ELECTRICITY

Market resists oil and shares crash

UK power and gas prices have resisted the unprecedented crash in oil and financial markets over the last ten days, with annual UK power prices slipping a maximum of 3% during oil's 30% one-day slide, before bouncing. Short-term markets saw greater losses on the same day, for completely different – weather-related – reasons, but also rebounded (although all periods were slipping again at the time of writing).

Oil plummeted by up to 30% on March 9th, as Saudi Arabia launched an oil price war after talks with OPEC and Russia, aimed at extending oil output cuts, foundered. Alongside intensifying coronavirus fears this caused stock markets to slump by up to 8% on the same day. Since then oil prices have whipsawed up and down a couple of times (currently at $30/barrel, they are now down more than $20/barrel, or 40%, on month-start levels). Financial markets have at the same time pushed lower and lower – the UK stock market diving 25% over the last ten days – as Covid-19 has continued to spread, hammering the global economic outlook.

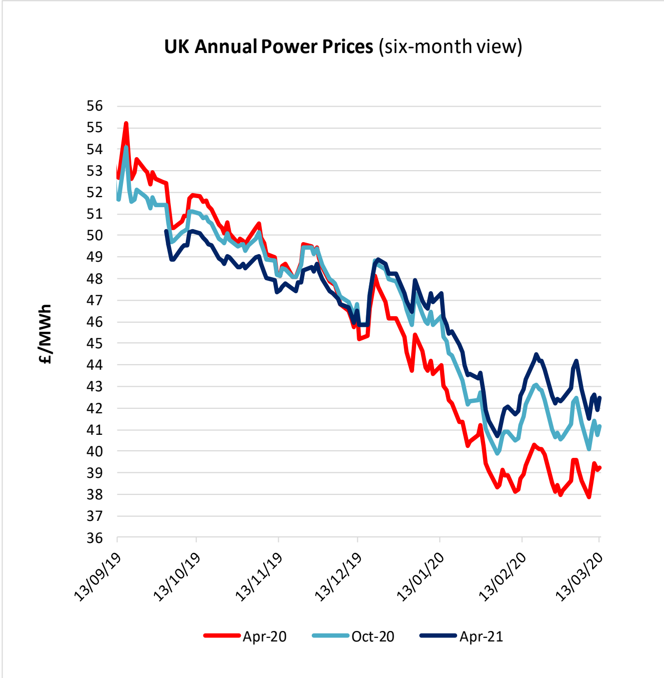
Gas and power appear to have escaped the carnage seen on other markets partly as, unlike oil, they are barely used in transportation and so are little affected by the tightening global travel lockdown, with an increase in domestic consumption during self-isolation/working from home set to partially offset some of the expected reduction in industrial and business demand. Short-term market strength, the fact that annual UK gas prices were already dredging 13-year lows, and expectations of increasing Asian demand as the coronavirus outbreak appears to be slowing there, all appeared to lend some price support too.

April '20 Annual UK power slipped as far as £37.35/MWh in the initial oil slump, hitting a new 46-month low, but only just — before rallying back towards £39/MWh (and then easing back below £38/MWh now), while October '20 Annual dipped briefly beneath £40/MWh – its premium to the front annual narrowing by as much as £1/MWh at one stage.

Day-ahead UK power meanwhile tumbled by 12% — to £28.90/MWh — on March 9th, as much windier and warmer weather boosted wind power output and suppressed generator and end-user gas demand. Prices have been volatile since – two days later they had leapt back above £37.5/MWh as the weather changed and gas supplies tightened, but they are now back beneath £32.5/MWh.

Meanwhile emissions and coal prices have buckled, 2020 EUAs slipping over 13% over the last fortnight — to around EUR 20.5/TCO2 for the first time since March last year, and Year-ahead coal edging down 3% to $55/tonne, a three-and-a-half year low.

Year-ahead German and French power prices at the time of writing were witnessing their largest falls of the last fortnight, German levels down over 4% on the day, beneath EUR 37.5/MWh and French levels down over 3%, at just over EUR 40/MWh.



Source: Marex Spectron

Outlook:

↑ "The outlook is for drier weather – but the sunnier, milder days are set to be accompanied by chilly nights, keeping temperatures at seasonal norms. At the same time wind levels are likely to remain on the low side over the next ten days," says Marex Spectron's meteorology desk.

→ The UK government has frozen the Carbon Price Support rate (Carbon Tax), levied on top of EUA emissions allowances, at £18/TCO2 until 2022.

↓ Electricity consumption in Germany could slump by 10-20% this year if the Covid-19 outbreak leads to a global recession, according to consultants Enervis, while other analysts have predicted a 5-10% drop. The predictions come as transmission operators in France and Italy have said daily physical demand for power has fallen by 7-17% week-on-week as a result of lockdowns in both nations.

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*
38.73	0.60	40.68	-0.08	34.69	1.99	35.75	0.69	39.15	-0.76	41.60	-0.35
Key Other indicators:											
Coal ($/MT) '21	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*
55.60	-1.00	33.09	-17.94			21.94	-1.58	22.14	-1.57	22.38	-1.57

All changes (chg) are compared to last report.

Eneco Consulting

energy brokerage + consultancy
powering your business

mid March 2020

GAS

Some prices rise despite virus crisis

UK gas prices have largely shrugged off a collapse in oil and financial markets over the last ten days, with some gas periods actually rising last week, helped by volatility in the short-term market, which has swung down, then up and then down again, driven once more by weather changes and outages.

At the time of writing oil and UK share prices were down 7-8% on the day — bringing losses for both over the last fortnight to 40% and 25% respectively. This compares to a loss on the front UK gas annual – April ’20 Annual – of just 1%, and a loss on October ’20 Annual of almost 4%, over the same two-week period.

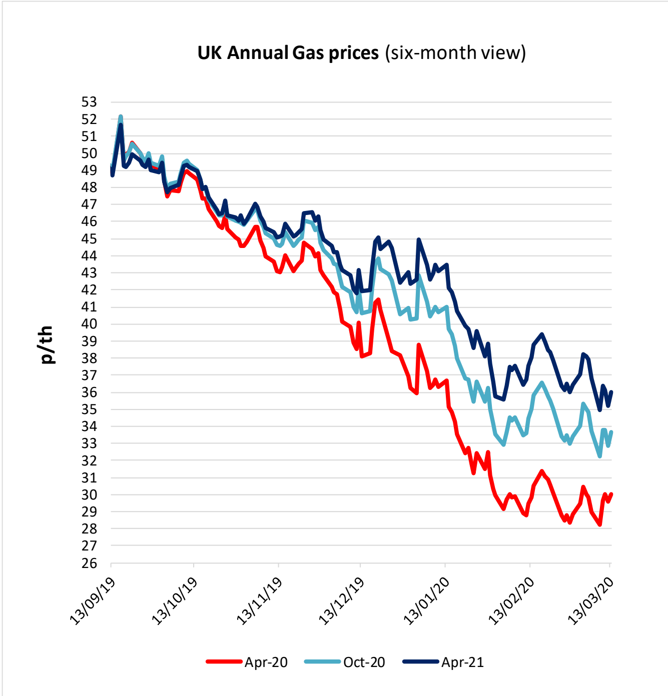
Oil prices crashed by up to 30% on March 9th, as the oil market was wrongfooted by a sudden breakdown in talks between OPEC and Russia to extend oil production cuts, immediately followed by Saudi Arabia triggering a price war as it offered much cheaper prices to its term customers. Prices then thrashed up and down in the low $30’s, before dipping towards $30/barrel, a four-year low, helped by the spread of Covid-19 rattling global financial markets and sending them into a downwards tailspin.

On the forward UK gas market April ’20 Annual was least affected by the global meltdown, partly as Summer ’20 increased in value last week, reaching its highest level in a month, on the back of a sharp rebound in short-term prices — as outages tightened supply and demand was boosted by colder, less windy weather, pushing Day-ahead to trade up to 26.50 p/th, its highest level since January. But even UK gas prices beyond Summer ’20, which historically have been more influenced by oil prices — partly due to the 6-9 month lead-time in some European long-term gas supply contracts that are oil index-linked — saw only limited impact.

Gas prices appear to have been generally insulated by a perception that gas demand may be dented rather than decimated by the coronavirus, as an increase in domestic consumption during self-isolation/working from home should partially offset some of the expected reduction in industrial and business demand — unlike oil, which is expected to see demand crater as the international travel industry grinds to a halt. The buoyancy in short-term gas markets, resistance to lower long-term prices that appears to have emerged since annuals hit 13-year lows last month and flickers of re-emerging Asian LNG buying interest as the outbreak slows there, also seem to have contributed to counteracting the bearish influence.

At the time of writing prices across all UK gas periods were coming under pressure, with Day-ahead leading the way and trading below 23 p/th, in the face of ample supply, pulling Month-ahead and Summer ’20 down beneath 23.5 p/th too, progressively smaller falls seen beyond this.

LNG cargo deliveries have helped replenish UK LNG storage sites to 65% fullness in recent days, while European gas storage sites are now at 57% fullness, compared to 41% fullness at this time last year, according to Gas Storage Europe, the storage operators’ association.



Source: Marex Spectron

Outlook:

↑ With lower wind levels predicted for the second half of March, this could bolster buying from generators, shoring up short-term UK gas prices. Any further unplanned outages could prove to be similarly price-supportive.

A global oil price war could lead to higher US natural gas prices, some analysts suggest, as a reduction in US oil output will also reduce the amount of associated natural gas that is produced from US oil fields (said to account for 41% of all US gas output currently).

→ With temperatures expected to stay at or close to seasonal norms over the next fortnight, this could help keep heating demand steady.

↓ If the UK follows the lockdowns seen in countries such as Italy, France, Poland and Spain, then physical gas demand is expected to slip as businesses and industry shutter operations.

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*
30.00	0.52	33.63	-0.42	24.27	2.21	24.96	0.15	12.98	-1.06	33.09	-17.94
								All changes (chg) are compared to last report.			