

ELECTRICITY

Choppy waters

Although UK power (and gas) prices rebounded across most periods soon after the recent price rally ruptured in mid-January, the gains were somewhat tentative and markets have been very choppy since, seesawing up and down — much of the time on changing weather forecasts.

The extreme spikiness in Day-ahead UK power prices over the first half of January has largely disappeared over the last fortnight, with prices only breaking into triple digits on one day (January 22nd — when they only just broke above £100/MWh). For the most part they have been between £60-72/MWh, and at the time of writing they were down below £57/MWh, their lowest level since before Christmas, in the face of warmer and windier short-term forecasts.

February went off the board at just under £67.5/MWh (down from its £86/MWh peak during last month's spike), while the new Month-ahead, March, is now discussed around £10/MWh lower, around £57/MWh — although this is still the highest ever March price for this time of year.

A sharp fall in Asian LNG prices, amid warmer weather there, and consequent easing in UK gas prices, has helped weigh on forward UK power price sentiment, although strong EUA emissions allowance and oil markets have offered some bullish counterweight to this.

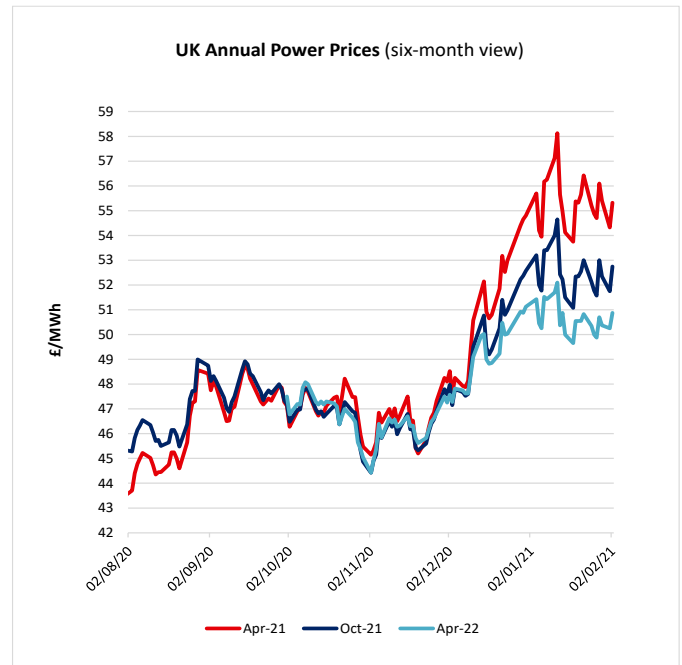
Oil prices have been shored up ahead of extra Saudi production cuts of 1 million barrels a day during February and March, while lower US crude inventories and US economic stimulus package hopes have also supported discussion.

Since dropping towards EUR 31.5/TCO₂ mid-January, 2021 EUAs have witnessed three run-ups towards EUR 34/TCO₂ before breaking above EUR 37/TCO₂, a new record, today, on a wave of speculative buying. Some strength in Continental power prices and buying from UK players — keen to hedge CO₂ risk exposure as they continue to wait for clarity on the UK Emissions Trading Scheme — also appear to have contributed. The gains came after the resumption of EUA state auctions, which had been delayed for several weeks due to technical issues, initially weighed on sentiment.

Coal meanwhile, having witnessed a brief price bounce alongside other markets, has dropped back to mid-December levels, with Year-ahead slipping towards \$66/tonne. Sharply rising water levels on the Rhine, which could force barge traffic bans on parts of the river, have reportedly contributed to the softening, by limiting buying interest from coal barge operators and traders.

A confusing weather outlook — amid constantly changing weather forecasts, great regional variability across Europe and conflicting outputs from different models — has added to the general jittery mood. There does seem to be some consensus that there will be cold spells in February but there is now a reduced conviction of another sustained "Beast from the East" severe freeze. Changeable pandemic perceptions also appear to be swaying sentiment, amid a mixed stream of vaccine/variant/lockdown news.

April '21 Annual has been swinging between £53 and £56/MWh. At the time of writing it was on a downtick, discussion focused around £54/MWh, October '21 Annual tracking it at a £2.5/MWh discount.



Source: Marex Spectron

Outlook:

↑ While the delayed new 1000 MW IFA2 interconnector between France and the UK came online on January 22nd it has already suffered an outage. Further teething/reliability issues could limit the UK's import potential.

The restart of France's Flamanville nuclear plant has been delayed by another month, adding to ongoing sensitivities about French nuclear availability.

→ The Hinkley Point C nuclear plant's start-up date has been delayed by another six months to mid-2026, with estimated costs rising to £23 billion. Further delays may be possible at the project in Somerset, which was originally expected online in 2017.

UK solar capacity installations rose 27% year-on-year in 2020 — with 545 MW of capacity installed, according to Solar Media.

The European Commission has approved EUR 2.9 billion in state aid for the European Battery Alliance — a 12-country initiative to develop a battery industry in the EU with the aim of powering six million new electric cars a year.

Renewables overtook fossil fuels in the EU power mix last year — with a 38% share compared to 37% for fossil fuels, according to Ember, the clean energy think-tank.

Germany, which has the biggest installed wind capacity in Europe, witnessed a wind power record of 46.9 MW briefly on 21st Jan, during storm Goran.

↓ The BritNed interconnector is now due to restart operations on February 7th following the location of the cable fault and repair work, enabling imports to resume again through the link.

Key Power indicators:				Short-term UK (£/MWh)				European power (£/MWh)			
Long-term UK (£/MWh)				Month-ahead index				Germany Cal '22			
Apr '21 Annual	chg	Oct '21 Annual	chg	Day-ahead index	chg	Germany Cal '22	chg	France Cal '22	chg		
54.83	1.58	52.25	1.68	56.89	-11.31	56.06	-3.73	50.45	2.35	51.76	2.09
Key Other indicators:				EUA '21 (€/TCO ₂)				EUA '22 (€/TCO ₂)			
Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	EUA '21 (€/TCO ₂)	chg	EUA '22 (€/TCO ₂)	chg	EUA '23 (€/TCO ₂)	chg		
66.63	-1.95	57.68	2.79	34.97	3.35	35.19	3.35	35.52	3.33		
All changes (chg) are compared to last report.											

GAS

Shifting forecasts sway market

Weather uncertainty, amid changeable and regionally variable forecasts across Europe, has caused UK gas prices to oscillate wildly since mid-January — when the mega-rally that started in early December abruptly buckled. Prices initially rebounded but have since swung lower, higher and lower again. They were easing further at the time of writing, with several shorter-term periods slipping back to pre-Christmas levels.

A sharp drop in spot Asian LNG prices, to a near two-month low of \$8.7/MMBTU (from a record high of \$32.5/MMBTU on January 13th) — as a freezing weather spell in the region ended, supply improved and shipping rates fell back from all-time highs — has been a key bearish driver on sentiment, although forward LNG prices have shed only marginal value over the last fortnight. Continued bottlenecks in the Panama canal, which although easing are still expected to last into March, are continuing to help underpin levels.

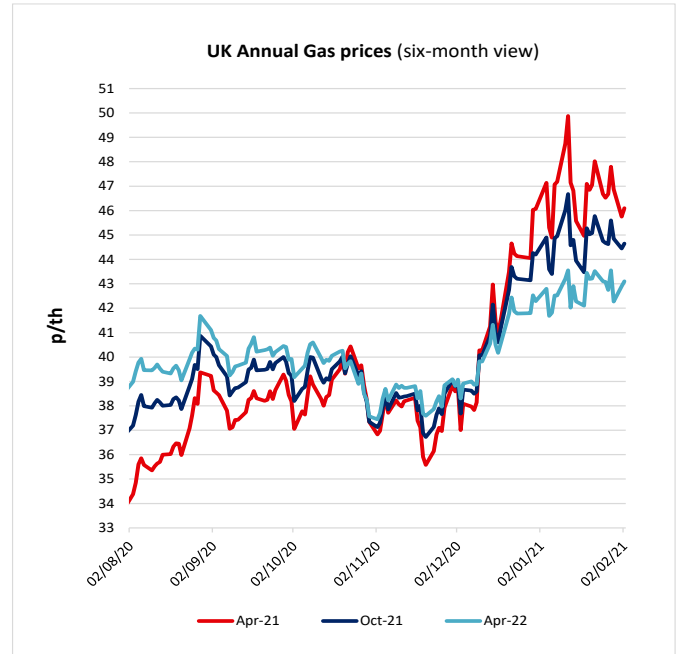
Day-ahead UK gas prices rebounded from below 54 p/th to 61.5 p/th in the third week of January, as outages — in the Bacton Seal pipeline and at several Norwegian fields (Aasta Hansteen, Troll, Asgard, Visun and Kvitebjorn) — disrupted supply just as another cold and windless spell hit the UK, ramping up generator and end-user demand. While weather changes and outages starting and ending have continued to sway prices since, they are now back down around 48 p/th, as short-term forecasts have turned warmer and windier.

February went off the board at 55 p/th (down from its 77 p/th peak during last month’s spike), while the new Month-ahead, March, has slipped below 47 p/th, still sharply above where it was at this time last year but below where it was two years ago.

Wavering conviction about the likelihood, length and scale of a potential “Beast from the East” Siberian freeze sweeping across Europe has helped push prices up and down, although some sharply colder spells are still expected by most weathermen this month.

Prices for Summer ’21 UK gas meanwhile have shuffled mostly between 41-44 p/th. Although they are currently at the lower end of this range, they are still above where they were after the mid-January sell-off. Expectations of significant replenishment buying for storage sites over the summer months continue to support discussion, with European storage capacity currently just over half full — compared to 69% fullness at this time last year, according to Gas Storage Europe, the storage operators’ association. Further major withdrawals are also expected in the event of any cold snaps.

April ’21 Annual — at just under 46 p/th — is similarly above mid-January levels, by almost a penny, with October ’21 Annual tracking it at a 1.5 p/th discount. Firmer oil prices — at their highest levels since last February, as Saudi Arabia implemented production cuts — and record high EUA carbon prices, have also lent some support to forwards sentiment.



Source: Marex Spectron

Outlook:

↑ “Very cold air masses will push from the north-east and lead to a potentially severe cold spell for much of the UK starting Saturday/Sunday. The persistence is still very much uncertain and may last from a few days up to 7/10 days,” says Marex Spectron’s meteorology desk.

→ The US government is reportedly ready to discuss lifting sanctions against the Nord Stream 2 pipeline between Russia and Germany, which were imposed by the Trump administration amid concerns about Europe becoming too reliant on Russia for gas. To do this it may require safeguards on gas supplies to Ukraine, according to *Handelsblatt*, the German business newspaper.

↓ “We do not expect it to last beyond the cold wave, as the market fundamentals for 2021 are fragile,” IEA analysts say about the recent run-up in global LNG prices.

Meanwhile LNG output from Australia’s Prelude facility, the world’s largest floating LNG plant, has restarted after an outage of nearly a year, with production and exports expected to ramp higher over the coming weeks.

Key Gas indicators:				European gas (€/MWh)				Crude Oil			
Long-term UK (p/th)				TTF 2022				Oil (Brent) \$/bbl			
Apr '21 Annual	chg	Oct '21 Annual	chg	Month-ahead index	chg	Day-ahead index	chg		chg		
46.10	1.14	44.65	1.18	48.56	-7.07	50.19	-3.50	16.45	0.30	57.68	2.79
All changes (chg) are compared to last report.											

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