ELECTRICITY

Winter pushes up to £86/MWh

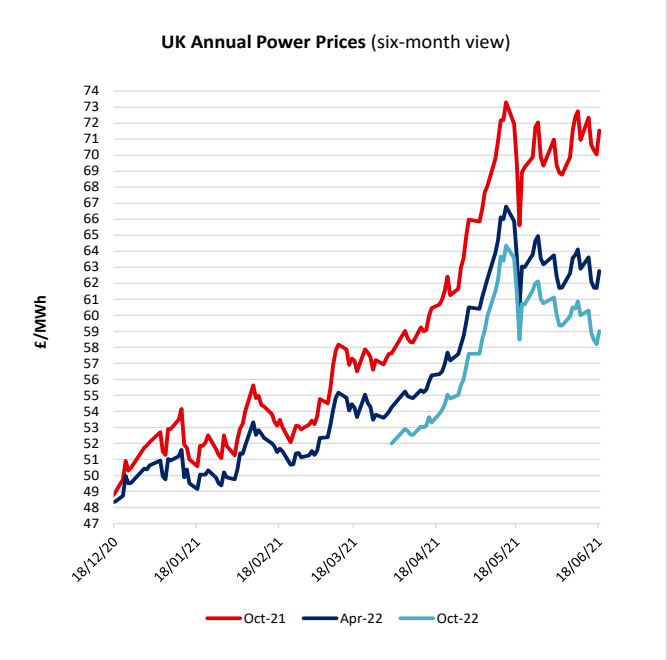
Another wave of bullishness swept through UK power and gas markets over the first half of June, particularly over the first eleven days of the month and particularly on all periods up to and including the Winter, as outages and cooling demand tightened the short-term picture and new long-term highs were seen on several global energy markets amid further vaccine rollouts and restriction-lifting. A brief retracement was seen earlier this week, with the lockdown extension in the UK a contributing factor, although prices were edging higher again at the time of writing.

Winter '21 UK power pushed to a new high of £86/MWh, up almost 7% from end-May levels (before dipping temporarily back under £83.5/MWh). Seasons beyond this saw much more muted gains and have even slipped back beneath where they were at the start of the month. Winter '22 for example, having risen to almost £69/MWh, is now at £67/MWh, £1 below its June 1st price tag. This has prised the annuals wider again. October '21 Annual is now valued at £71.5/MWh (having risen to a high of almost £73/MWh), while its premium to April '22 Annual has blown out to almost £9/MWh, from £6/MWh at the end of last month.

Rallying gas, coal and oil markets helped fuel the gains, with month-ahead coal, oil and front Annual gas prices all reaching two-and-a-half year highs. Gas has been thrust higher again by strong Asian demand cranking up global LNG prices into the Winter and North Sea supply issues, while coal has been bolstered by roaring cooling demand in Asia, Russian output limitations due to rail bottlenecks and still-constrained Colombian supply. Year-ahead coal has climbed as high as $84/tonne, while Month-ahead coal has broken above $100/tonne for first time since October 2018 (reaching a high of $111/tonne, before easing). Oil meanwhile climbed as much as 7%, to over $74/barrel, in the face of increasing global demand and falling US inventories.

Buoyant EUA emissions allowance markets have helped underpin the market. 2021 EUAs have continued to shuffle between EUR 50-54/TCO2 and are now in the middle of this range. UKA emissions allowances have come under greater pressure however, with 2021 UKAs meandering down from £48/TCO2 at the start of the month to below £44/TCO2, their premium to EUAs disappearing as they slipped to a marginal discount. Lower than expected interest and prices in the third official UKA auction was partly to blame.

Day-ahead UK power prices, meanwhile, bubbled in the low £70's/MWh for the first ten days of June before rallying as high as £83/MWh, helped by a drop in wind levels, production hiccups at a couple of plants and firmer gas prices. An uptick in imports, in part due to the BritNed cable returning online on June 7th after a three-month outage, helped rein in any gains. Month-ahead at the same time has moved to the higher end of the trading range seen in the second half of May, oscillating between £73-78/MWh.



Source: Marex Spectron

Outlook:

↑ A hot summer in Asia could keep cooling demand there elevated, shoring up gas and coal imports into the region, with knock-on effects on global energy markets and UK power in turn.

→ The decommissioning "with immediate effect" of the 1050 MW Dungeness B nuclear plant has had and is likely to have little market impact, as it has been on extended outage since September 2018. The decision to finally close the plant was due to "unique, significant and ongoing technical challenges," with EdF stressing that there was no indication of similar issues at its other six nuclear plants of the same AGR type.

A partial solar eclipse on June 10th reduced photovoltaic output in northern Europe by almost 5GW, according to the transmission operators group Entso-E, which said the event had been a valuable test-run ahead of a "more challenging" eclipse which is forecast for October 25th next year.

↓ French power supply should be sufficient to cover any potential heatwave issues this summer, due to improved nuclear availability versus last summer and relatively low underlying demand, according to French network operator RTE.

Commissioning of the new NSL Norway-UK interconnector has started, with the first power flowing through the cable this week. The full commercial operation of the 1.4 GW link will start in October. UK Q4 prices are currently 2.5 times higher than Q4 Nordic prices, so its start-up looks likely to boost UK imports then.

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*
71.55	2.15	62.76	0.31	77.60	3.20	80.60	6.06	65.05	1.53	66.60	2.50
Key Other indicators:											
Coal ($/MT) '22	*chg*	**Oil (Brent) $/bbl**	*chg*			**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*	**EUA '23 (€/TCO2)**	*chg*
82.05	1.25	73.50	2.61			52.00	0.54	52.36	0.35	53.04	0.21
								All changes (chg) are compared to last report.			

GAS

2021 periods hit new highs

Despite wavering over the last few days, most UK gas periods have held onto gains accumulated during another rally which swept general energy markets up again over the first 11 days of June, with several periods out to the end of next winter pushing to new long-term highs at the time of writing.

Winter '21, for example, is nudging 80 p/th – its highest level since it started being actively discussed more than six years ago, in turn lifting October '21 Annual to a similar long-term high (and to the highest front annual value since October 2018).

Further gains in global LNG prices, rallying oil markets, improving economic confidence, European gas storage replenishment fears and a tightening short-term market have all fed into the latest bullish wave, the intensity of which has been much weaker from next summer onwards. April '22 Annual, as a result, has seen its discount to the front annual swell to 11 p/th, from less than 8 p/th a fortnight ago, while some forward annuals are now only marginally above where they were at the month-start.

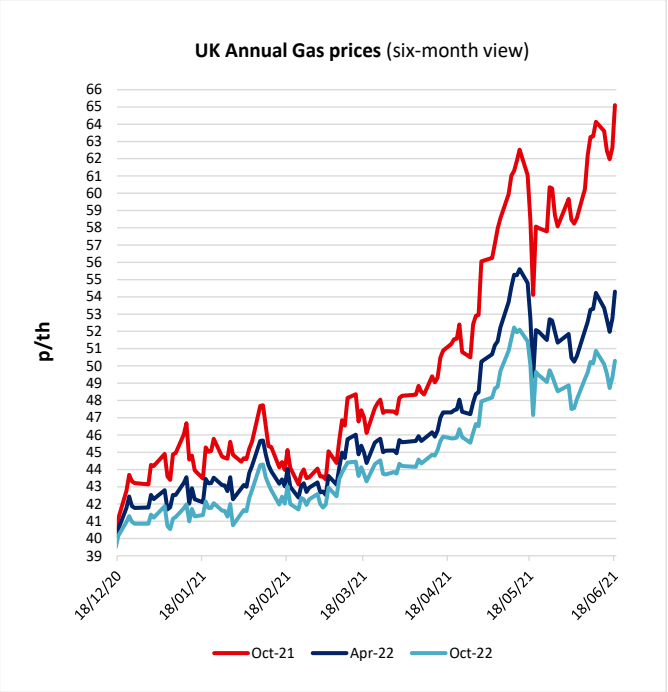
A smattering of unscheduled outages in the North Sea – in the key Kårstø gas processing facility, Bacton Seal pipeline, and Cygnus, Troll and Oseberg fields, alongside strong generator demand as wind levels dropped, has helped ramp Day-ahead levels up towards 75 p/th – their highest level since January's cold-driven spike.

Month-ahead, meanwhile, has climbed 14% in value since the beginning of June, breaking above 72.5 p/th – also its highest level since January, and the highest level for the time of year since 2008. Month-ahead prices on Europe's biggest market, the Dutch TTF, have at the same time reached eight-year highs.

Global LNG prices have seen gains of more than 7.5% across all remaining summer months and the winter with booming Asian demand, particularly into China and South Korea, as well as US and Australian outages, contributing. European LNG imports were down 27% year-on-year in May and sharply lower year-on year volumes are also expected for June.

While injections into European gas storage facilities have accelerated, at 41% fullness inventories are still low compared to last year (77%), according to Gas Storage Europe, the storage operators' association.

Oil prices have supported by improving travel, vaccine programmes and lower than expected US oil inventories, as well as the US secretary of state saying the removal of sanctions on Iran was likely to be partial, reducing oil export expectations from the country. But a sudden strengthening in the dollar over the last couple of days has knocked prices back from a two-and-a-half year high of just over $74/barrel.



Source: Marex Spectron

Outlook:

↑ Any downwards corrections over the last month have been short-lived and prices were nudging higher again at the time of writing. Is the market set to remain around or above these levels throughout the summer, as storage and LNG fears persist or worsen? Further unscheduled outages could also help keep physical supply tight.

→ "Pre-commissioning activities" have started in the controversial Nord Stream 2 pipeline project between Russia and Germany, according to the operating company, with the second pipe in the scheme due to be completed within two months and both pipes to be filled with gas in "a few months".

Global oil demand is now expected to return to pre-pandemic levels by the end of next year, according to the IEA.

↓ "The current weather shift, of low pressure systems bringing unsettled conditions – with rain and temperatures dropping and converging towards the mean of the period – may continue for the next 7/10 days," says Marex's meteorology desk. "Wind is unlikely to be strong as the low pressure systems will track southwards, but there will certainly be reduced cooling demand for the UK going forwards."

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*
65.10	6.62	54.30	3.83	72.40	9.78	74.75	11.05	22.73	1.98	73.50	2.61
								All changes (chg) are compared to last report.			