ELECTRICITY

Ciara & Dennis push DA to 12-yr low

Extreme winds brought by storms Ciara and Dennis over the last two weekends have pushed wind power generation to new highs and Day-ahead UK power prices to their lowest level since September 2007 (just undercutting the lows seen on Christmas Eve 2015). At the same time the Annuals have bounced higher – as concerns over the mid to long-term impact of the coronavirus on global energy demand have reduced and expectations of OPEC+ countries' plans for further oil cuts have increased – although not before reaching new long-term lows.

The storms, which also caused power outages, led to a couple of UK wind power records – wind supplying 56% of UK electricity momentarily on the February 8th, and more than 44% over the whole day, breaking the previous records set during Storm Atiyah in December.

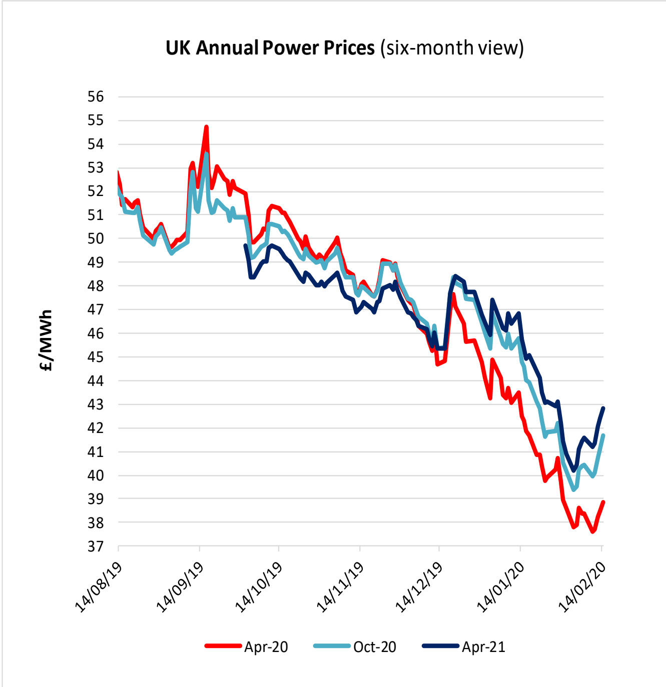
Day-ahead and Weekend slipped to almost £26/MWh as a result ahead of both storms, although in between and since they rebounded. Month-ahead has in turn been pressed to a low of almost £31/MWh, its weakest level since April 2016.

April '20 Annual also edged down to £37.5/MWh – a new lowest level for a front annual since May 2016. However, it has rallied as much as 3% over the last week, driven up largely by its Winter '20 component, as prices from next Winter have risen on expectations that supply may be tighter and demand stronger by then (while Summer '20 remains subdued by plentiful energy stocks and virus concerns). Annuals further forward have seen a greater rebound – April '21 Annual rising as much as £2.5/MWh, or 6.5%, over the last fortnight.

The oil market has shrugged off a downwards revision in oil demand growth from the IEA (International Energy Agency) – which now expects oil consumption in the first quarter of this year to shrink for the first time in ten years – focusing more on potential OPEC+ production cuts, with prices rising almost 8% over the last week, from $53/barrel to over $57/barrel.

Meanwhile a rebound in coal prices too over the last few days – Year-ahead coal rising from $58.5/tonne to $60.5/tonne – is said to have been helped by the coronavirus – with Chinese import interest increasing as domestic coal capacity has been shut while demand from generators there has remained relatively buoyant.

EUA emissions allowances (that generators factor into costs) have also shunted higher, 2020 EUAs climbing from EUR 23/TCO2 to almost EUR 24.5/TCO2, the gains appearing to be triggered by the upswell on other markets rather than any specific emissions markets news. At the same time Year-ahead German and French power prices have ratcheted up as much as 7.5% – to EUR 43/MWh and EUR 45/MWh respectively, recouping most of the losses seen over the second half of January.



Source: Marex Spectron

Outlook:

An outage at the Hunterston B-7 nuclear reactor has been extended again, with its restart pushed back from the end of February to April 10th.

More strikes against pension reform are planned by French unions, which may continue to affect French power output (since December industrial action has reduced output by an average 4 GW/day).

EdF has announced it will extend outages at 37 out of 58 of its French nuclear reactors this year by 5-10 days.

CO_2 emissions from European power stations saw their biggest drop since 1990 last year – 12% – due to lower coal-fired power output, according to Sandbag, the environmental think- tank.

Solar panel supplies into Europe have tightened considerably due to the coronavirus, as production in China – where 95% of global solar panels are made – has ground to a halt.

Unseasonably windy and mild (and wet) weather is expected to continue across most of Europe for the second half of February, keeping renewables output strong while suppressing demand. January was reportedly the warmest on record for the northern hemisphere.

EdF has started construction of the 450 MW Neart Na Gaoithe wind farm in Scotland.

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*
38.85	1.03	41.68	2.30	31.89	-0.91	26.25	-5.27	42.48	2.26	44.13	2.25
Key Other indicators:											
Coal ($/MT) '21	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*
60.58	1.30	57.16	1.72			24.29	1.08	24.48	1.08	24.71	1.06

All changes (chg) are compared to last report.

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GAS

Annuals bounce off 13-year lows

It's been a directionally mixed fortnight on the UK gas market, with longer term levels bounding higher just as short-term prices have ploughed lower. Longer term levels have been influenced by a marked reduction in virus-related bearishness across energy markets, while short-term levels have been weighed down by a continuing supply glut in the face of low demand, which was further slashed by extremely windy weather boosting renewables output and reducing gas buying from generators.

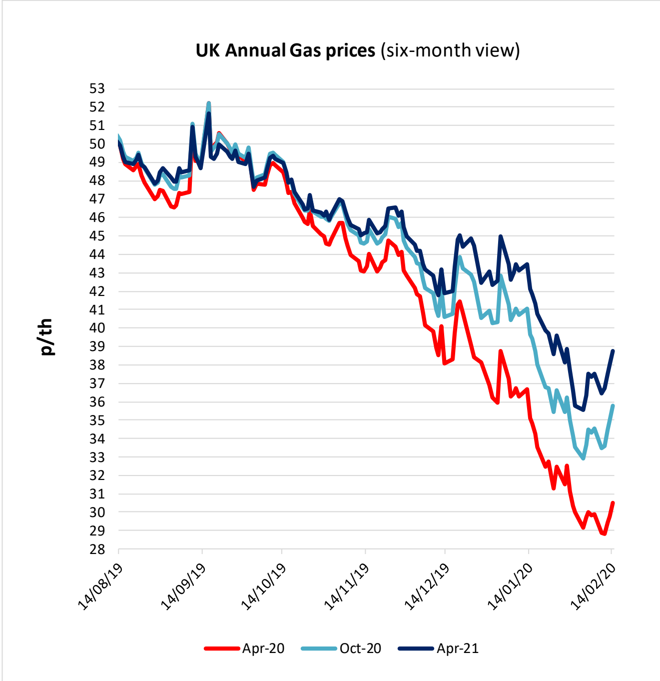
April '20 Annual, the key benchmark for end-users, slipped below 29 p/th on February 10th – to become the cheapest front annual in almost 13 years, although it has since rebounded to as high as 30.5 p/th. It has been weighed down in particular by Summer '20, which has been the only season not to rise over the last fortnight, as it is the most affected by the current physical oversupply. Other seasons and annuals have been much more bullish – October '20 Annual, and most other annuals in fact, gaining almost 9% in value since the start of the month. Expectations that the current exceptional high supply/low demand situation will not last, buyers emerging to take advantage of historically low prices and rising oil markets, all appear to have helped forward levels higher.

Oil has risen amid expectations that the impact of the coronavirus on global demand may be more short-lived than previously thought, while its effect could be further mitigated by OPEC+ states increasing output cuts and the Chinese central bank introducing economic stimulus measures, although a report from the IEA (International Energy Agency) that oil demand growth was likely to hit a ten-year low this quarter helped cap the upside. Oil is now trading above $57/barrel, having slumped to $53/barrel a week ago.

Day-ahead UK gas meanwhile tumbled nearly 5 p/th, or 20% in value, to 20 p/th over the first two weeks of February, amid plentiful supplies and weaker than normal demand – from end-users due to the milder than normal weather, and from generators due to the blustery (and stormy) conditions. Demand has been as much as 20% below normal. However prices had jumped back up to 23 p/th at the time of writing, on the back of an unscheduled outage in the SEGAL pipeline and reduced Norwegian flows.

March (Month-ahead) UK gas, meanwhile was also dragged down in turn, dropping to just over 20 p/th too, the lowest Month-ahead value since Summer 2009. Month-ahead European gas prices meanwhile saw similar losses – prices at the biggest hub, the Dutch TTF, dropping to an 11-year low, under EUR 8.45/MWh.

European gas storage sites are now at 66% fullness, compared to 46% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.



Source: Marex Spectron

Outlook:

A further production cut – of up to 600,000 barrels/day – by OPEC+ countries, is being considered and may be discussed and approved at the next OPEC meeting on March 5th – to offset the effect of the coronavirus on oil markets, despite some reported reticence from Russia.

US Energy Secretary Dan Brouillette has said he is confident that Russia will not be able to complete the construction of the Nord Stream 2 pipeline between Russia and Germany due to US sanctions imposed on any company involved in the pipeline in December. Russia has previously said the sanctions will only delay its completion by six months.

"More of the same weather is expected over the next ten days – milder than normal (although perhaps slightly less mild), windier than normal and with a chance of further storms – and this weather pattern could continue into March," says Marex Spectron's meteorology desk.

Spot LNG prices in Asia – which consumes the bulk of global LNG – have fallen to a new record low (since the market started being discussed 11 years ago), of $2.7 per million BTU (British Thermal Units) – around 21 p/th. Prices have halved over the last 12 months.

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*
30.50	1.33	35.80	2.88	21.02	-2.03	21.05	-3.66	15.38	1.65	57.16	1.72
								All changes (chg) are compared to last report.			