

## ELECTRICITY

### Front Annual leaps 17% in new surge

Short to mid-term UK power and gas prices have surged again over the last fortnight, with gas supply fears, record carbon prices, surging coal markets, low wind and rallying mainland European power markets contributing. As a result, gains of at least 13% have been seen on all UK power periods out to Summer '22, pushing many to their highest ever levels – with all periods out to Q1'22 now above £90/MWh, and winter prices nearing triple digits.

Day-ahead and Month-ahead have rallied as much as 24% in value, Winter 20% and the front Annual 17.5% since mid-June. The bullishness has however been much weaker beyond this again, with April '22 Annual gaining 11% and October '22 Annual rising just 6% – blowing inter-annual differentials yet wider.

At the time of writing October '21 Annual was valued at just under £83/MWh, a £14/MWh premium to April '22 Annual and a £20/MWh premium to October '22 Annual.

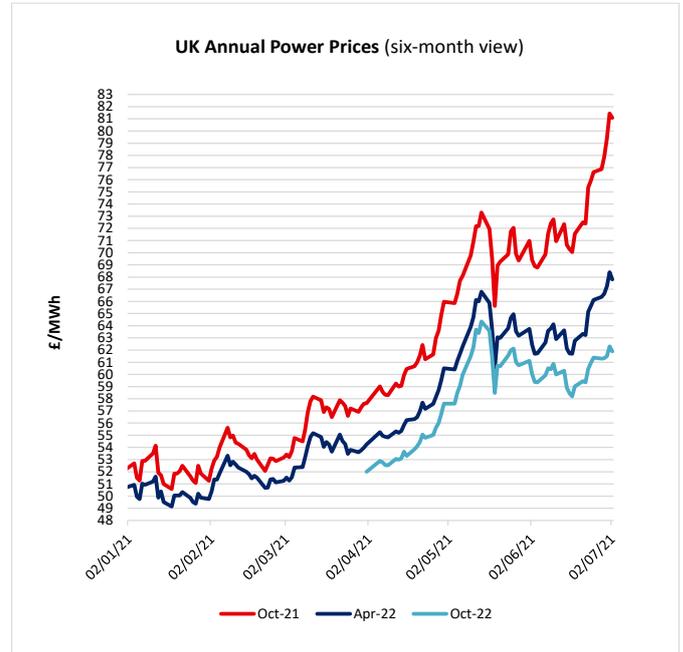
Fears over gas supplies until the end of the winter have been a huge driver, with European stocks very low, Russia declining to commit to supplying extra gas, LNG shipments being diverted to roaring Asian markets and maintenance schedules starting at several key bits of European supply infrastructure.

Carbon emissions allowance markets have at the same time been helped higher by leaked EU draft proposals to reduce current emissions caps, tighten the allocation criteria for free allowances and extend current Market Stability Reserve rules (under which surplus allowances are set-aside) – although the surge in gas and coal prices was a major factor too. 2021 EUAs have reached a record EUR 58/TCO<sub>2</sub>, while 2021 UKAs also rallied, but by less, and are now at a solid discount of over EUR 2/TCO<sub>2</sub> (at £48/TCO<sub>2</sub>).

Year-ahead coal has reached a fresh two-and-a-half year high of over \$87/tonne (while Month-ahead coal has reached a 10-year high), amid strong Asian demand from generators to meet cooling demand, low stocks and ongoing export issues in South Africa and Colombia. Oil meanwhile broke above \$76/barrel, its highest since October 2018, on an improving demand outlook.

At the same time, Year-ahead electricity prices in France and Germany have reached 13-year highs, of EUR 75.5 and 73.5/MWh respectively.

Day-ahead UK power prices have rallied as high as £96.5/MWh, and remained above £90/MWh over the last few days, low wind levels (daily wind power dropping as low as 2% of overall generation) and high short-term gas prices being the major drivers, and leading to an increase in imports through the interconnectors.



Source: Marex Spectron

### Outlook:

↑ With much of the summer, and its highest temperatures, still yet to come, prices may remain bolstered, particularly if heatwaves in Europe and Asia amplify cooling demand and gas supply continues to suffer constraints?

→ Gas-fired generation's share of the UK power mix in 1/H 2021 was 40%, up 8% on last year. Wind power's contribution was 18%, down from 22% in 1/H 2020.

The UK has confirmed its last coal-fired plant will shut in 2024.

↓ Some analysts are bearish for the coming winter, citing expected good nuclear availability and renewables output as well as imports starting through the new NSL Norway-UK interconnector.

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)				Day-ahead index				Germany Cal '22			
Oct'21 Annual	chg	Apr'22 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	Germany Cal '22	chg	France Cal '22	chg
81.08	10.78	67.80	6.08	91.37	15.12	92.25	10.14	73.55	8.10	75.50	8.28
Key Other indicators:				EUA '21 (€/TCO <sub>2</sub> )				EUA '22 (€/TCO <sub>2</sub> )			
Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	EUA '21 (€/TCO <sub>2</sub> )	chg	EUA '22 (€/TCO <sub>2</sub> )	chg	EUA '23 (€/TCO <sub>2</sub> )	chg	EUA '23 (€/TCO <sub>2</sub> )	chg
87.15	6.15	75.95	1.75	57.50	6.16	57.91	6.19	58.60	6.21	58.60	6.21

All changes (chg) are compared to last report.

GAS

Mid-winter levels hit 100 p/th

The UK gas market has rocketed higher again since mid-June, particularly on all periods out to next summer, with gas supply and storage fears whipped into a frenzy by Russia declining to step in to increase supplies to European markets which are looking increasingly starved of gas, amid more short-term production glitches, LNG diversions to Asia, robust demand and low storage levels. This has pushed prices across December, January and February above 100 p/th, with the winter as a whole not far behind.

Russian gas giant Gazprom again declined to book any further transit capacity through Ukraine, its traditional supply route to Europe, for July, despite a couple of upcoming maintenance outages in its other main export pipeline, Nord Stream – prompting accusations that it is opportunistically taking advantage of Europe’s current gas squeeze. (Gazprom claims export volumes are up 26% on last year, while others say that last year was exceptional and volumes are in fact down 17% on pre-pandemic levels).

Issues in the North Sea – extended and new unplanned outages at the Åsgard, Oseberg, Skarv, Kårstø, Troll and Bacton Seal fields and facilities – have added to an already heavy scheduled maintenance programme, which has been increased by Covid-related delays from last year. Operators have made some adjustments on non-essential work to try to lighten the programme but this has not been material enough to stem the tightness and rising prices.

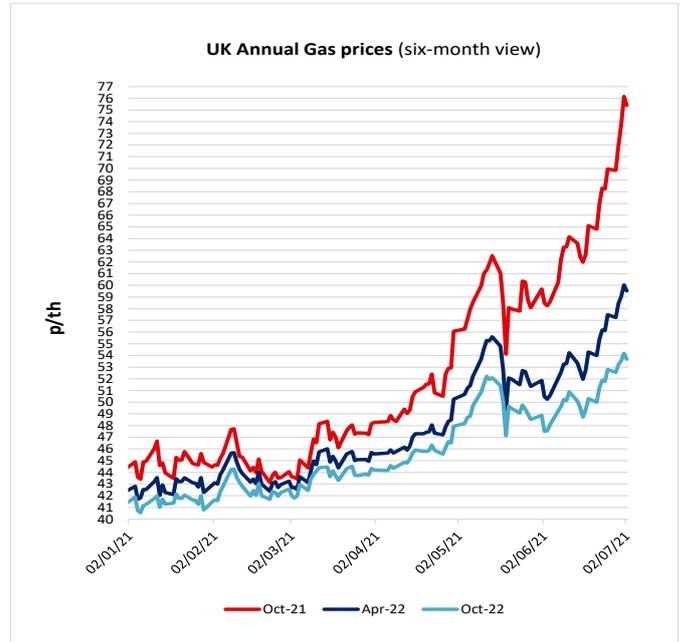
Day-ahead has risen above 93 p/th as a result – up a third on its mid-June price tag, and its highest level since the “Beast from the East” cold snap spike in March 2018. Month-ahead meanwhile has also just reached 93 p/th – its highest level in 15-and-a-half years. Similar long-term levels have been seen on mainland European gas markets.

Runaway Asian LNG prices are also still having a major impact further forward. LNG prices for Q4 and the winter have leapt another 20% since mid-June, reaching \$14.5/MMBTU (effectively doubling over the last four months), on acute demand from generators and for storage replenishment, as well as continuing global production issues.

With Winter '21 breaking 97.5 p/th at the time of writing, October '21 Annual has been pushed up to 78 p/th, becoming the most expensive front Annual in more than 12-and-a-half years.

Injection rates of gas into European gas storage facilities have been strong, although sites are still less than half full – at 47.5% fullness, compared to 81% last year and 74% the year before, according to Gas Storage Europe, the storage operators’ association.

Stronger oil prices have also shored up general sentiment. Oil has risen to a new two-and-a half-year high of over \$76/barrel, on an improving global economic outlook and disagreement over production policy amongst OPEC+ states.



Source: Marex Spectron

Outlook:

- ↑ Global gas demand in 2021 is expected to increase 3.6% this year compared to last year, rising above pre-Covid levels, according to the IEA. Gas demand slipped 1.9% last year. Growth in the three years beyond 2021 is expected to average 1.7%/year, the IEA says.
- A large explosion caused by a mud volcano in Azerbaijan’s gas and oil belt in the Caspian Sea had no impact on any oil and gas infrastructure, according to the government there, while another headline-grabbing “Eye of Fire” underwater blaze caused by a gas leak off the coast of Mexico similarly had little impact on local production or global markets.
- ↓ The last time prices saw a similar rally and high prices – in the summer of 2018, when storage fears also dominated after a very cold end to the winter depleted stocks – prices crashed lower weeks later (although that rally didn’t start until much later in the season.)

Key Gas indicators:				European gas (€/MWh)				Crude Oil			
Long-term UK (p/th)		Short-term UK (p/th)		TTF 2022		Oil (Brent) \$/bbl					
Oct'21 Annual	chg	Apr'22 Annual	chg	Month-ahead index	chg	Day-ahead index	chg		chg		
75.40	13.43	59.53	7.55	89.35	20.09	93.45	25.15	25.70	3.98	75.95	1.75
All changes (chg) are compared to last report.											

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