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mid July 2020

ELECTRICITY

Forwards stagger higher

UK power forward prices have staggered unsteadily higher over the first half of July, annuals nearing six-month highs before paring lower, as still-rallying emissions prices have tussled with an improved French supply outlook to determine direction, against a background of wavering economic recovery expectations. Short-term prices, although currently back at month-start levels, have meanwhile been volatile, seeing prices push briefly to their highest levels since mid-March.

October ’20 Annual is now around £1/MWh up on prices seen a fortnight ago, at £44.5/MWh, having reached nearly £45.5/MWh as the second week in July started. Other annuals similarly reached their highest levels since mid-January, before edging lower.

EdF’s announcement in the first week of July that it is to reduce outages at 23 reactors, as Covid-19 restrictions have eased, boosting Q4 capacity availability by 5.5 GW from previous estimates, led to an immediate 11% drop in Q4 ’20 French power prices. Although similar drops were not replicated elsewhere the news helped limit the upside on adjacent power markets, including the UK.

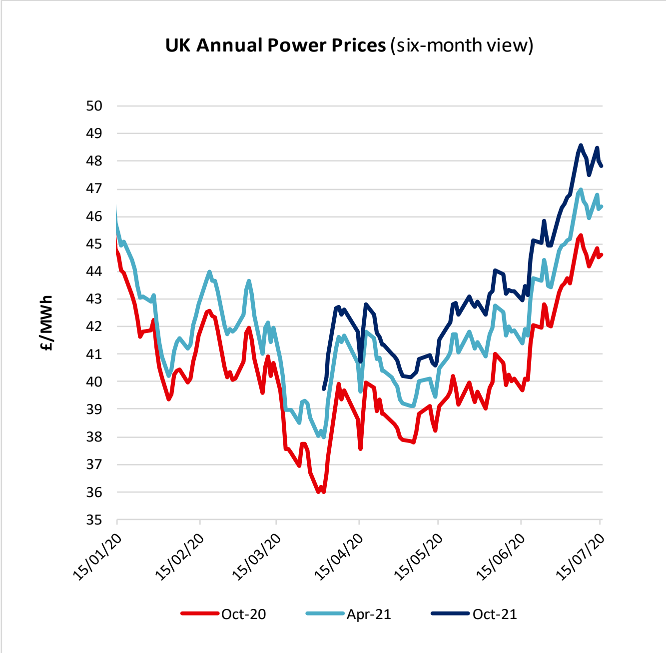
Further strength in the market for EUAs (CO_2 allowances that generators factor into costs), which have just touched a 14-year high — above EUR 30/TCO2, has helped the bullishness in forward periods. EUAs have risen amidst several strands of EU Commission chatter — about a green post-Covid recovery, emissions scheme reform/expansion and more aggressive climate goals — while speculative buying has again played its part.

Gains have also been seen in gas, German power, oil and coal markets. Oil has inched above $43.5/barrel for the first time since early March on improving demand, despite talk of OPEC+ nations relaxing production curbs, while German year-ahead electricity has risen above EUR 43.5/MWh, for the first time in nearly six months.

Year-ahead coal prices meanwhile have climbed to a five-month high of over $60/tonne, up over 4% over the last fortnight, on the back of further producer scale-backs in Colombia and the Asia-Pacific region, reductions in global inventories, and continuing strong freight rates (amid a continuing iron ore boom – iron ore has surged by more than 35% in value since early May), despite generally sluggish European demand.

Day-ahead UK power has seen an increase in volatility, swinging between £24/MWh and £35/MWh, the lows and highs coming amid bursts of blustery and calm weather, with wind accounting for up to 50% of generation and then dropping beneath 5%. Between the swings, prices have focused in the £30-32/MWh range.

Month-ahead, despite rising to a new lockdown high of £33.5/MWh on July 7th, has since tumbled back to £31/MWh, on the back of a slide in gas prices.



Source: Marex Spectron

Outlook:

↑ ““With another area of high pressure moving in over north-western Europe over the next few days another drop in wind levels is expected – potentially tightening power supply, while cooling demand is set to ratchet higher,” says Marex Spectron’s meteorology desk.

Other forecasters have also suggested there is a growing chance of a La Niña weather pattern forming in the Pacific over the autumn. La Niñas have previously caused colder than normal weather in the northern hemisphere and heavy rainfall in the southern hemisphere, which has flooded coal mines and disrupted supply.

→ Solar accounted for a record quarterly contribution of 17% of renewable generation in Europe in Q2, according to analysts EnAppSys.

The UK government has delegated planning decisions on large-scale battery storage projects to local councils, a move that it says could stimulate the construction of more than 100 new power storage facilities by cutting red tape. The UK has 1 GW of battery capacity currently, with another 4 GW of capacity being planned.

Construction of the 1.4 GW Viking Link interconnector between Denmark and the UK has started. Understood to be the longest subsea power cable in the world, it is expected to be completed in 2023.

↓ “[After the current warm spell] low pressure areas will move in from the Atlantic, bringing more unsettled weather up to the end of the month,” says Marex Spectron’s meteorology desk.

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*
44.60	1.05	46.35	1.35	31.40	-1.78	31.89	-0.57	42.78	1.08	47.55	-0.80
Key Other indicators:											
Coal ($/MT) '21	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '20 (€/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*
60.25	3.00	43.51	1.90			28.85	1.14	29.22	1.21	29.70	1.28
								All changes (chg) are compared to last report.			

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GAS

Improved supply tempers rebound

While annual prices have been on a general uptrend — and risen as much as 4.5% since the start of July, short-term prices have been on a downtrend — and fallen by as much as 25%.

Improved Norwegian flows, as several unscheduled and scheduled outages finished, alongside an uptick in LNG imports into Europe (and good indigenous output from UK fields), has boosted supply. This has more than covered an increase in demand, which has pushed well above seasonal norms at times, helped by colder weather and lockdown easing boosting end-user consumption and wind-light days increasing generator buying.

As a result Day-ahead UK gas had slipped from 16.5 p/th at the end of June, to 12.2 p/th by mid-July. Month-ahead buckled in turn, and is now valued at less than 13 p/th, down from 16.1 p/th over the same period. A drop in UK exports via the UK-Belgium interconnector also contributed (although exports to Holland and Ireland have held broadly steady).

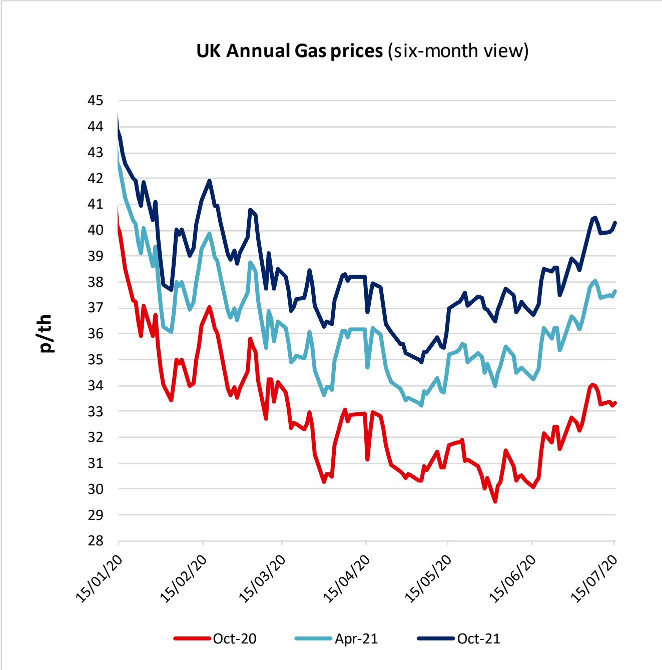
The start of annual maintenance in the Nord Stream gas pipeline between Russia and Germany (from the 14th until the 26th July) failed to help support European gas prices, with the gas that came down the pipe being diverted via other routes and maintenance finishing at the same time at Norway's largest field, Troll.

Further forward, prices have conversely been bullish, on the back of another push-up in global energy demand sentiment, amid further economic recovery hopes, although gains have been tempered by the weakness in short-term markets.

North Sea oil has pushed to its highest level since early March, above $43.5/barrel, amid increasing transport use as lockdowns have eased, despite OPEC+ nations agreeing to increase output from August. At the same time European emissions allowances have reached a headline-grabbing 14-year high.

October '20 Annual rose from 32 p/th at the start of the month, to 33.5 p/th on the 7th/8th July – a near four-month high, but has since softened and bedded in beneath 33 p/th. Similar price movement was seen across all talked annuals. Reduced concerns over nuclear power output in Europe this winter, as a significant reduction in French outages was announced, has also helped weigh on general discussion.

A new mini-influx of LNG has lifted UK LNG storage sites back up to 80% fullness. European gas storage sites meanwhile are currently at 84% fullness, compared to 78% fullness at this time last year, according to Gas Storage Europe, the storage operators' association, the inter-year difference continuing to narrow.



Source: Marex Spectron

Outlook:

A cluster of Norwegian maintenance is scheduled to take place from late August through September, affecting as much as 100 mcm/day of output.

At least 20 out of 45 planned major global LNG export projects are facing delays in financing in part due to the coronavirus pandemic, according to research firm Global Energy Monitor.

Gas trading volumes in Europe have grown during the pandemic and are on course for a record year, likely beating the record 63,000 TWh traded last year, according to market analysts Prospex. Volumes were up 20% in the first six months of this year, they say.

Asian spot LNG prices have been broadly stable for four weeks now. If this continues then this may provide a steadying influence on global LNG prices.

The construction of new gas import infrastructure in Europe is now completely unnecessary, despite falling regional gas production, as climate change initiatives will suppress gas demand over the next few decades, according to DIW (the German Institute for Economic Research).

OPEC+ oil producing states will reduce current output cutbacks by 20%, to 7.7 million barrels a day, from August. Further reductions could improve global oil supply and cap the likelihood of oil prices rallying back to pre-lockdown levels.

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*
32.83	0.77	37.12	1.18	13.72	-2.22	13.35	-2.03	12.88	0.48	43.51	1.90
								All changes (chg) are compared to last report.			