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early March 2020

ELECTRICITY

Prices buckle as virus spreads

UK forward power prices u-turned lower again for most of the last fortnight as global markets, including energy ones, were hammered by surging fears over the coronavirus and its impact on demand and economic growth, although prices have started curling higher again over the last couple of days. Short-term prices conversely have moved steadily higher over the last two weeks, helped by a drop in wind output and temperatures as well as outages at several key power stations.

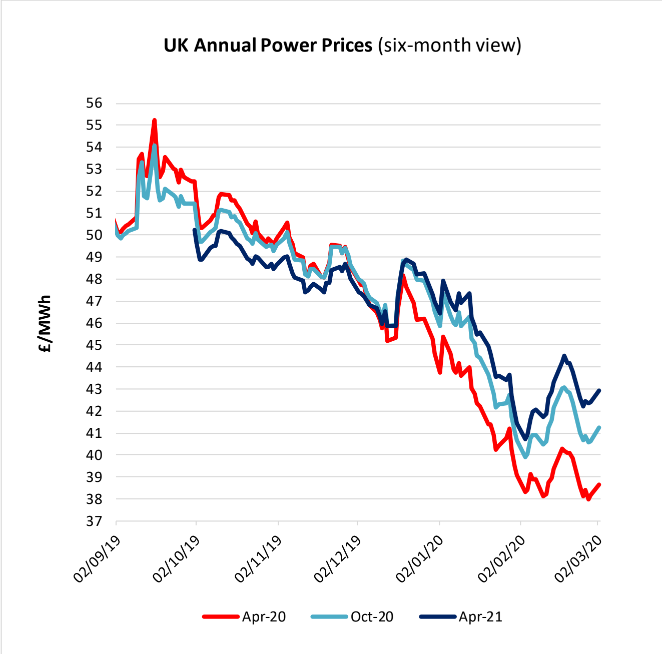
April '20 Annual rallied to almost £40/MWh as the second half of February got underway and virus concerns dissipated, but as they returned again with double force prices were pushed back beneath £37.5/MWh – a new lowest level for any front annual since May 2016. Oil prices dropping to a two-and-a-half-year low – beneath $50/barrel – also contributed to the bearishness, although indications Russia may throw its support behind an OPEC+ plan to deepen current oil output cuts, alongside several countries announcing economic stimulus measures, has lifted oil and other energy prices since.

Annuals further forward have remained less bearish than April '20 Annual, as coronavirus is not expected to have a long-term, multi-year impact, meaning that the contango (the progressive stepping higher of forward prices) has steepened. April '21 Annual now carries a premium of almost £4.5/MWh to April '20 Annual, up more than £2/MWh over the last month.

Meanwhile mid-February rebounds in emissions and coal prices have also unwound. 2020 EUAs rose to EUR 25.7/TCO_2 before slumping back EUR 2/TCO_2 — the restart this week of UK EUA state auctions (after a year's gap) adding to the pressure. At the same time year-ahead coal prices, which rose to $61/tonne, tumbled as low as $56.5/tonne (before partially rebounding) — a nearly full resumption of Chinese state coal production contributing to the sell-off.

At the same time Year-ahead German power prices have shunted down to their lowest levels since May 2018 – nudging below EUR 40/MWh, while French power prices slipped beneath EUR 42/MWh. News of the discovery of microcracks in both reactors at the Flamanville nuclear plant in northern France — forcing the units to remain offline for another six months to a year while turbines are replaced, and the sudden and permanent closure of one reactor at the ageing Fessenheim nuclear plant (with the second reactor to close in June), offered little support.

Day-ahead UK power has pounded higher over the last fortnight, first climbing from £26/MWh to £32/MWh in the third week of February, before edging up to £34-35/MWh in the last week of February, and then pushing above £40/MWh as March started. A marked drop in wind levels, colder weather and outages at the Drax, Cottam DC and Hinkley Point B power stations all contributed, as did a firmer short-term gas market.



Source: Marex Spectron

Outlook:

↑ Planned outages at both reactors at the Hinkley Point B nuclear power station have been extended to allow for deeper inspection of the reactor cores, following inspections at the Hunterston B-7 nuclear reactor, which has a similar design, and which saw its outage extended again two weeks ago. Hinkley Point B-8 reactor's outage has been extended by three months until June 5th, and Hinkley Point B-7's upcoming outage by a month until June 20th.

The OPEC+ plan to further cut oil output is gathering support as the coronavirus crisis deepens, with a potential formal announcement possible at the OPEC meeting this week.

→ A four-year ban on subsidies for UK onshore wind farms has been lifted, with projects able to bid in the CFD (Contracts for Difference) auctions — which guarantee power prices for renewable technologies — next year. Solar and floating offshore wind projects, which were also barred, will be able to bid again too. The news comes as it was confirmed that wind and biomass accounted for a record monthly share of 37.3% of UK electricity output in February, with gas accounting for just 27.5%.

↓ "The current spell of colder and less windy weather is set to turn towards the end of the next ten-day period, with milder and windier weather expected to come back, potentially boosting supply at the same time as crimping demand," says Marex Spectron's meteorology desk.

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*
38.13	-0.73	40.75	-0.92	32.70	0.81	35.06	8.81	39.91	-2.58	41.95	-2.18
Key Other indicators:											
Coal ($/MT) '21	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*
56.60	-3.98	51.03	-6.13			23.52	-0.77	23.71	-0.77	23.95	-0.76
								All changes (chg) are compared to last report.			

early March 2020

GAS

New slump, new bounce

The rebound in forward prices seen in mid-February was cut short as the coronavirus spread accelerated outside of China and led to panic selling across global markets. North Sea and US oil prices plunged to multi-year lows, beneath $50 and $45/barrel respectively, with the front UK gas annual crashing to a new 13-year low beneath 28.5 p/th – although all have bounced back a little over the last couple of days. Short-term prices have meanwhile remained firm throughout the last fortnight, bolstered by colder weather, unplanned Norwegian and UK outages and increased buying from generators.

Forward UK gas prices were continuing to push higher at the time of writing, with April '20 Annual back to around 30 p/th, as expectations of imminent further oil cuts by OPEC+ nations and central banks' pledges to act to shore up the global economy lifted cross-markets sentiment.

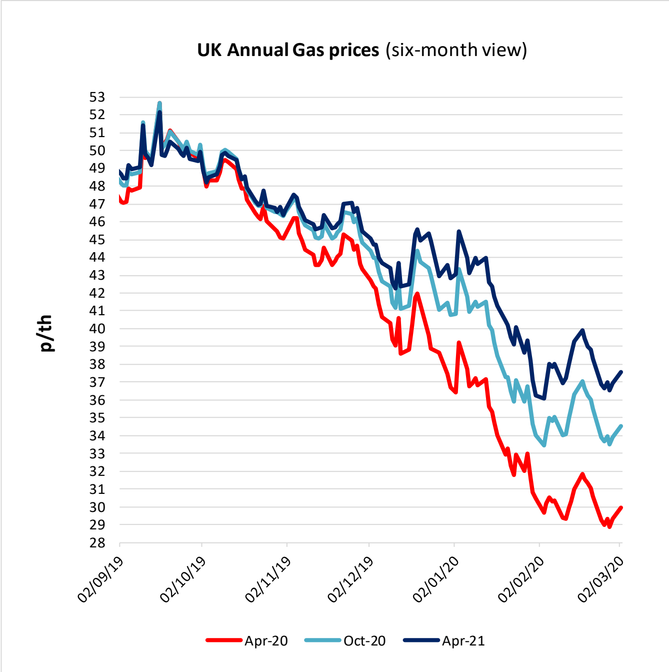
With Summer '20 continuing to be particularly hit by coronavirus concern and the underlying oversupply issues that were already affecting the market before it became a factor, April '20 Annual's discount to the other annuals has widened further. Its discount to April '21 Annual has swelled to more than 7.5 p/th, from less than 6.5 p/th a month ago, while its discount to the furthest talked annual – October '25 Annual – has increased to more than 16 p/th, from 10.5 p/th a month ago.

Since troughing to nearly 20 p/th in the first half of February, Day-ahead UK gas prices have rallied squarely above 23 p/th and mostly around 25 p/th, climbing even above 26 p/th at the time of writing. Unexpected Norwegian outages — at the Kollsnes gas processing terminal and Kvitebjørn gas field, a power failure and outage at the UK's ETAP platform, and consumption swinging above seasonal norms due to a drop in temperatures and wind levels, have all played their part.

Storage withdrawals have helped meet the increase in demand, with onshore UK storage stocks dropping to their lowest level since last April as a result and LNG storage levels falling to just 25% of capacity – their lowest level since April 2018, although several LNG cargoes are expected to dock and help replenish these stocks over the coming days.

Europe-wide, gas storage sites remain at historically high levels and are now at 61% fullness, compared to 42% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.

March UK gas followed Day-ahead higher, going off the board at 22.5 p/th, up from the Month-ahead 10-year low of 20 p/th it reached in early February, while the new Month-ahead, April, has continued to nudge higher, reaching 23 p/th.



Source: Marex Spectron

Outlook:

🡑 South Korea is set to idle up to 28 of its 60 coal plants this month, in an attempt to reduce pollution, potentially increasing its LNG imports to plug the resulting energy supply gap.

Global LNG demand is to double to 700 million tonnes/year, by 2040, according to Shell's new *LNG Outlook*.

🡒 The coronavirus narrative will continue to drive energy market sentiment over the coming weeks – either way – as health and economic fears wax and/or wane.

🡓 Unseasonably mild (and windy) weather is expected to return to much of western Europe in the first half of March, potentially reducing gas demand for heating and generation.

Saudi Arabia has launched plans for the biggest shale gas development outside of the US. The $110 billion Jafurah gas field project is expected to start production in 2024, reaching peak output of 2.2 billion cubic feet of gas/day by 2036.

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*
29.48	-1.03	34.05	-1.75	22.06	1.04	24.81	3.76	14.04	-1.34	51.03	-6.13

All changes (chg) are compared to last report.