirming its coal plant phase-out plan and related cancelling of EUAs has just caused prices to jolt higher again.

Day-ahead UK power prices have swung from below £33/MWh to above £36.5/MWh and down again, the lower prices occurring at the start of the month and mid-month in the face of strong winds (Storm Brendan pressuring mid-month levels), and the higher prices around the 8th-10th when wind levels dropped. Issues in the Western Link cable between Scotland and England since the 10th have appeared to constrain wind power flows down the country.

Imports have meanwhile generally slipped, helped by extended strikes in France as part of widespread protests against pension reform – which reduced capacity there by up to 12 GW.

Month-ahead (February) UK power prices have at the same time tumbled, from a high of £42/MWh, to almost £38/MWh.



Source: Marex Spectron

Outlook:

"A drop-off in wind levels and temperatures slipping back to seasonal norms is expected over the next week or so – with warmer, windier and potentially wetter weather forecast to return again thereafter," says Marex Spectron's meteorology desk.

Further French strikes could continue to limit French generation output and potential imports to the UK from mainland Europe.

A new battery – made entirely from materials that can be extracted from seawater, is being developed by IBM Research. The company claims the new technology will eliminate the need for heavy metals in batteries and transform battery sustainability. It also says it outperforms existing lithium batteries in several areas, including that is faster charging, cheaper and has a higher power density.

French reservoir levels at hydropower stations are at a record high and 20% above normal levels, according to EdF, which says this will help supply in the event of a cold snap.

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*
41.85	-1.40	44.03	-1.33	38.75	-2.33	37.00	4.10	43.54	-0.38	45.26	-0.54
Key Other indicators:											
Coal ($/MT) '21	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*
61.95	-0.30	63.90	-1.90			24.85	0.47	25.07	0.50	25.38	0.48
								All changes (chg) are compared to last report.			

GAS

New multi-year lows reached

Although fever-pitch US-Iran tensions boosted forward UK gas prices in the first few days of January, as oil prices ramped higher, they soon slipped back as the threat of further military action by either side dissipated. Longer-term gas prices have since pushed down to fresh multi-year lows. Shorter-term levels have been less volatile and partially buoyed by a cluster of Norwegian outages, despite high wind levels reducing gas demand from generators.

April '20 Annual, having risen up to almost 39 p/th, has since shed almost 5 p/th, and is now valued just above 34 p/th – the lowest level for a front annual since May 2016. October '20 Annual has tracked it lower – at a premium of 4.5 p/th – while other Annuals have also slipped, but by marginally less.

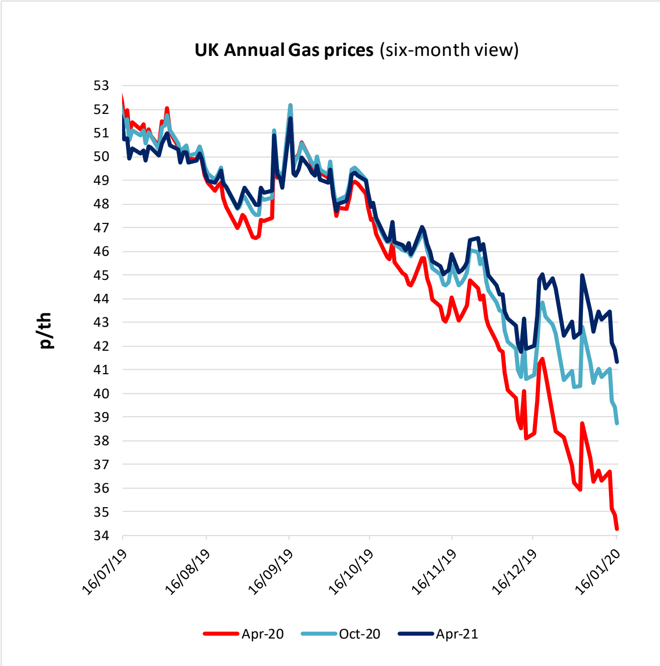
Several factors continue to apply the price pressure: a well-supplied physical market, record high levels of gas in European storage sites for the time of year, mild forecasts and a healthy LNG supply outlook for the next couple of years – all in the bearish wake of the signing of the Russia-Ukraine gas deal at the start of the year (whose impact was tempered briefly by reports of a drop in physical Russian export flows to Europe soon after it was inked).

Oil prices meanwhile have tumbled from a fortnight high of $69/barrel to oscillate between $64-65/barrel over the last few days, caught between the bearishness of high US production and storage levels and the bullishness of the signing of a stage one trade deal between the US and China.

Day-ahead UK gas prices have moved mostly between 27-30 p/th over the last two weeks, getting some support from unplanned outages at the Aasta Hansteen and Troll fields, among others, despite unseasonably low demand – which has dipped to 15-20% below normal at times. Storm Brendan helped reduce generator buying interest as it boosted wind power, while generally milder than normal weather has crimped end-user consumption.

February (Month-ahead) UK gas, having experienced a momentary flick higher at the start of the month, has continued to edge lower, and is now valued around 28.5 p/th – the lowest month-ahead price since last summer and a fresh 15-year low for the month-ahead price at this time of year – as expectations of a winter cold snap dwindle further.

European gas storage sites are now at 82% fullness, compared to 62% fullness at this time last year, according to Gas Storage Europe, the storage operators' association. At the same time UK LNG storage sites have slipped from 80% fullness to below 53% fullness over the last fortnight, amid significant send-outs to the grid and a slowdown in tanker deliveries.



Source: Marex Spectron

Outlook:

↑ Insurance costs for LNG tankers are likely to rise as "war risk premiums" are increased following the escalation in US-Iran tensions, potentially pushing up global LNG prices, analysts say. 25% of global LNG passes through the Strait of Hormuz.

→ The Turk Stream pipeline between Russia and Turkey, which then continues on into South and Central Europe and bypasses a key gas transit route across the Ukraine, has been commissioned and started operations. Meanwhile the Nord Stream 2 pipeline, between Russia and Germany – which also bypasses existing transit routes for Russian gas, will be completed in Q4 '20 or Q1 '21, according to Russian President Vladimir Putin – six months later than originally planned due to US sanctions on the project,

China leapfrogged Japan to become the world's biggest LNG importer over the last two months of 2019. However, analysts at state energy producer China National Petroleum Corp forecast that the country's natural gas demand growth will drop in 2020 to its lowest level in 4 years, due to a slowing economy there.

↓ US LNG exports are expected to increase by 30% this year and 55% over the next two years, according to the US' EIA (Energy Information Administration), as several new export terminals on the east coast come onstream.

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 2021*	*chg*	**Oil (Brent) $/bbl**	*chg*
34.25	-1.68	38.73	-1.60	28.81	-2.98	29.50	2.41	15.96	-0.34	63.90	-1.90
								All changes (chg) are compared to last report.			