early April 2020

ELECTRICITY

13-year lows hit across periods

The UK/Europe lockdown and associated current and expected energy demand destruction as a result of the Covid-19 pandemic has pummeled all UK power prices lower, with Annual-ahead, Month-ahead and Day-ahead all touching or nearing 13-year lows.

Prices for April, currently the focus for lockdowns globally, were among the hardest hit, crumbling by 27%, or almost £9/MWh, over the second half of March, to £24/MWh — the lowest Month-ahead price, by a significant margin, since July 2007.

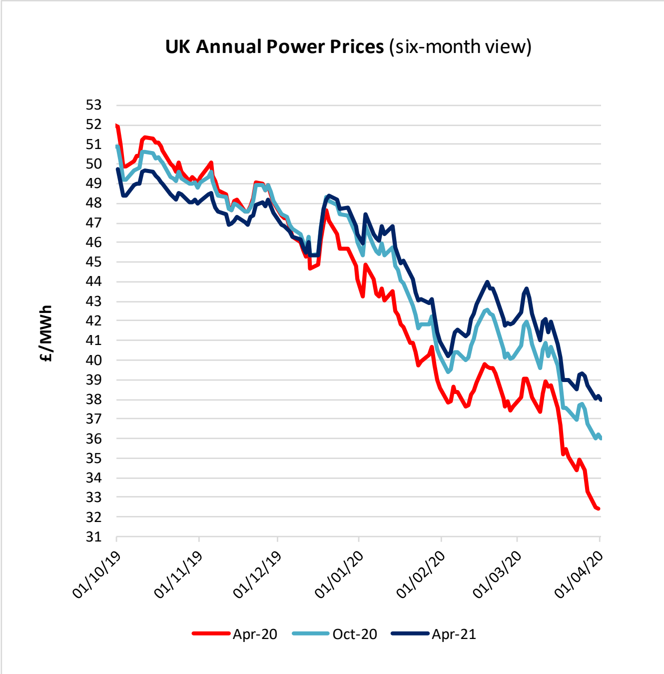
Summer '20, in turn the most affected season, fell £6/MWh, or 18.5%, helping to drag April '20 Annual UK power down by 13.5%, to a low of £32.50/MWh just before it went off the board.

Seasons and annuals further forward saw progressively smaller losses, with October '20 Annual and April '21 Annual shedding 9% and 7% of their value respectively. However at the time of writing all forward periods were being nudged higher, albeit it slightly, by a more than 20% surge in oil prices — on the back of comments by President Trump that he expected OPEC+ to soon agree a 10 million barrel/day production cut and indications from the Saudis and Russians that they were willing to discuss ending the current oil price war. (North Sea oil slipped briefly to an 18-year low beneath $23/barrel at the end of March, while US WTI crude oil dipped beneath the psychologically important level of $20/barrel).

Continuing weakness in emissions markets has reinforced the bearish mood on UK and European power markets. A 30% crash-off in EUA CO2 emissions allowance prices (which are factored into generating costs) as the second half of March got underway appeared to affect UK power prices more than UK gas prices too. 2020 EUAs crumbled from EUR 22/TCO2 to EUR 15/TCO2 over a three-day period, with heavy selling from virus-hit companies scrambling to release cash said to have contributed, alongside expectations of lower allowance demand as the downturn in industrial activity across Europe reduces emissions. Prices have since rebounded by EUR 3/TCO2 on a perception the sell-off may have been overdone.

Day-ahead UK power meanwhile traded as low as £23/MWh as April started — its lowest level since just after Tony Blair stepped down as Prime Minister in Summer 2007 — amid forecasts of windy and warm weather and a tumble in gas prices, as well as reduced consumption (around 10% below pre-lockdown levels, according to National Grid). However prices have been squarely above £28 for most of the last fortnight (and even above £37/MWh at one stage).

While greater losses were seen initially in mainland Europe on forward markets – with German Month-ahead for example hitting an 18-year low – the downtrend has levelled off, with German and French Year-ahead prices rebounding by as much as 7% in recent days.



Source: Marex Spectron

Outlook:

↑ Two large UK coal-fired power stations officially closed down this week – the Aberthaw B plant in Wales and the Fiddler's Ferry plant in Cheshire. Both had a capacity of 1600 MW. Only four coal-fired power stations now remain operational in the UK.

Covid-19 has led to current French power outages being extended and shutdowns planned for the coming months being postponed, with the net effect being a potential supply crunch next winter as the outage schedule is rolled forwards, analysts told newswire *Montel.* French nuclear power output (which typically accounts for around 75% of electricity production there) last month fell to its lowest March level in 29 years.

→ EU emissions covered by the EU ETS (Emissions Trading Scheme) fell 8.7% last year, the biggest decline since 2009, according to estimates by analysts at *Refinitiv,* who attributed the drop largely to a shift away from coal-fired power generation.

↓ If current lockdowns are extended across Europe, prices will continue to be pressured, not just in the short-term market but potentially in the longer term one too as fears of further shut-ins and deepening economic gloom set in. Power demand drops have been variable across Europe since the current lockdowns started, with Italy seeing a reported fall of 22% and Germany just 3%, with most other countries between 10-17%, although weather patterns may be one factor skewing the differences.

Key Power indicators:											
Long-term UK (£/MWh)				**Short-term UK (£/MWh)**				**European power (€/MWh)**			
Oct '20 Annual	*chg*	*Apr '21 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*Germany Cal '21*	*chg*	*France Cal '21*	*chg*
35.98	-4.71	38.00	-3.98	24.31	-10.38	23.28	-12.47	34.98	-4.17	39.25	-2.35
Key Other indicators:											
Coal ($/MT) '21	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*
54.53	-1.07	25.14	-7.95			17.08	-4.86	17.44	-4.70	17.85	-4.53
								All changes (chg) are compared to last report.			

GAS

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early April 2020

Front Annual drops to 16-year low

UK gas prices have reached a series of long-term lows over the last few days, across all periods, as demand and projected demand has been slashed by businesses shuttering as part of the virus lockdown. April ’20 Annual, for example, went off the board at the end of March at less than 25 p/th, the lowest front annual price in 16 years. Warmer and windier weather forecasts, in the face of ample supply, also contributed by driving shorter-term prices lower.

Day-ahead dropped below 16.5 p/th as April started, its lowest price tag in ten-and-a-half years, while Month-ahead hit a near 13-year low as it slipped to the same level. In fact all periods out to and including August have fallen below 20 p/th.

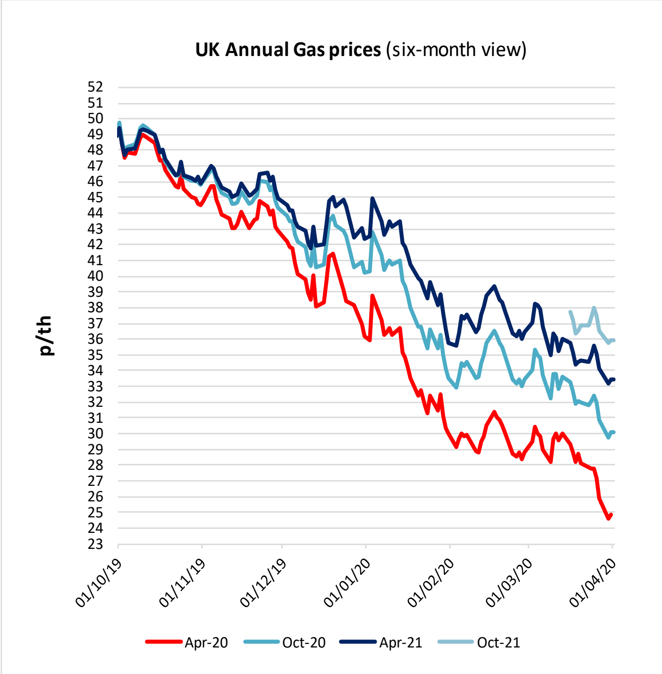
Sporadic unplanned issues with infrastructure – including at Norway’s Aasta Hansteen and Kvitebjorn fields – could only temporarily slow the fall in short-term levels. Despite the lockdown, cold weather and a small burst of exports through the interconnector also helped push demand above seasonal norms at the end of March, but plentiful supply (from the North Sea and from LNG deliveries) as well as forecasts of an imminent ramp-up in temperatures continued to weigh on talk, as blustery weather rolled in too.

Record lows being reached for physical Asian LNG, helped by a lockdown starting in India, weighed on general discussion, as to some extent did further oil market weakness – which saw US oil slip beneath $20/barrel at one stage. At the time of writing though oil prices were ramping higher again, up more than 20% on the day (and more than 30% at one point), after Donald Trump expressed confidence that talks to resolve the current Saudi-Russia price war would lead to production cutbacks “within days”. The new front gas annual, October ’20 Annual, has been lifted by little over 1% in value as a result of this — having shed 10% in value over the last fortnight, to reach a multi-year low of just under 30 p/th two days ago.

Gas annuals further forward have seen progressively less general bearishness, being less affected by Covid-19 and its expected economic shadow.

Prices on mainland Europe’s key market – TTF – have also seen historically weak prices, with Month-ahead TTF dropping to a record low (since the market began trading in 2003) of less than EUR 7/MWh, and Day-ahead and Year-ahead to their lowest levels in more than 10 years – of EUR 7/MWh and less than EUR 12/MWh respectively.

European gas storage sites are now at 54% fullness, compared to 43% fullness at this time last year, according to Gas Storage Europe, the storage operators’ association.



Source: Marex Spectron

Outlook:

↑ A sustained rebound in oil prices, if a price war truce and output cuts are agreed by OPEC and Russia, would be price-supportive for other energy markets, including UK gas.

→ The Covid-19 outbreak is having a mixed impact on energy supply so far. Personnel numbers have been cut back at oil, gas, coal and power production facilities, although much infrastructure appears to be continuing to operate at normal rates. UK North Sea gas and oil field operators, for example, say output has been unaffected despite a 40% reduction in the offshore workforce. Some Norwegian outages have also been postponed. The oil crash and expected economic slump has at the same time led to future investment plans being postponed or slashed across the industry.

↓ “The high pressure cell responsible for the cold weather observed over the past 7 to 10 days is now set to shift towards continental Europe. As a result, temperatures in the UK should increase significantly. Precipitation and wind are expected to also increase over the northern sectors of the UK, although southern England will see more spring-like conditions and less wind,” says Marex Spectron’s meteorology desk.

Key Gas indicators:											
Long-term UK (p/th)				Short-term UK (p/th)				**European gas (€/MWh)**		**Crude Oil**	
Oct '20 Annual	*chg*	*Apr '21 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*TTF 2021*	*chg*	**Oil (Brent) $/bbl**	*chg*
30.10	-3.53	33.45	-2.55	16.12	-8.15	16.84	-8.12	12.08	-0.90	25.14	-7.95
								All changes (chg) are compared to last report.			