

ELECTRICITY

Weekend price negative for first time

Weekend-ahead prices plunged just before the second bank holiday weekend in May, dropping beneath zero for the first time ever and hitting a record low of -£2.50/MWh, as very high wind levels and low lockdown demand led to a surplus of supply. (Saturday 23rd was particularly affected and oversupplied, with prices for that day dropping as low as -£12/MWh). Short-term prices quickly rebounded soon after however, as system balancing mechanisms kicked in, exports surged and generators scaled back output, while wind levels also dropped.

Day-ahead prices for the Friday ahead of the bank holiday were also pummeled – nearly dropping back into single digits again – although they have since rebounded squarely above £23/MWh, reaching as high as £27/MWh. Weekend-ahead prices for last weekend meanwhile were around £19/MWh, while those for next weekend are currently just under £12/MWh, still very low historically.

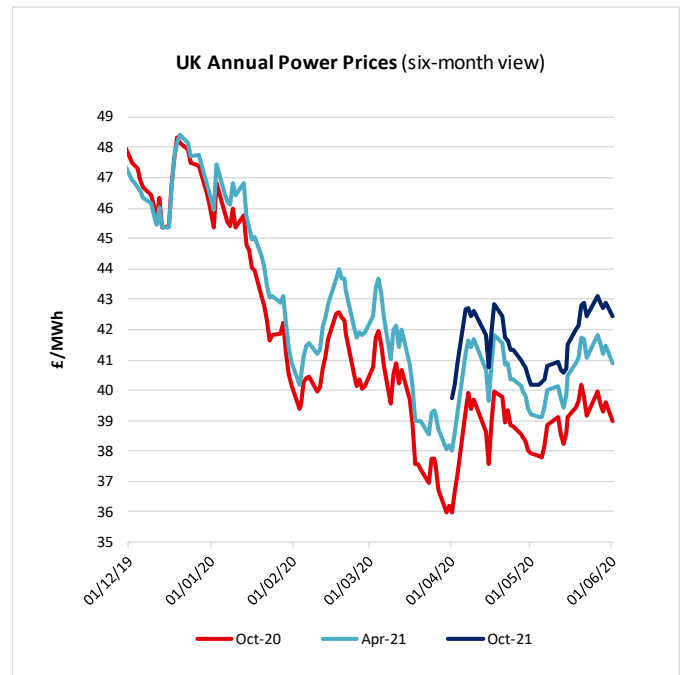
Month-ahead UK power has also been pressured by expectations of continuing low demand and plentiful supply, pushing to a new 13-year low just above £23/MWh.

Discussion further forward has been choppy, with the seasons and annuals constantly zig-zagging up and down, albeit with a continuing underlying slight upwards trend, particularly on the future annuals. October '20 Annual UK power has shuffled mostly between £39/MWh and £40/MWh, while October '21 Annual's premium to it has widened by nearly £1/MWh over the last fortnight, to £3.3/MWh.

Forward prices continue to be supported by concerns over French nuclear output following the recent significant amendments to outage and refueling schedules over the next few years due to Covid-19 disruption. The six-month extension of an outage at the Tihange 1 nuclear reactor in Belgium due to a cooling tank failure (and the delayed start-up of a new reactor in Finland due to valve issues in its cooling system) has only added to nuclear nerves in Europe. (French Q4 '20 prices are now at a premium of more than EUR 23.5/MWh, or 68%, above Q4 '20 prices in neighbouring Germany.)

EUAs (CO₂ allowances that generators factor into costs) meanwhile have risen 13% over the last two weeks, to over EUR 21.5/TCO₂, amid expectations lockdown easing will increase industrial activity (and associated pollution) over the coming months as well as reduced state auctions limiting supply.

Coal prices have at the same time dropped to a near four-year low around \$52/tonne – although are becoming increasingly irrelevant, as the UK has now gone a record seven weeks without any coal-fired electricity.



Source: Marex Spectron

Outlook:

↑ Forecasts of warmer and drier weather this summer across Europe continue to gather momentum. Should water levels be reduced in reservoirs and rivers as a result this could affect hydro and nuclear plant output.

→ EDF has confirmed that the construction of the base of the second reactor at the Hinkley Point C nuclear plant in Somerset has been completed on schedule. It has also submitted an application to build two new nuclear reactors at Sizewell in Suffolk.

↓ “The next week should be wet and more windy (particularly northern and western sectors of the UK), with temperatures dropping by several degrees. (However, there is a tendency to get increasingly drier and warmer in the second half of the forecast (i.e. after day 7)),” says Marex Spectron’s meteorology desk.

UK weekday power demand is now at a 38-year low due to reduced lockdown usage, according to a study by Imperial College.

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)				Day-ahead index				France Cal '21			
Oct '20 Annual	chg	Apr '21 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	Germany Cal '21	chg	France Cal '21	chg
39.00	-0.13	40.90	0.40	24.50	-0.57	25.55	4.28	36.42	0.14	44.54	0.14
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	EUA '22 (€/TCO2)	chg
52.25	-0.50	37.61	6.30	20.97	1.80	21.33	1.79	21.75	1.79	21.75	1.79
All changes (chg) are compared to last report.											

GAS

Month-ahead hits 22-year low

Month-ahead UK gas hit a 22-year low at the end of May, as June went off the board at 8.35 p/th — down almost a third from where it was being traded in mid-May. Expectations that the market will remain extremely well-supplied and consumption will remain extremely depressed despite the gradual lifting of lockdown measures have taken their toll on discussion again.

Day-ahead UK gas prices consolidating around new 13-and-a-half-year lows under 8.5 p/th too, and record low prices on short-term markets in mainland Europe, where Day-ahead and Month-ahead prices on the biggest hub – TTF, in Holland – fell to EUR 2.35/MWh and EUR 3.5/MWh respectively towards the end of May, reinforced the heavily bearish mood. A couple of bursts of windy weather – around the second May bank holiday and at the end of the month – also contributed by slashing buying interest from generators.

Further unplanned issues at Norway’s Kollsness gas processing facility, which disrupted output from the Visund and Kvitebjorn fields, and solid export flows through the interconnectors to Belgium, Holland and Ireland failed to provide much price support.

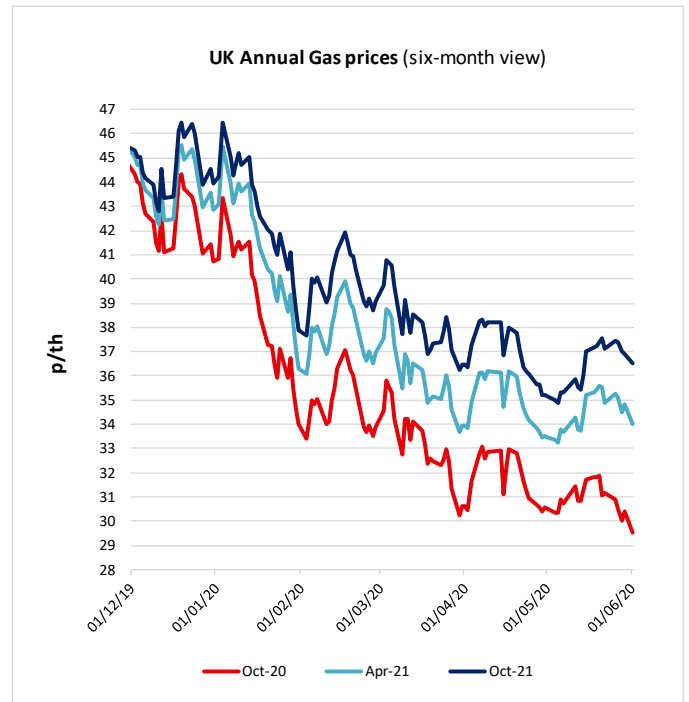
News that Russian gas supplies through the Yamal-Europe pipeline (which takes gas through Poland to the German border) had stopped, seemingly due to the expiry of a long-standing Russia-Poland transit deal, created a diversion from the general bearishness, although this was only brief as flows through the pipe restarted a few days later.

High gas stock levels in the UK and Europe have compounded the bearish view over the next few months, limiting the potential for replenishment buying to buoy summer prices. This has also pushed July UK gas prices below 9 p/th and even August prices close to single digits.

European gas storage sites are currently at 73% fullness, compared to 61% fullness at this time last year, according to Gas Storage Europe, the storage operators’ association, while UK LNG storage sites remain over 70% full.

The bearishness has spilt along the forward curve, bending October ’20 Annual down by as much as 7% – to a multi-year low beneath 30 p/th, with progressively smaller losses seen in the annuals further forward.

Stronger oil prices have failed to bolster talk. North Sea oil has risen above \$37.5/barrel on expectations of OPEC+ states extending supplementary production cuts beyond June and falling inventories in the US, although persistent virus-related demand destruction and further deterioration in US-China relations as China imposed a new security law on Hong Kong have provided some counterweight .



Source: Marex Spectron

Outlook:

↑ US LNG exports have dropped by a third since the start of widespread lockdowns in March, as Asian and European buyers have cancelled purchases. Further reductions could help tighten global LNG supply.

→ Global investment in energy projects will tumble by 20%, or nearly \$400 billion, this year due to Covid-19 , according to the IEA (international Energy Agency), which said the slump could have “serious repercussions” for energy security and the transition to clean energy.

Of a 750 billion euro coronavirus recovery fund announced by the EU, 30 billion euros will go towards its “just transition” fund to reduce fossil-fuel usage in the bloc.

↓ Asian spot LNG prices have slumped back following a mid-May spike, as a short-term demand surge has ended, and underlying regional consumption remains subdued.

Global LNG demand this summer is expected to drop by 2.7%, the first seasonal contraction in 8 years, according to analysts Wood Mackenzie.

Key Gas indicators:				Short-term UK (p/th)				European gas (€/MWh)		Crude Oil	
Long-term UK (p/th)				Day-ahead index				TTF 2021	chg	Oil (Brent) \$/bbl	chg
Oct '20 Annual	chg	Apr '21 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	11.80	-0.55	37.61	6.30
29.00	-2.20	33.50	-1.20	8.70	-3.82	8.50	-3.83				

All changes (chg) are compared to last report.

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