ELECTRICITY

Annuals rise to 5-month high

UK power annual prices have risen as much as 10% since mid-June, reaching their highest levels since January, on expectations of demand recovery, surging emissions prices and anxiety over European nuclear output. Short-term prices are meanwhile slightly higher, after two weeks of being buffeted up and down by variable wind levels.

Winter '20 has rallied from £42/MWh to £46/MWh and October '20 Annual from £39.7/MWh to £43.5/MWh, while all future annuals and seasons have pushed similarly higher. The gains have been helped by a general up-shunt across the energy complex, with gas, oil, coal, continental electricity and emissions prices all rising, lockdown easing across Europe contributing to the mood.

French year-ahead prices have pushed up to their highest level since last November, breaking above EUR 48.5/MWh, amid persistent concerns over nuclear output for the winter and beyond due to Covid-forced outage rescheduling — concerns which have not been helped by the permanent closure of country's oldest nuclear plant, at Fessenheim, and a raft of current outages which have tightened physical supply (more than a third of French nuclear capacity is now offline).

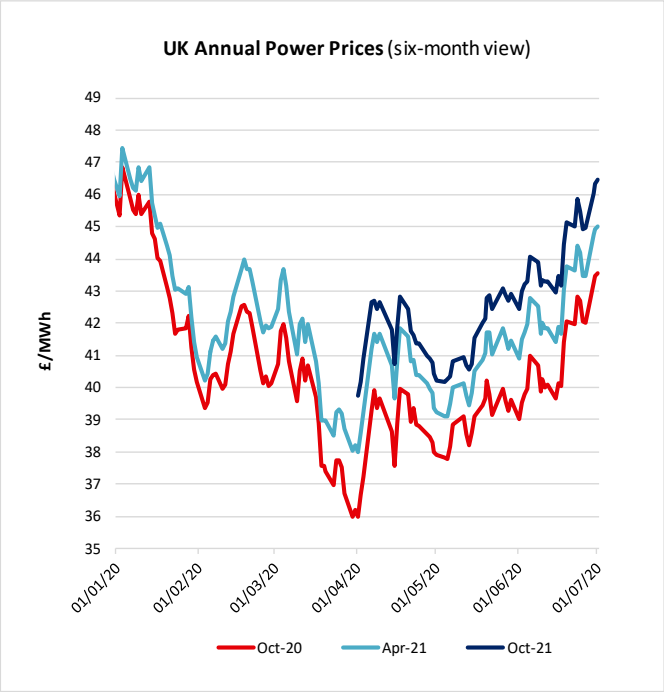
EUAs (CO_2 allowances that generators factor into costs) meanwhile have surged to their highest level since last summer, 2020 EUAs reaching EUR 28/TCO2, up 26% over the last two weeks, and more than 83% from their low in March, helped by an increase in industrial activity (and emissions) alongside a wave of speculative buying.

Oil has risen on the back of OPEC cutbacks tightening supply (OPEC monthly output in June reportedly hit a 29-year low) and a sharp drop in US oil inventories. North Sea oil prices have climbed to as high as $43/barrel as a result.

Coal prices meanwhile have rallied on the back of producers scaling back production in several countries and surging freight rates, amid competition for ships which are being used to satisfy booming demand for iron ore into China. Year-ahead coal is up by 7.5% over the last fortnight, at $58/tonne.

Day-ahead UK power at the same time has oscillated between £27.3-32.5/MWh, largely at the mercy of changing wind levels, although swinging short-term gas prices contributed, while strong power exports to France due to nuclear issues proved supportive.

Month-ahead (now August) has climbed to £32.8/MWh, its highest level since mid-March, although still its lowest level for the time of year since 2009.



Source: Marex Spectron

Outlook:

↑ "From the middle of next week we should see typical summer weather reinstating itself across much of Europe and the UK, with warmer, drier conditions accompanied by lower wind levels," says Marex Spectron's meteorology desk.

→ There have been three times as many negative settlement periods on the UK electricity balancing system in the first five months of 2020 as the whole of 2019, 83% occurring in April and May (when demand was 19% lower year-on-year), according to Elexon, the UK Balancing Mechanism administrator.

Fessenheim, France's oldest nuclear plant, has just been fully shut down following the long-planned closure of its second reactor.

It is cheaper to build renewables capacity (with battery storage) now than to continue operating 81% of coal-fired power stations in the EU, with that figure rising to 100% by 2025, according to climate research group Carbon Tracker.

↓ EU energy demand is set to fall 10% this year with coal demand down 20%, according to the International Energy Agency.

Further lockdowns in the US amid coronavirus increases in many states could dent global economic sentiment and energy prices in turn.

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*
43.55	3.43	45.00	3.10	33.18	4.88	32.47	2.86	41.70	2.92	48.35	2.07
Key Other indicators:											
Coal ($/MT) '21	*chg*	Oil (Brent) $/bbl	*chg*			EUA '20 (€/TCO2)	*chg*	EUA '21 (€/TCO2)	*chg*	EUA '22 (€/TCO2)	*chg*
57.25	3.15	41.61	1.02			27.71	4.93	28.01	4.88	28.42	4.87
								All changes (chg) are compared to last report.			

GAS

Annuals gain 9% in general rebound

UK gas prices have risen across all periods over the last fortnight, with bullish conviction kicking in on forward markets, after a tentative first half of June, and leading to gains of as much as 9% on the annuals. Short-term prices, meanwhile, have also meandered higher, helped by good end-user and generator demand as well as further Norwegian offshore issues.

October '20 Annual has pushed above 32 p/th this week, up 2.5 p/th from mid-June levels - to its highest level since mid-April - helped by a general rebound across energy and emissions markets on expectations of post-lockdown demand recovery, as well as concerns about LNG supplies and nuclear power production in Europe.

Future annuals have also moved higher, but by progressively smaller degrees. October '21 Annual is now at a premium of 19%, or 6 p/th, to the front annual, while the furthest talked annual, October '25 Annual, has been carrying a premium of 10 p/th, or 31%.

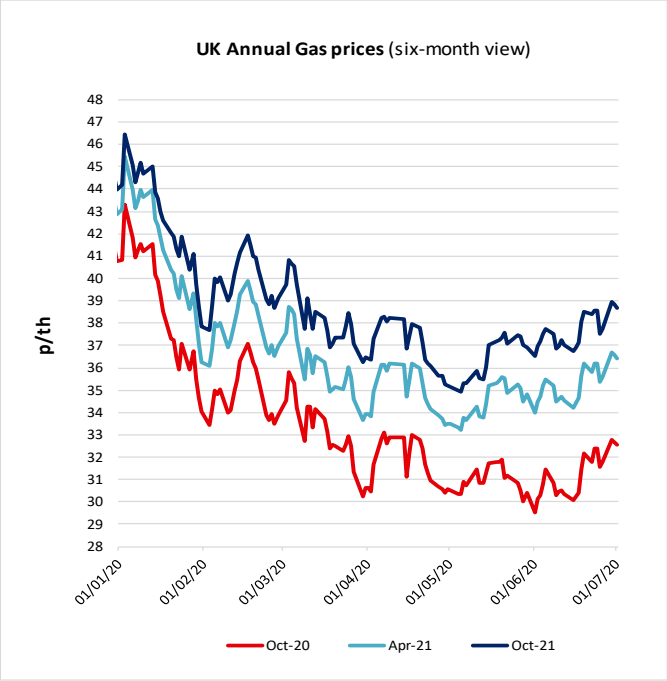
Although imports from Norway improved in the second half of June, a smattering of new unscheduled outages in the Norwegian offshore — at the Asgard, Gullfaks and Norne fields — alongside scheduled outages there, has capped pipeline imports to the UK. At the same time LNG cargo arrivals have also slowed, while UK exports to Holland, Belgium and Ireland have remained broadly steady.

Day-ahead UK gas climbed from 14 p/th mid-June to 16.5 p/th by the end of the month, albeit in very jagged fashion, as national demand tripped several times above seasonal norms — sub-seasonal temperatures boosting heating demand as sporadic drop-offs in wind triggered increased buying from the power sector. However prices eased as July started, amid warmer forecasts and improved Norwegian flows.

Month-ahead UK gas prices meanwhile also shuffled up to over 16 p/th, their highest level since mid-April, before nudging slightly lower as July started, supported by expectations of reduced LNG deliveries and summer maintenance curbing supply.

UK LNG storage sites have dropped from 90% to 70% fullness over the last fortnight, although the slowdown of LNG deliveries into mainland Europe has been more marked. European gas storage sites are currently at 79% fullness, compared to 72% fullness at this time last year, according to Gas Storage Europe, the storage operators' association, the inter-year difference narrowing significantly over the last couple of months.

Lockdown loosening across Europe, firmer European gas and firmer oil prices, on the back of tightening global supplies, has also underpinned forward prices again.



Source: Marex Spectron

Outlook:

↑ More LNG cargo cancellations from the US (where up to 45 cargoes a month are expected to be cancelled over the June to August period) and elsewhere, an increase in demand from Asian markets as warmer weather boosts cooling demand and seasonal outages at export terminals could tighten global LNG markets and supplies to the UK. Gas deliveries to US LNG export terminals are reportedly down 60% since March.

→ The production cap at the giant Groningen field is likely to be reduced by 21% to 9.3 BCM for the year from October 1st, according to the Dutch gas regulator. This year's cap however is unlikely to be reached anyway, according to government projections.

↓ Fears of a second Covid-19 wave in Europe will continue to keep any market bullishness in check.

China is planning to increase its natural gas output by 4.3% this year, to 181 BCM, according to its National Energy Administration.

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*
32.07	2.32	35.94	2.01	15.94	2.32	15.38	1.10	12.40	0.37	41.61	1.02
								All changes (chg) are compared to last report.			

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