early June 2021

ELECTRICITY

Flash crash and rebound

Wild price swings have been seen across UK power and gas markets over the last fortnight, with all periods crashing lower as the second half of May got underway and confidence in the recent super-rally foundered – only to surge again a day later, and then go on to largely recoup most of the value lost… before wavering again over the last few days. Changing weather forecasts, very volatile carbon markets and mixed global post-Covid economic sentiment have all contributed to the mercurial mood.

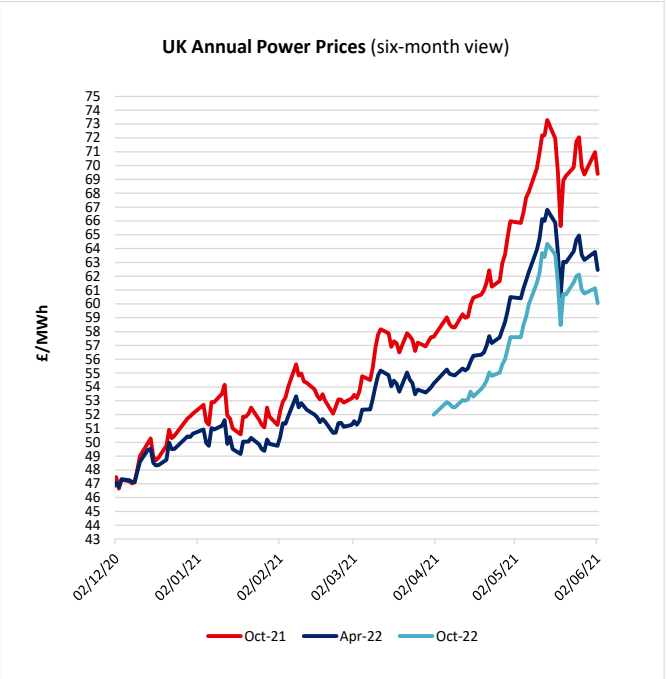
October '21 Annual UK power initially tumbled 12% from the £73/MWh it reached in mid-May, sliding beneath £66/MWh, before yo-yoing higher. Annuals further forward, while also initially slumping, have staged less assured recoveries, prising inter-annual spreads slightly wider again.

Emissions markets have been a key driver. EUAs (EU emissions allowances that generators factor into costs), soon after reaching record highs of over EUR 56.5/TCO2 in mid-May, plunged beneath EUR 50/TCO2. The launch of the first auction of UKAs (UK emissions allowances) on the 19th helped the tumble amid a perception that companies might shift their hedging requirements from the EU to the UK market, dumping EUAs in the process. Speculative buying interest also appeared to shrivel after the record highs were reached, helped by downwards corrections and profit-taking across energy markets – before rushing in again amid a general rebound. 2021 EUAs have since been oscillating between EUR 51-54/TCO2. 2021 UKAs have meanwhile been trading at a premium, which has varied widely but been as much as EUR 6/TCO2.

A sharp tumble and rebound in gas and LNG prices – the tumble coming amid Asian Covid concerns and the US waiving sanctions on the Russia-Germany Nord Stream 2 pipeline, making its completion now likely before the end of the year – was also instrumental in fueling the volatility.

Coal prices have pushed to new long-term highs over the last few days, amid acute Chinese buying ahead of the cooling season there, and further disruptions to Colombian exports as worker unrest continues. Year-ahead prices initially dipped to $77/tonne but have since rallied up to $82/tonne, their highest level since February 2019. At the same time oil prices have dipped and then rallied, just climbing above $70/barrel for the first time in two years, with OPEC+ states commitment to stick to a previously announced staggered relaxation of production restrictions and strong US demand helping power the gains.

Day-ahead UK power prices meanwhile have thrashed in a wide range of £60-85/MWh since mid-May, amid very variable wind levels, while Month-ahead has swung between £70-78/MWh, remaining around record highs for the time of year.



Source: Marex Spectron

Outlook:

↑ Increasing cooling demand, a seasonal drop in wind levels and power plant maintenance programmes across Europe as we head deeper into summer could support prices. French state weather company Meteo France has said it expects a hotter and drier summer than usual. Rolling strikes by French power workers protesting against EdF restructuring plans are also set to continue affecting output at some power stations there.

→ A record 62.5% of the UK's power was produced from wind farms early on the 21st May, as gales swept the country. The previous record, of 59.9%, was set on 26th August last year.

The UK may be forced to become a net importer of renewable energy as high transmission charges in Scotland (on average £6.4/MWh) help divert investor interest to mainland Europe, where there are often no transmission charges, according to a report by RIDG (Renewable Infrastructure Development Group).

↓ Iranian oil production and exports are expected to ramp up towards the end of the year after a new nuclear deal is agreed with the US and other countries, increasing global supplies.

Key Power indicators:											
Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (€/MWh)			
Oct'21 Annual	*chg*	*Apr'22 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*Germany Cal '22*	*chg*	*France Cal '22*	*chg*
69.40	-2.55	62.45	-3.43	74.40	-1.85	74.54	-9.09	63.53	-4.95	64.10	-4.43
Key Other indicators:											
Coal ($/MT) '22	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*	**EUA '23 (€/TCO2)**	*chg*
80.80	2.88	70.89	1.64			51.46	-4.88	52.01	-4.96	52.83	-5.05
								All changes (chg) are compared to last report.			

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GAS

"More yo-yo than rollercoaster"

While the recent super-rally appeared to pop in dramatic fashion as the third week of May got underway and UK gas prices started to tombstone along with other markets – Annuals shedding up to 14% – the freefall ended just as dramatically as prices were immediately yanked higher again. Prices across most periods have since continued to jerk higher and lower again amid quick-changing sentiment.

A bearish cocktail of factors helped fuel the flash crash in values, including profit-taking across energy markets, emissions market speculators retreating to the sidelines as the UK carbon market launched, Covid fears in Asia as Japan cases peaked, effective clearance being given for the Russia-Germany Nord Stream 2 gas pipeline to be finished as the US waived sanctions and slumping short-term gas demand as wind power neared record levels and warmer weather slashed end-user consumption. But most of these factors were short-lived, with underlying supply concerns and global economic optimism flooding back in to drive prices higher again.

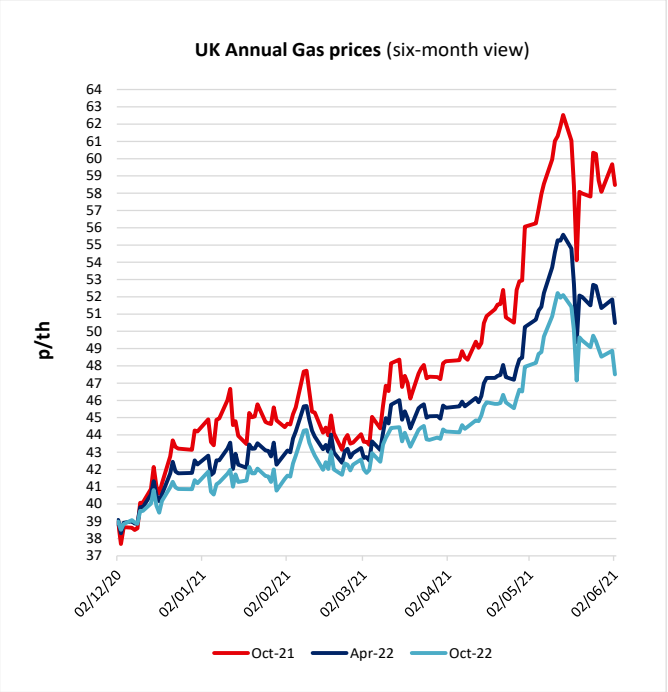
October '21 Annual, having slumped as low as 54 p/th, bounced back up to 60 p/th, and is now carrying a (slightly bigger) premium to April '22 Annual of 8 p/th, as forward annuals have tended to judder lower over the last few days. Winter '21, having tumbled below 63 p/th, bounced back towards 72 p/th, closely following the trajectory of global LNG prices for the period.

Concerns that European gas storage facilities will not now be able to be filled by the start of the winter continue to shore up forward prices. While injections have accelerated, sites are now at 37% fullness, compared to 74% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.

Unplanned outages in the Norwegian offshore, including at the Oseberg field and the key Kollsnes and Karsto gas processing facilities, have helped sporadically buoy short-term levels, as have continuing concerns about Russian supplies, as Gazprom again declined to participate in the latest auction of transit capacity through Ukraine. However a sustained warm spell and forecasts of more to come has helped rein in demand in the UK and mainland Europe, while there have also been healthy LNG send-outs into the UK grid, with LNG accounting for more than 36% of supply at times.

Day-ahead gas as a result swung between 62 and 71 p/th (a new four-and-a-half-month high) – and Month-ahead between 57.5 and 67 p/th.

Oil has meanwhile broken above $70/barrel, to a two-year high, as OPEC+ has pledged to continue with a controlled increase in output and transportation fuel demand has continued to rise.



Source: Marex Spectron

Outlook:

↑ European storage sites are extremely unlikely to be fully replenished by October 1st – the start of the gas winter, according to analysts, due to the prolonged Spring cold spell boosting gas consumption and limiting injections. They are set to be less than 75% full by then, according to analysts Ganexo, Montel reports.

→ Gas-fired generation provided 41% of UK electricity output last month, up from 32% in May last year.

While there are some current concerns about ongoing Russian gas supplies into Europe, exports from Gazprom so far this year into Europe – for the January-May period – were up 27% year-on-year.

↓ "Fine weather will dominate the scene over the UK for the next 10 days with plenty of sunshine. Temperatures will continue to stay above the norm of the period," says Marex's meteorology desk.

Scheduled summer maintenance work in Norwegian gas infrastructure is to lighten considerably from June 24th, according to Gassco, the Norwegian gas pipeline operator.

Key Gas indicators:											
Long-term UK (p/th)				Short-term UK (p/th)				**European gas (€/MWh)**		**Crude Oil**	
Oct'21 Annual	*chg*	*Apr'22 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*TTF 2022*	*chg*	**Oil (Brent) $/bbl**	*chg*
58.48	-2.58	50.48	-4.33	62.63	-4.32	63.70	-3.75	20.75	-1.40	70.89	1.64
								All changes (chg) are compared to last report.			