

## ELECTRICITY

### Short-term rebounds off record lows

While record low prices for US crude oil have dominated energy headlines over the last fortnight, UK power markets at the same time also achieved their own record low – with Day-ahead plunging to what appears to be its weakest ever weekday value of £8/MWh on April 20<sup>th</sup> (Day-ahead Peaks hit £6/MWh), in the face of very strong wind and solar output/forecasts and low lockdown demand. The slump was temporary though and prices have since recovered strongly, and tripled. Meanwhile forward UK power prices have generally slipped after witnessing a second bounce in mid-April.

October '20 Annual has slipped back beneath £38.5/MWh, down more than 4% on the £40/MWh price tag it was carrying two weeks ago (but still up over £2/MWh from the multi-year low it reached at the start of April). April '21 Annual and October '21 Annual tracked it at premia of £1.5/MWh and £2.5/MWh respectively.

Weaker forward gas prices, reduced fears over French nuclear output over the coming months and uncertainty over lockdown lifting plans in several countries, including the UK, all appear to have weighed on talk.

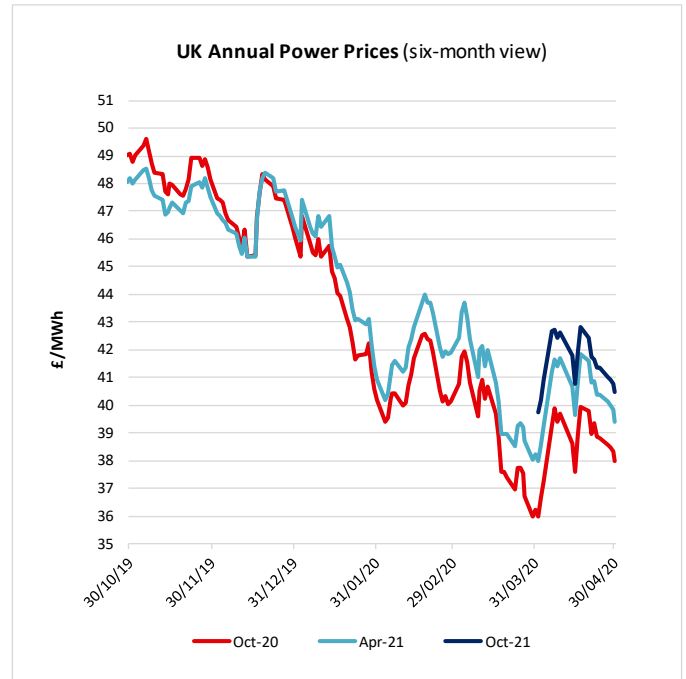
Volatile oil markets, in particular in the US, where prices turned negative for the first time ever (as low as -\$37.63/barrel, as traders paid to not have to take physical delivery of expiring May oil futures in the face of full storage sites and dismal demand), have had a limited impact, lending some bearishness as they plunged and marginal support as they recovered over the last few days.

The UK, like several other parts of Europe, has seen solar power generation records broken in the second half of April, with reduced levels of air pollution and clearer skies due to the lockdown said to have contributed. The UK saw peak solar output hit 9.7 GW on April 20<sup>th</sup>, up from the previous record of 9.55 GW achieved in May last year, while Germany saw a record peak of 33 GW.

Other UK power records reached in April include the longest continuous period without any coal-fired power production (there has been none since April 10<sup>th</sup>), and biomass-fired production accounting for its highest ever share of electricity output – 8.4% over the month (and a record daily rate of 16.1% on the 26<sup>th</sup>).

EUAs (CO<sub>2</sub> allowances that generators factor into costs) have also come under pressure, with 2020 EUAs slipping below EUR 19/TCO<sub>2</sub> as May started, having initially rallied over EUR 21.5/TCO<sub>2</sub> as the second half of April got underway and Continental power markets rallied on lockdown lifting optimism and nuclear supply fears.

Prices for May UK power meanwhile went off the board at £23.5/MWh, the lowest Month-ahead value in 13 years.



Source: Marex Spectron

### Outlook:

↑ Underlying concerns over nuclear output in France and the UK for the coming winter, due to Covid 19-related disruptions to maintenance programmes, could continue to underpin forward discussion. EdF has so far extended outages at 42 of its 58 French reactors over the next two years, several plants seeing maintenance shutdowns extended into late summer and autumn this year in order to conserve fuel for the winter.

→ The volume of trading across the main European power markets dropped by 5% to a seven-year low last year, according to analysts at Prospex Research. The UK accounted for 11% of overall volume, with Germany accounting for 47%. Volumes of non-exchange power trading in the first quarter of this year were however up by as much as a third on the same period last year, they said.

↓ Global electricity demand is to fall 5% this year according to the IEA (International Energy Agency), the biggest fall since the Great Depression in the 1930's, while global emissions are set to fall 8%, because of the coronavirus pandemic and lockdowns.

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)				Month-ahead index				Day-ahead index			
Oct '20 Annual	chg	Apr '21 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	Germany Cal '21	chg	France Cal '21	chg
38.00	-0.90	39.38	-1.45	23.56	-2.09	25.00	2.96	36.23	-1.98	43.23	0.34
Key Other indicators:				EUA '20 (€/TCO2)				EUA '21 (€/TCO2)			
Coal (\$/MT) '21	chg	Oil (Brent) \$/bbl	chg	EUA '20 (€/TCO2)	chg	EUA '21 (€/TCO2)	chg	EUA '22 (€/TCO2)	chg		
52.90	-1.68	25.54	-1.87	19.57	-1.37	19.94	-1.37	20.37	-1.32		
All changes (chg) are compared to last report.											

GAS

Day-ahead drops below 9 p/th

It's been another event-packed fortnight on the UK gas market, with Day-ahead gas at one point dropping below 10 p/th for the first time in 13-and-a-half years and Month-ahead levels dropping below 13 p/th for the first time in 17-and-a-half years, leading the UK to be labelled "the world's cheapest gas market". While Day-ahead has since rebounded, Month-ahead has struggled to recover and longer-term prices have softened back to where they were at the end of March.

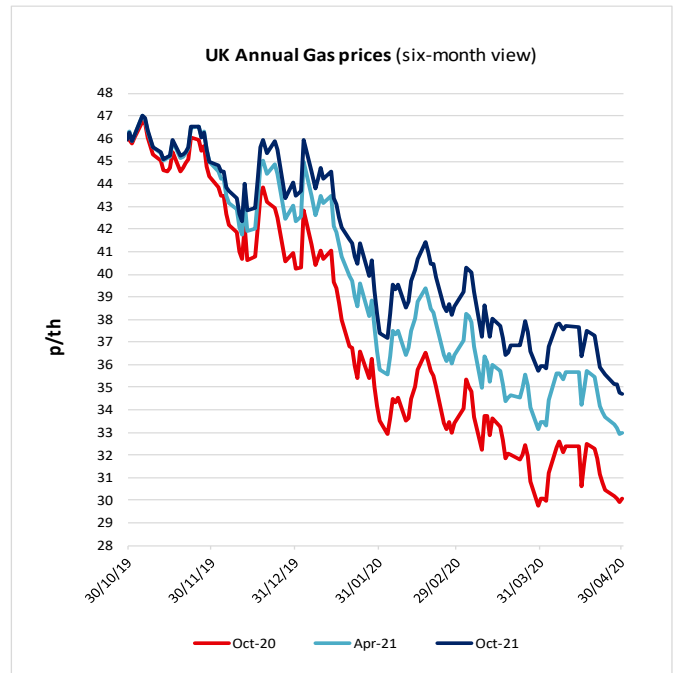
October '20 Annual, the key end-user benchmark, is now discussed back around 30 p/th, almost 8% off the 32.5 p/th price tag it was carrying two weeks ago, during the second April price bounce. Other Annuals have bowed lower in turn. Expectations of prolonged demand weakness amid forecasts of an extended global recession have helped weigh on discussion, as Asian LNG prices have reached record lows (spot levels dropping below \$2/MMBTu for the first time).

Some support continues to come from expectations of increased gas burn by generators in Europe this winter, as nuclear plant availability on both sides of The Channel has been thrown into question by the pandemic forcing maintenance shutdowns to be rescheduled.

Plunging North Sea oil prices, down 25% in a single day on April 21<sup>st</sup> — to a 20-year low beneath \$20/barrel — following an unprecedented collapse in US oil prices (to negative levels), had only a minor effect on UK gas prices, with seasons and annuals slipping 2-3% in value on the same day. A subsequent \$5/barrel rebound in oil prices, helped by Norway agreeing to curb output from June, has similarly had little impact and failed to stop forward gas prices curling lower.

Prices for May and across the summer months have been kept under pressure by low demand expectations in the face of a continuing lockdown and a very comfortable supply outlook — amid reports of more LNG shipments heading this way and well-stocked storage facilities. All prices out to September are now under 19 p/th. European gas storage sites are currently at 62% fullness, compared to 48% fullness at this time last year, and at an historic high in absolute terms, according to Gas Storage Europe, the storage operators' association.

Day-ahead and Within-Day gas are now both valued back above 13.5 p/th, shored up by reduced Norwegian flows (seemingly due to producer cutbacks rather than outages), while good export demand through both the UK-Belgium and UK-Holland interconnectors has helped — although prices remain extremely weak historically. Day-ahead traded as low as 8.5 p/th on April 21<sup>st</sup> — this was its lowest level since October 2006, when the opening of the Langeled pipeline from Norway helped drive short-term intraday prices briefly negative, as supply surged.



Source: Marex Spectron

Outlook:

⬆️ Despite the low gas prices this summer there are several factors that may put upwards pressure on prices into next year and beyond. These include "structural demand growth in Asia, declining domestic production in Europe and a huge reduction in new LNG supply from 2020 (48 mtpa) to 2022 (4 mtpa)," according to consultants Timera.

➡️ "In the next few days a high pressure cell will build up over north-western Europe, providing fine weather (although temperatures will remain around or below average). Later, north/north-easterly air mass flows will bring more unsettled weather with increasing rain/winds, while temperatures will remain below seasonal norms," says Marex Spectron's meteorology desk.

⬇️ As part of "the historic shock to the entire energy world," caused by 4.2 billion people in lockdown, there will be a "staggering" 5% plunge in global gas demand and 6% drop in overall energy demand this year, according to the IEA (International Energy Agency).

Key Gas indicators:				European gas (€/MWh)				Crude Oil			
Long-term UK (p/th)		Short-term UK (p/th)		TTF 2021		Oil (Brent) \$/bbl					
Oct '20 Annual	chg	Apr '21 Annual	chg	Month-ahead index	chg	Day-ahead index	chg		chg		
30.05	-1.60	33.01	-1.93	13.06	-2.44	13.00	-1.20	12.14	-0.96	25.54	-1.87
<i>All changes (chg) are compared to last report.</i>											

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.