

ELECTRICITY

Annals hold near 27-month highs

UK forward power prices have largely held onto the sharp gains they accumulated during the first half of March, with April '21 Annual going off the board at nearly £61/MWh, the highest front Annual price tag in 27 months, and Month-ahead pushing to its highest level for the time of year since 2013. Gas and LNG firmness, in part due to the Suez Canal becoming blocked by a container ship running aground, has been a major supportive factor, as has continued strength in the EUA (emissions allowance market) and forecasts of an upcoming cold snap.

Prices did dip in the third week of March, across products, as confidence in the general run-up buckled amid some profit-taking and warmer and windier forecasts, but rebounded again as the fourth week got underway.

April '21 Annual slipped £2, to below £59/MWh, but has since clawed this back, while April (month-ahead) initially softened by £2.5/MWh, to almost £54.5/MWh, before staging a bigger rebound and hitting £58/MWh.

Future annals have not recovered so convincingly, with October '21 Annual and April '22 Annual still slightly off their mid-March highs – at £57.5 and £54/MWh respectively.

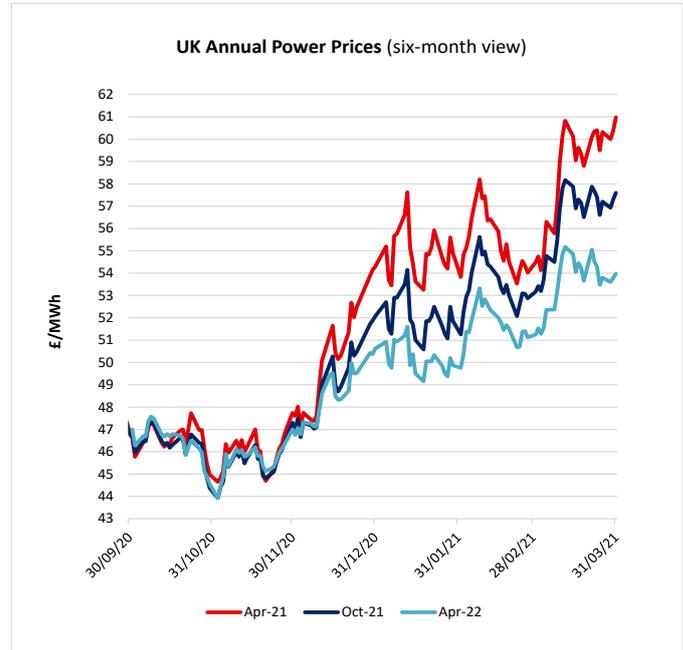
US economic optimism following the adoption of the stimulus package and vaccine rollouts there has continued to support global energy markets, as has the expectation that OPEC+ nations will extend current oil production curbs until at least the end of May, although new lockdowns across Europe have provided a bearish counterweight.

2021 EUAs slid briefly below EUR 40.5/TCO₂ a week ago but have since ramped back up towards their recent record highs of EUR 43.5/TCO₂, with speculative buying, EU carbon border tax plans, late compliance buying and bullish analyst forecasts all continuing to underpin prices. The publication of provisional verified European Emissions Trading Scheme data on April 1st – which showed emissions in 2020 falling 12.6% – had no immediate impact on the market, as it was broadly in line with expectations.

On the Continent, German Year-ahead prices have edged up to a new 27-month high of EUR 57/MWh while French Year-ahead levels have remained buoyant, flipping either side of EUR 56/MWh.

Day-ahead UK power, meanwhile, has swung between £64/MWh and £47/MWh over the last fortnight, again often at the mercy of changes in wind levels, although most of the time it has been trading in the mid £50's/MWh.

Coal prices at the same time have pushed higher over the last fortnight, as flooding in Australia forced mine closures, and South African rail issues continued to impact supply, amid solid Asian buying interest. Year-ahead coal hit a two-and-a-half-month high of almost \$73/tonne, before notching lower at the end of March.



Source: Marex Spectron

Outlook:

↑ French grid operator RTE has extended its warnings of a potential power supply crunch in the country across the next three winters – saying next winter is particularly vulnerable. It had warned of a potential supply shortfall for the winter that's just gone as nuclear maintenance schedules were disrupted by Covid and the start-up of the new Flamanville reactor was further delayed, but has now called for "vigilance" until Winter 2024, citing the pandemic's knock-on impact on nuclear availability and also on renewables, whose development has been slowed by the outbreak.

→ The proportion of UK power generated from renewables fell in Q1 '21 year-on-year – to 32%, compared to 36% in Q1 '20. Gas-fired generation's share meanwhile rose to 37.5%, up from 30.5% last year.

RWE has confirmed it will start the construction of the 1.4 GW Sofia wind-farm – in the Dogger Bank area of the North Sea – in 2023, following final investment approval for the £3 billion project. Sofia is expected to become commercially operational in 2026.

The UK government should boost development of tidal power in the UK by offering CFDs (contracts for difference) or PPAs (power purchase agreements) to underpin investment, according to the parliamentary Environmental Audit Committee, which cited analyst estimates that 15 GW of tidal capacity with a generation cost of less than £90/MWh could be built by 2040.

↓ "We are currently bearish for monthly contracts: May by -£3/MWh, noting recent low out-turns and the potential bearish influence of newly announced lockdown measures in Europe, and June by more than -£5/MWh, amid forecasts of strong levels of imports from the continent during the month," say UK power price forecasters Catalyst Commodities.

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	France Cal '22	chg	Germany Cal '22	chg	France Cal '22	chg
60.98	1.35	57.60	0.30	58.00	2.45	55.31	-1.30	56.81	0.85	56.25	-0.29
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	EUA '23 (€/TCO2)	chg
72.25	1.25	63.86	-3.82	42.55	-0.44	42.89	-0.46	43.39	-0.42	43.39	-0.42
All changes (chg) are compared to last report.											

GAS

Suez block, cold & LNG jitters bolster

Forecasts of colder weather, disruption to LNG flows into Europe as a container ship ran aground and blocked the Suez Canal and rising forward Asian LNG prices have all underpinned UK gas prices over the last fortnight. Prices across the coming months have been particularly bolstered, with Month-ahead rising to its highest Spring level since 2018 (when the original “Beast from the East” decimated European gas storage levels).

Alongside the predictions of snow in some parts of the UK, short-term prices have also been helped high by a new rash of unscheduled outages in the Norwegian offshore, with the Oseberg field and key Kollsnes gas processing plant facing issues over the last few days. This has helped push both Within-day and Day-ahead prices above 50 p/th at the time of writing – their highest level since mid-February.

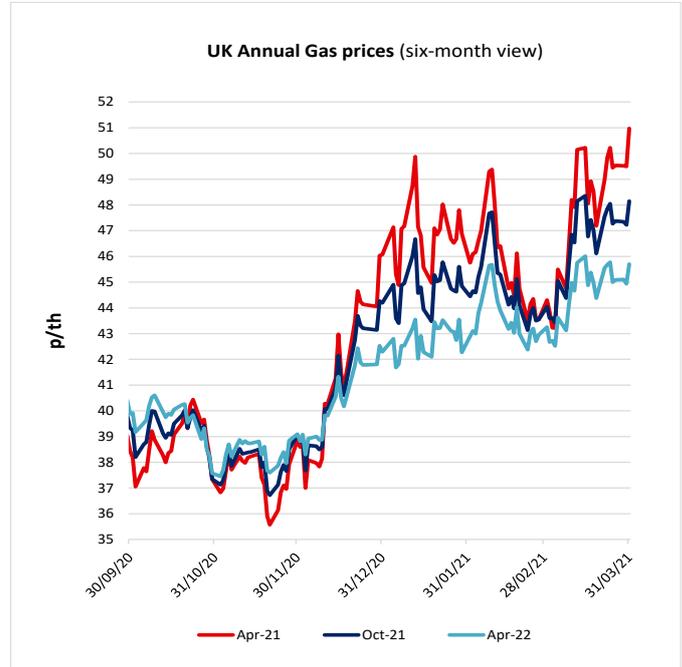
April meanwhile tripped higher as it went of the board, finishing at over 48.5 p/th and passing the bullish baton onto May – the new Month-ahead – which rose almost 6% today alone, to 47.5 p/th, again an usually high price for the time of year. (May prices on April 1st last year were just 16 p/th, as the first coronavirus wave hit and hammered the whole energy complex lower.)

The start of the maintenance season in the North Sea this month – particularly in Norwegian infrastructure, alongside low European storage levels and fears that rising LNG prices in Asia may cause cargoes to be diverted there and away from Europe, have all played their part. The unblocking of the Suez Canal this week only provided limited bearish offset, as LNG cargoes will still be delayed while regional shipping congestion is cleared, although a third Covid wave and new restrictions in mainland Europe did provide a bearish tug to the reins.

Asian LNG prices across the summer months and into next winter have continued to rise, pushing to new highs (partially spooked by the Suez blockage, even though in practice it was never likely to much affect regional supply, according to commentators).

This helped nudge April '21 Annual UK gas to 51 p/th – the highest front Annual price since July 2019, and keep October '21 Annual simmering around 48 p/th, while annuals further forward were also supported in turn.

European gas storage capacity has now dropped to 30% fullness – compared to 54% fullness at this time last year, although absolute gas stock levels are still much higher than where they were at this point in 2018, according to Gas Storage Europe, the storage operators’ association. There has also been some net injection into storage facilities over the last week, for the first time since last Autumn.



Source: Marex Spectron

Outlook:

↑ “Following the mild interlude temperatures are set to drop by several degrees over the Easter weekend. The cold signal will linger at least until the middle of next week, then possibly relax towards the mean of the period. Precipitation will also increase and will fall as snow for parts of the UK and on high ground,” says Marex Spectron’s meteorology desk.

→ The moratorium on fracking for shale gas in the UK, imposed in 2019, should remain in place for the UK to meet its net-zero targets, the Climate Change Committee has told the UK government.

↓ New lockdown measures in Germany, France and Italy could dent European demand and economic optimism, weighing on prices across the curve.

The reopening of the Suez Canal should enable the normal flow of Qatari LNG tankers into Europe to resume within a couple of weeks as traffic backlogs are cleared.

Key Gas indicators:				Short-term UK (p/th)				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		chg
50.98	2.05	48.15	0.73	48.73	4.39	48.66	5.10	18.10	0.25	63.86	-3.82
All changes (chg) are compared to last report.											

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