

## ELECTRICITY

### Annals weakest since May '16

UK power prices have slipped further over the last fortnight, with weak and well-supplied gas, oil and other energy markets continuing to apply the pressure. Global economic jitters due to the coronavirus have also played a major part. April '20 Annual has crashed through £40/MWh as a result – becoming the cheapest front annual since May 2016.

The downtrend has not been completely smooth however, with prices flicking higher, albeit briefly, at the start of the last week of January, as shorter term markets tightened suddenly when colder forecasts emerged for early February.

April '20 Annual is now discussed beneath £38/MWh while October '20 Annual has also dropped below £40/MWh too, both down around 9% in value over the last fortnight.

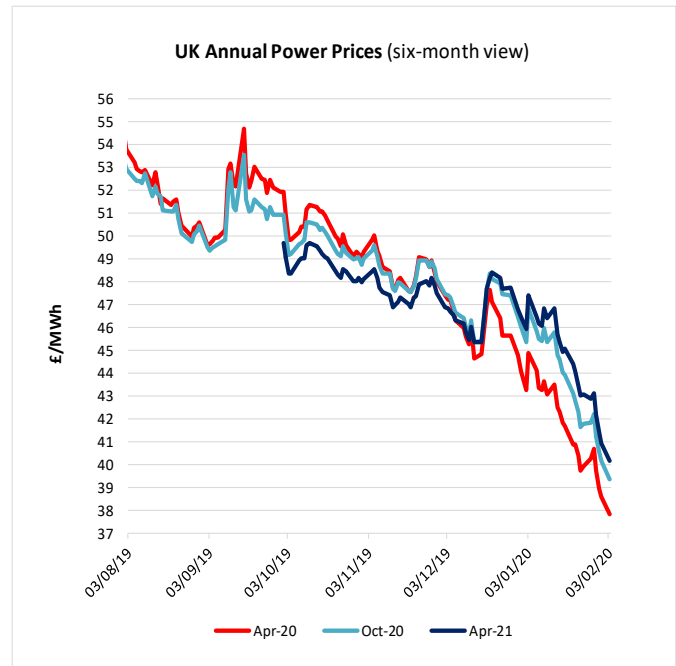
Weak global gas and oil prices in the face of expected further reductions in Chinese/Asian demand, already subdued as a result of a mild winter, have been strong influences. Asian spot LNG gas prices have dropped to an 11-year low, while oil prices have slid around 12%, from just under \$65/barrel to around \$55.5/barrel over the last two weeks, continued high US oil stocks and output contributing.

EUA emissions allowances (that generators factor into costs) have also come under pressure, 2020 EUAs, edging downwards – in a jagged fashion – from EUR 25/TCO2 to almost EUR 23/TCO2, an announcement that the UK will resume state EUA auctions from March 4 injecting some added bearishness.

The coal market has resisted some of the general down-talk, actually curling higher towards the end of January, as bushfires started to curb Australian coal output. But as other markets slumped, flooding in South Africa stopped and Indian coal demand took a downturn, prices eased again as the month rolled, 2021 coal falling beneath \$60/tonne – to its lowest level since it started being actively discussed two years ago.

Wind levels did drop off as the second half of January got under way, helping drive Day-ahead UK power from below £35/MWh to above £41.5/MWh. But blustery weather then returned in force from the 24<sup>th</sup> of January which, alongside milder than normal temperatures, pummelled levels down by more than £10/MWh, to below £31.5/MWh. A well-supplied physical gas market also contributed.

Month-ahead (March) UK power prices have at the same time tumbled by 12%, to beneath £33/MWh. Year-ahead German and French power prices meanwhile have slipped to EUR 40/MWh and EUR 42/MWh respectively, down 7% since mid-January.



Source: Marex Spectron

#### Outlook:

↑ An outage in the Western Link cable, between Scotland and England, which has forced several Scottish wind farms to be idled, is set to last for another couple of weeks while repairs are carried out.

OPEC+ countries are considering increasing oil production cutbacks – by another half a million barrels per day – to counteract the effect of the coronavirus on oil prices.

→ There has been no significant deterioration in UK power liquidity since the suspension in November of the market-making windows, which obligated large generators to post bids and offers, Ofgem says in its latest *Liquidity Policy Review Update*. However, this conclusion is based on December volumes, with Ofgem adding that it will need to have at least six months of data before making a full and proper assessment.

Rolls Royce is leading a consortium that plans to offer factory-built nuclear SMRs (Small Modular Reactors) by 2029. It says that mass manufacturing will drive down the cost of nuclear plant construction, meaning the SMRs will be competitive with renewables. It expects to build 10 to 15 such plants.

↓ “Milder and windier, with the prospect of storms – that is very much the general outlook for the next ten days across the UK (after a short-lived cold spell this week), with an even more pronounced rise in temperatures expected in mainland Europe,” says Marex Spectron’s meteorology desk.

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)				Month-ahead index		Day-ahead index		Germany Cal '21		France Cal '21	
Apr '20 Annual	chg	Oct '20 Annual	chg		chg		chg		chg		chg
37.83	-4.03	39.38	-4.66	32.80	-5.95	31.52	-5.48	40.23	-3.32	41.88	-3.38
Key Other indicators:				EUA (€/TCO2)				EUA (€/TCO2)			
Coal (\$/MT) '21	chg	Oil (Brent) \$/bbl	chg		chg		chg		chg		chg
59.28	-2.68	55.44	-8.46	23.21	-1.64	23.40	-1.67	23.65	-1.73		
All changes (chg) are compared to last report.											

## GAS

### Coronavirus adds to bearishness

UK gas prices across all periods have shunted lower again, with longer-term levels sinking alongside global gas, oil (and financial) markets, as the coronavirus's impact on China ripples out across the global economy – reducing travel and energy demand on the way. Shorter-term levels meanwhile have been pressured by healthy supplies as mild, windy weather has stemmed gas usage by generators and end-users.

April '20 Annual has shed another 5 p/th, or 15%, to slip beneath 30 p/th – the lowest level for a front annual since March 2016. October '20 Annual has at the same time tumbled below 33 p/th – while all other talked Annuals (out to 2025) are now valued at less than 40 p/th. The highest current price tag for any period is now 43.3 p/th – for Winter 2025.

Oil has seen a sharp fall over the last two weeks, of 12%, as it slumped from just under \$65/barrel to around \$55.5/barrel, while spot LNG prices in Asia – which consumes the bulk of global LNG – have fallen to a record low (since the market started being discussed 11 years ago), both weighing heavily on UK forward gas market sentiment.

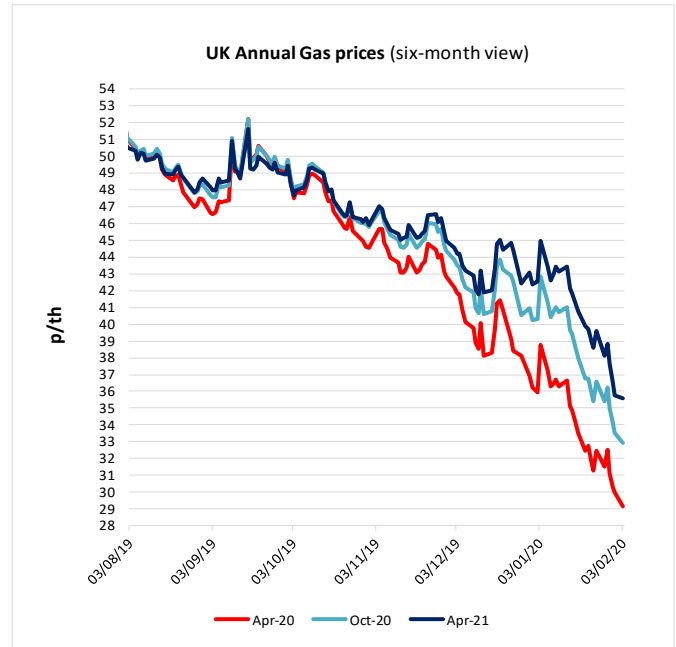
Day-ahead UK gas has meanwhile shed around 4.5 p/th, slipping beneath 25 p/th for the first time since November. Towards the end January it did witness a run-up, as forecasts turned colder, but it quickly resumed its downtrend. It again gained some limited support from unscheduled outages in the Norwegian North Sea, including once more at the Aasta Hansteen field, as well as at the Oseberg field and Kollsnes processing plant. These outages were marginally offset by limited gas imports coming through the BBL interconnector from Holland at the end of January.

European gas storage sites are now at 72% fullness, compared to 52% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.

At the same time UK LNG storage sites have oscillated between 55-65% fullness, amid further LNG deliveries – with LNG send-outs into the grid accounting for 20-30% of UK supply.

At the time of writing total UK gas demand was 230 mcm/day, 20% below seasonal norms.

March (Month-ahead) UK gas, has slid by a further 19% since mid-January, from over 28 p/th to less than 23 p/th, as the chances of a late winter supply squeeze have faded further. This is the lowest Month-ahead value in almost ten-and-a-half years.



Source: Marex Spectron

#### Outlook:

↑ A “potential dropped object above export pipework” has forced the closure of gas production at the Bruce, Rhum and Keith fields until the end of March. The outage will affect around 6 mcm/day of supply, analysts suggest.

→ Coronavirus is set to continue to have an impact on prices over the next fortnight, either way – its continued spread being bearish for global markets or its successful containment likely to boost general sentiment.

↓ Unseasonably mild weather is expected across Europe from the end of this week – with temperatures forecast to be as much as 9 degrees above normal.

Asian spot LNG prices have reached their lowest level in 11 years, dropping to around \$3.5 per million BTU (British Thermal Units) – helped by warmer than normal weather there as well as a virus-related reduction in demand. Further falls could reinforce the UK and Europe's attractiveness as a destination for LNG cargoes. Official figures just released, meanwhile, have confirmed LNG imports into Japan (the world's biggest LNG importer) last year fell 7%, to their lowest level since before the Fukushima nuclear plant meltdown in 2011.

Key Gas indicators:				European gas (€/MWh)				Crude Oil			
Long-term UK (p/th)		Short-term UK (p/th)		TTF 2021		Oil (Brent) \$/bbl					
Apr '20 Annual	chg	Oct '20 Annual	chg	Month-ahead index	chg	Day-ahead index	chg		chg		
29.18	-5.08	32.93	-5.81	23.05	-5.76	24.72	-4.78	13.73	-2.23	55.44	-8.46
All changes (chg) are compared to last report.											

The information in this market review is intended for MARKET PULSE subscribers only. Unauthorised onward transmission or copying is strictly forbidden. The contents are intended for informational purposes only and are not to be used or considered as an invitation to trade or an offer in respect of any of the products or services mentioned. Marex Spectron does not represent or endorse the accuracy or reliability of any of the information or content. Under no circumstances will Marex Spectron have any liability for any loss or damage caused by reliance on any information contained herein.