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ELECTRICITY

Tentative forward gains

Forward UK power prices have risen tentatively over the last fortnight, shored up by the start of lockdown easing measures and persistent French nuclear plant concerns. Short-term prices at the same time have been volatile, buffeted up and down by variable wind levels.

Forecasts of blustery conditions on the 11th led to Day-ahead prices tumbling from £25/MWh to £21/MWh, and when the winds actually came and were stronger than expected some intraday hourly prices turned negative, as they did across all western European power markets. Day-ahead prices then bounced back towards £27/MWh over the next couple of days as winds and temperatures dropped, although they have since been pummeled back towards £21/MWh and rebounded as the weather has continued to shift.

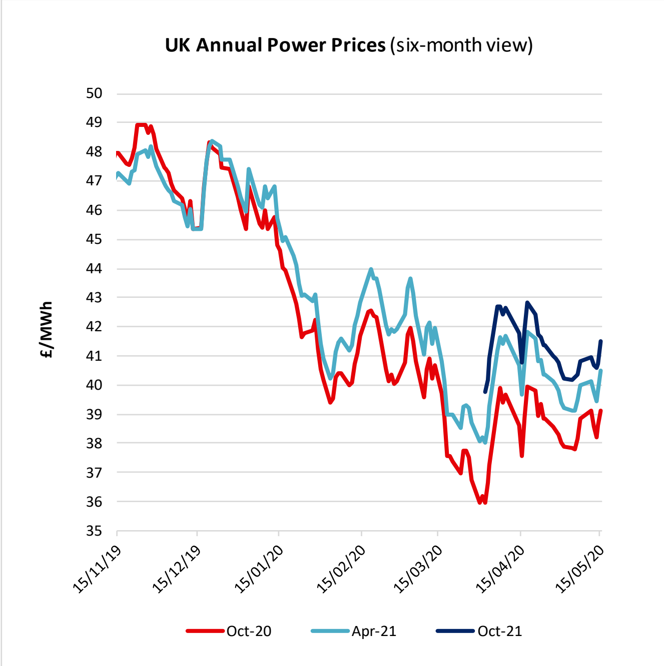
This helped contribute to some limited swings in the Month-ahead (June) price, which has oscillated 50p either side of £25/MWh, still its lowest level for the time of year since 2007.

More shuffling of nuclear maintenance programmes in France has been closely monitored by market players again. EdF has announced the postponement of 30 reactor outages over the next couple of years due to coronavirus disruption – two this year and 28 next year (as well as 25 in 2022 and 10 in 2023), further to the extension of 42 reactor outages announced at the end of last month. While the changes have been made in part to help secure supply next winter this has only partially reassured traders, with Q4 ’20 French power prices still up 8% on month-start levels despite coming off their peak. Adjacent power markets, including the UK, have also been bolstered, but to a lesser degree; French Year-ahead prices for example are now at a premium of more than EUR 8/MWh to German 2021 power (at EUR 44.5/MWh), this differential doubling since early April.

October ’20 Annual UK power, the key end-user benchmark, started May beneath £38/MWh and is currently discussed above £39/MWh, having already tripped above this level and then buckled sharply as the second week of May got underway. Future annuals have tracked it closely, similarly seeing gains of more than 3% over the last fortnight.

EUAs (CO_2 allowances that generators factor into costs) meanwhile have been flipping either side of the EUR 19/TCO_2 price tag they took at the start of May, amid the release of official figures from the EU Commission confirming that EU carbon emissions fell 8.7% last year (the biggest decline since 2009), very much in line with expectations.

Coal prices have at the same time been helped higher on renewed Asian buying interest — as a new milestone was reached in the UK: the first full month without any coal-fired electricity (since 1882).



Source: Marex Spectron

Outlook:

↑ Lower renewables output is expected over the coming weeks while higher than normal temperatures across Europe this summer could restrict nuclear output by limiting cooling capabilities at power plants.

“High pressure will continue to affect NW Europe for much of the next 7-10 days. Temperatures are expected to rise substantially with lots of solar radiation and windless condition. There is a slim chance that the northern flank of the high pressure may be eroded later in the forecast period, potentially leading to more unsettled weather on the northern sectors of the British Isles,” says Marex Spectron’s meteorology desk.

→ The commissioning of a new 3GW electricity interconnector between France and the UK – the IFA2 cable, which was due online in Q3 ’20 – will be delayed due to the coronavirus, RTE, the French grid operator has confirmed. No new estimated start-up date has been given.

332 million excess EUAs will be withdrawn from the EU ETS (Emissions Trading Scheme) through the Market Stability Reserve mechanism from September ’20 to August ’21. This is in line with analyst estimates and 16% lower than in the current year.

↓ Although power demand across Europe has increased and is now 9% below normal, up from 16% at peak of lockdowns, according to analysts Energy Quantified, it is still expected to remain suppressed until economic activity returns to pre-Covid levels.

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*
39.13	1.13	40.50	1.13	25.08	1.52	21.28	-3.73	36.28	0.05	44.40	1.18
Key Other indicators:											
Coal ($/MT) '21	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*
52.75	-0.15	31.31	5.77			19.17	-0.40	19.54	-0.40	19.96	-0.41
								All changes (chg) are compared to last report.			

GAS

Annuals curl higher; short-term eases

UK annual gas prices have curled higher over the last fortnight, with expectations of improving demand as lockdowns ease and rising Asian LNG prices contributing. Short-term prices however at the same time have curled lower as consumption has dipped in the face of warmer weather while supply has been robust.

Although there have been some unscheduled outages in the North Sea, including at Norway's Visund and Kvitebjorn fields, these had little impact, with Norwegian flows already reduced for commercial reasons and solid inflows coming from the UK North Sea and from LNG terminals (LNG has been providing around a third of UK gas supply).

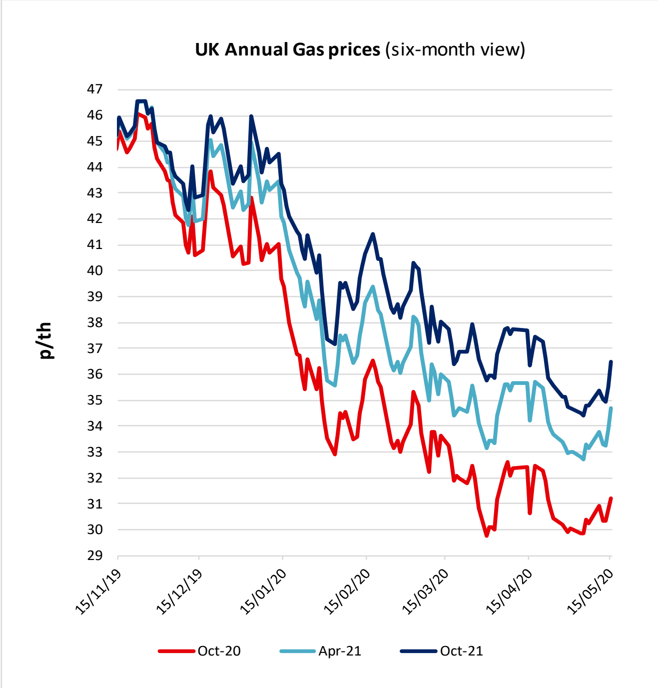
At the same time demand has remained below seasonal norms, despite a colder spell in the second week of May, mainly due to lower lockdown consumption, while a couple of bursts of windy weather reduced generator buying. Export interest has however picked up, with increased outflows seen through the UK-Zeebrugge interconnector.

Day-ahead prices have softened over the last few days amid warmer forecasts, easing 2 p/th to 12.25 p/th.

Meanwhile Month-ahead prices have come under more pressure as lockdowns (albeit loosening) will remain in force, dropping to a fresh 17-and-a-half-year low at the time of writing as June hit 11.6 p/th. Record lows on the main European gas market – TTF, in Holland – where Month-ahead prices hit EUR 5.2/MWh, helped weigh on talk as well. UK LNG storage sites rising to over 80% fullness for the first time in several months, in the face of high European storage levels too, added to the bearish hand.

Further forward October '20 Annual has risen 4% since the start of May, pushing above 31 p/th again, while slightly greater gains have been seen in future annuals. A bullish energy complex amid improved economic optimism as countries take steps to open again has been a key sentiment driver, alongside a rebound in LNG prices in Asia, which accounts for almost three-quarters of global LNG consumption. Expectations of strong gas burn by generators in France and the UK next winter amid continuing nuclear plant availability concerns also lent further support.

The oil market has again been volatile — and firmer, on new cutback pledges from Saudi Arabia, increasing diplomatic tensions between the US and China, the number of active US oil and gas rigs dropping to its lowest level since records began 80 years ago and the IEA (International Energy Agency) raising demand forecasts – but it has again more been little more than a sideshow for UK gas market sentiment and direction.



Source: Marex Spectron

Outlook:

🡑 Asian short-term LNG prices have jumped by 33% over the last two weeks as lockdown easing has boosted buying in several countries in the region. If these price gains are sustained or extend higher they could increase competition with the UK and Europe for LNG cargoes.

Norway's planned oil production cuts from June could also affect gas production there, by reducing associated natural gas that is produced at some of the oil fields that have been scheduled to be turned down.

🡒 Brexit is starting to hit the headlines again amid disagreements between the UK and EU as to how the relationship between the two should be structured after the transition period deadline at the end of this year. Depending on how the negotiations go this could sway the strength of the pound versus the euro and dollar either way, impacting energy prices in turn.

🡓 Fears of a second Covid-19 wave and new lockdowns lurk in the background and are set to continue to rein in talk of economic recovery and increasing energy use over the coming weeks.

European gas storage sites are currently at 66% fullness, compared to 53% fullness at this time last year, according to Gas Storage Europe, the storage operators' association, limiting replenishment capacity/buying for the rest of the summer.

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*
31.20	1.15	34.70	1.70	12.52	-0.54	12.33	-0.67	12.35	0.21	31.31	5.77
								All changes (chg) are compared to last report.			