

## ELECTRICITY

### Big Freeze – Price Squeeze

All UK power and gas periods have roared higher since just before Christmas with forecasts of a deepening (and windless) cold snap adding extra propulsion as the new year turned. Short-term prices have surged above £150/MWh, while Annuals have rallied to levels not seen since mid-2019.

Other factors were also at play in driving longer term prices higher, including record emissions prices, a continuing soaring Asian LNG market and further post-Covid economic optimism.

Day-ahead UK power prices, having dipped below £50/MWh a fortnight ago, ramped up above £68/MWh either side of the New Year, before rocketing to £151/MWh on January 5<sup>th</sup> (as hourly Day-ahead prices for 1700-1800 on the 6<sup>th</sup> hit a record £1000/MWh, on the N2EX exchange), as National Grid issued an Electricity Margin Notice warning.

Forecasts of lingering cold weather, not only in the UK, but in mainland Europe and across the northern hemisphere — including LNG-hungry Asia, have provided significant bolster across the rest of the Winter too, with Month-ahead UK Power also hitting £68/MWh, and Q1 breaking above £64/MWh – both two-year highs. Tight nuclear plant availability in France, alongside maintenance being extended for several weeks at a few reactors and the threat of more power worker strikes there, also proved supportive.

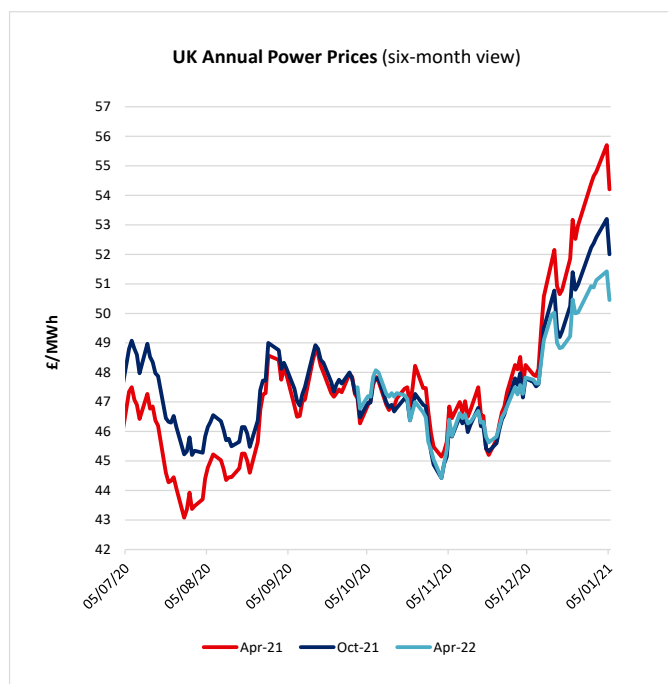
EUAs (CO<sub>2</sub> emissions allowances that generators factor into costs) meanwhile pushed to fresh record highs, 2021 EUAs tripping above EUR 34/TCO<sub>2</sub> as January started. The recently agreed tighter EU emissions cap, alongside limited state auction volumes this month, continued to fuel the bullishness. A “relief rally” following the signing of the UK-EU post-Brexit deal and an anticipation of increased coal burn by generators if temperatures remain low also contributed.

At the same time year-ahead coal prices nearly reached \$73/tonne — for the first time since April 2019, up 9% over the last two weeks, expectations of increased Chinese buying helping to shore up levels.

UK power annuals have seen gains of as much as 10% since before Christmas, with April '21 Annual breaching £55/MWh, and October '21 Annual £52.5/MWh.

Forward power, gas, coal and emissions markets have however all slipped lower over the last couple of days in a general downwards correction helped by a revision in mid-range weather forecasts.

Oil prices though remain little changed since mid-December, hovering just above \$51/barrel, steadied by OPEC+ nations deciding to delay a planned increase in output. The signing of the US economy stimulus bill and a weaker dollar have been providing some support.



Source: Marex Spectron

#### Outlook:

↑ Further cold weather spells and global LNG tightness could keep applying upwards pressure to prices, particularly if there are any unscheduled power plant outages. Constraints on electricity imports from mainland Europe due to the continued shutdown of the BritNed interconnector as well as strong exports to Ireland could also underpin levels.

→ UK-EU trading in energy is set to continue to run smoothly following the signing of the UK-EU post-Brexit deal, according to EFET, the European Federation of Energy Traders. “The agreement ensures at least basic future alignment of the design of power and gas markets,” it said.

Overall energy use in Germany, Europe’s biggest economy, fell 9% in 2020, to a 30-year low.

↓ The impact of lockdowns on economic activity and energy demand will continue to weigh on prices, particularly if they are extended in the UK and elsewhere.

The UK government has approved the development of the 2,400 MW Hornsea Three windfarm off the Norfolk coast. Hornsea One came onstream last year, while Hornsea Two is expected online next year.

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)				Month-ahead index				Day-ahead index			
Apr '21 Annual	chg	Oct '21 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	Germany Cal '22	chg	France Cal '22	chg
53.70	3.55	51.50	2.80	64.44	6.67	148.48	98.69	49.60	1.55	51.13	1.25
Key Other indicators:				EUA '21 (€/TCO2)				EUA '22 (€/TCO2)			
Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	EUA '21 (€/TCO2)	chg	EUA '22 (€/TCO2)	chg	EUA '23 (€/TCO2)	chg		
68.75	1.60	53.26	1.95	32.96	1.00	33.15	0.94	33.50	0.97		
All changes (chg) are compared to last report.											

## GAS

### Cold and LNG price records fuel rally

2020 ended and 2021 started with a bullish bang, as short-term prices leapt by more than a third, to a two-year high, and annual prices surged by as much as 14%. The effect of roaring heating demand as temperatures plummeted in the UK was compounded by very strong generator demand as renewables output shrank in the face of low wind, a situation that was mirrored across Europe. As freezing weather also hit Asia, LNG prices were pushed to a record high, adding further upthrust to discussion. Cross-market prices witnessed a shunt downwards on January 5<sup>th</sup> amid a general correction and weather forecast revisions, but still retain most of the gains they have accumulated since before Christmas.

April '21 Annual reached a high of over 47 p/th — the highest price for a front Annual in 14-and-a-half months (before dropping back 1.5 p/th). Progressively smaller gains were seen further forward, with differentials between the annuals widening again as a result. October '21 Annual rose to 45 p/th, up from 41 p/th before Christmas, while April '22 Annual rose just over 2 p/th, to 42.8 p/th, over the same period.

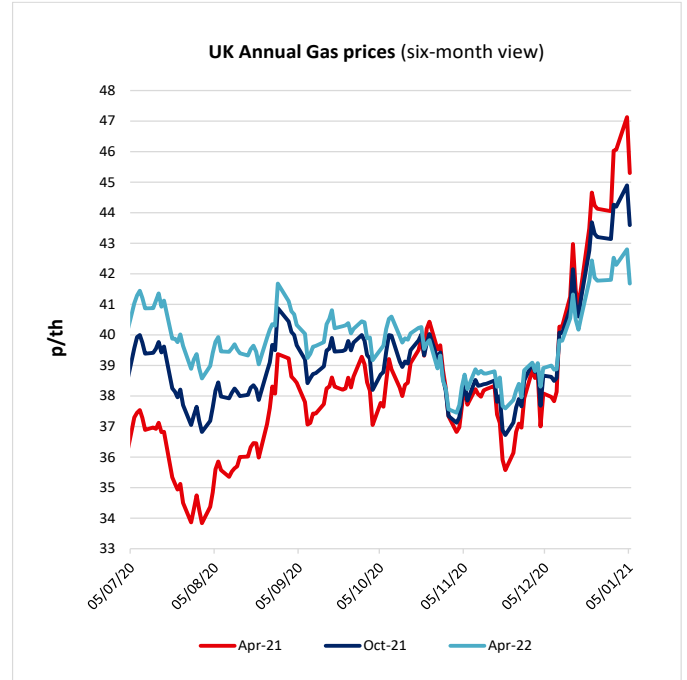
Record emissions prices, with 2021 EUA CO<sub>2</sub> allowances hitting EUR 34/TCO<sub>2</sub> for the first time — on tighter supply, expectations of increased coal burn by generators and the signing of a trade deal between the UK and EU — also added to the bullish mood.

In the short-term, meanwhile, Day-ahead prices broke above 60 p/th, for the first time since January 2019. Several unplanned outages — including at the UK's Bacton Seal terminal and Norway's Kristin field — had only a limited impact, as they were short-lived, with the surge in consumption on both sides of The Channel being more instrumental in driving prices higher. Day-ahead has slipped back beneath 54.5 p/th over the last couple of days though, helped by demand ticking lower, imports and storage withdrawals.

Further gains in Asian spot LNG prices — with a record \$20.8/MMBTU reportedly paid for a cargo (equivalent to 153 p/th), and February prices ramping up another 50% in value since Christmas (to \$15/MMBTU — triple where they were at this time last year) have also strongly boosted UK talk for the remainder of this winter.

Month-ahead UK gas broke above 59 p/th as a result, albeit briefly, while March was pushed as high as 54.5 p/th.

The cold weather has prompted significant withdrawals from gas storage sites across Europe, pulling overall capacity down to 72% fullness, compared to 84% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.



Source: Marex Spectron

### Outlook:

↑ LNG imports into Europe in December were down nearly 50% on the same month a year earlier, as cargoes were diverted to Asia. If LNG imports continue to be constrained then UK supplies may struggle in the event of further cold spells this winter, particularly if European storage stocks deplete rapidly.

→ Denmark, the EU's largest oil producer, has agreed to stop all oil and gas exploration as part of a plan to end all fossil fuel extraction by 2050. (Denmark's output is however very limited compared to non-EU states Norway and the UK.)

↓ Some forecasters are predicting milder and windier weather across Europe in the second half of January, which could depress end-user and generator demand. Full lockdowns in the UK and Germany and partial lockdowns elsewhere over the next few weeks/months are also set to reduce gas demand from the industrial and commercial sectors.

Key Gas indicators:				Short-term UK (p/th)				European gas (€/MWh)		Crude Oil	
Long-term UK (p/th)				Month-ahead index		Day-ahead index		TTF 2022		Oil (Brent) \$/bbl	
Apr '21 Annual	chg	Oct '21 Annual	chg		chg		chg		chg		chg
45.30	4.33	43.60	3.00	54.75	8.74	54.13	10.21	15.74	0.83	53.26	1.95

All changes (chg) are compared to last report.

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