

## ELECTRICITY

### Triple digits to February

UK power prices across all periods out to Q1 '22 have broken clearly above 100/MWh over the last fortnight, the first time in the history of the market that prices across the front six months have all been in triple digits, with several periods reaching their highest ever levels for the time of year. Upwards momentum has slowed over the last few days but discussion remain buoyant.

Intensifying gas supply fears, amid physical tightness, still-surging Asian demand and Russian export uncertainty, have been the main driver, their significance to UK power players amplified by continuing lower than normal renewables output this summer (wind's share of the UK generation mix in July hit a three-year low, contributing just 1% of national supply on several days) and a consequent increased reliance on gas. UK power plant outages and nuclear production/refuelling concerns in the Autumn, alongside new rallies in carbon, coal and oil markets, added to the bullish mood.

Day-ahead UK power has risen as high as £123/MWh, a record for the time of year but still well short of the £200/MWh all-time high prices seen at the start of January.

Month-ahead prices have meanwhile rallied 21% since mid-July, reaching £104/MWh, again a high for the time of year but well short of the record £150/MWh seen in October 2008.

Winter '21 has at the same time hit £105/MWh, another mid-summer high, and just £2/MWh short of the all-time front Winter record set in September 2008.

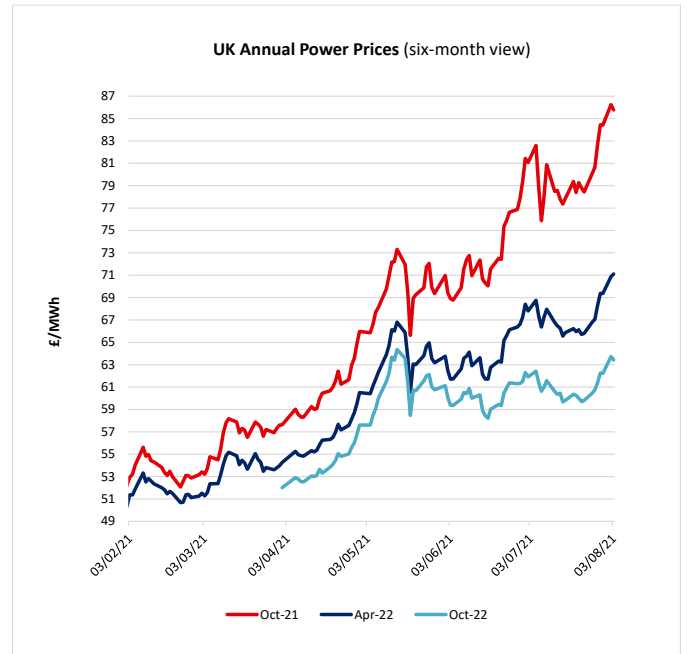
As a result October '21 Annual has been lifted up above £86/MWh – the highest front annual price since the pre-financial crisis commodity price boom of 2008.

With almost all of the heat again in the front periods, and much smaller gains from Summer '22 onwards, this has meant differentials between the annuals have blown wider once more – October '21 Annual's premium to October '22 Annual for example swelling to £22.5/MWh, from £17.5/MWh in mid-July (and just £3/MWh in March).

Coal prices have been helped yet higher on the back of Russian export bottlenecks, low global stock levels and limited South African exports following recent civil unrest disruption, as well as continuing intense demand from Asia. Year-ahead European prices have reached \$96/tonne, their highest level since October 2018.

Carbon emissions allowance markets, despite slipping as the second half of July got underway, have since rebounded – 2021 EUAs climbing back towards EUR 55/TCO<sub>2</sub>, and 2021 UKAs nudging £46/TCO<sub>2</sub> (equivalent to just under EUR 54/TCO<sub>2</sub>), reduced auction volumes this month cited as contributing to the rise.

Year-ahead electricity prices in France and Germany, have meanwhile also reached fresh near 13-year highs, of EUR 78.5 and 76.55/MWh respectively.



Source: Mares Spectron

### Outlook:

↑ If Asian demand continues to rage for gas and coal, this will keep underpinning UK and European power markets, especially if wind levels remain unusually low.

→ The UK's BEIS (the Department for Business, Energy and Industrial Strategy) and Ofgem have launched a consultation on plans to appoint an independent company to take on National Grid's system operator role, which they say could accelerate the move to net zero at a reduced cost.

The European Commission does not expect to merge its proposed emissions trading scheme for transport and fuels (planned to start in 2026) with the current ETS until "well into" next decade, officials have said.

A three-day fire has occurred at one of the largest lithium-ion batteries in the world, a Tesla-built battery in Victoria, Australia, agitating fears about the safety of such battery technology. 38 large-scale lithium battery fires have occurred since 2018, according to reports.

↓ The chances of a summer heatwave and cooling demand spike in northwest Europe are fading (even as southeastern Europe fries). If renewables output and/or Russian gas flows pick up this could put pressure on prices. The scheduled return online of reactors at the Heysham I, Heysham II and Sizewell nuclear plants this month could also improve supply and weigh on discussion.

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)				Month-ahead index				Day-ahead index			
Oct'21 Annual	chg	Apr'22 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	Germany Cal '22	chg	France Cal '22	chg
85.78	7.90	71.10	5.22	102.40	14.70	106.23	13.48	76.00	5.55	78.00	6.50
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
95.40	3.10	71.82	-1.06	54.41	1.21	54.77	1.18	55.43	1.27		

All changes (chg) are compared to last report.

GAS

Front-end beds in above 100 p/th

European gas supply panic has cranked up another notch since mid-July, with all periods out to February breaching and then bedding in above 100 p/th. A surge in Asian LNG prices (Q4 '21 for example up 20%), as a heatwave there has stoked generator demand and reduced confidence in storage sites being filled by the winter, has been a key driver, ramping up expectations of further LNG cargo diversions to Asia from Europe – which is facing its own supply squeeze and storage concerns.

Further Russian gas supply uncertainty, as Gazprom declined again to book extra transit capacity through Ukraine and expectations of the Nord Stream 2 pipeline coming onstream were pushed back by analysts to Q1 next year, bolstered talk – as did an unplanned outage at Norway's largest gas field, Troll, German infrastructure outages, low renewables output across much of Europe and fresh rallies in carbon, coal and oil markets. US month-ahead gas prices breaking above \$4/MMBTU – to their highest summer level in 7 years – helped add to the bullish mood, as did concerns that the UK may not receive any LNG tanker deliveries in August. (The UK only received one LNG tanker in July, with import volumes down 80% year-on-year – as Europe-wide imports dropped 37%, according to reports.)

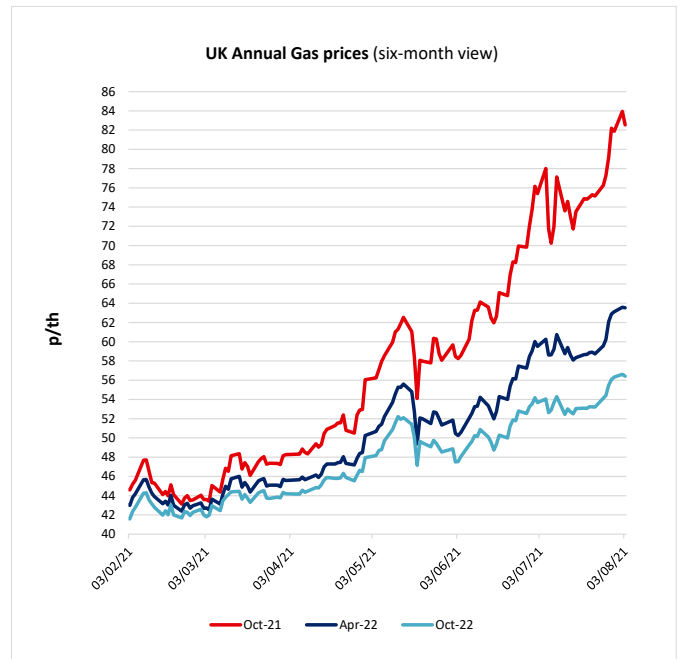
October '21 Annual has risen to just shy of 84 p/th, the highest price tag on a front annual since the energy super-rally of 2008 (it has doubled in value in seven-and-a-half months). Annuals further forward have been dragged higher too but have been much less bullish again, on expectations the market will be better supplied. This has prised the differentials between Annuals wider again, with October '21 Annual's premium to October '22 Annual ballooning to 26 p/th, from 19 p/th in mid-July (and less than 1p five months ago).

Month-ahead UK gas has rallied to 107.5 p/th over the last few days, a new 15-and-a-half-year high, while Day-ahead reached a peak of 108.5 p/th, its highest level since the "Beast from the East" arctic cold snap of February 2018.

European gas storage facilities are now at 57.5% fullness, compared to 87% at this time last year, according to data from Gas Storage Europe, the storage operators' association. (In 2018, arguably a more comparable year – when the "Beast from the East" depleted inventories – storage sites were 61.5% full at this stage.) UK gas storage levels are meanwhile down 60% and LNG storage sites down 25% on this time last year, according to National Grid.

UK gas exports meanwhile have nearly halved from early July levels – to around 13 mcm/day, accounting for around 8% of overall demand.

Oil prices initially dropped as OPEC+ states formally agreed to boost output from August, sliding beneath \$69/barrel as the second half of July started, but soon rebounded in the face of falling US stocks – before being pushed higher, above \$75/barrel, by rising Arabian Gulf tensions after a drone attack on an Israeli tanker (which the West blamed on Iran). However global demand fears as China confirmed a new widespread Covid outbreak have since pressed prices lower.



Source: Marex Spectron

Outlook:

↑ Gas became Germany's primary energy source for the first time in 1/H 2021, according to official figures. With Holland also stopping gas production at its largest field, Groningen, next year and phasing out all domestic production soon after, competition for gas within Europe is set to increase.

→ Gas trading volumes across European gas markets fell 10% in the first half of this year, down from record levels last year, with the UK gas market seeing a greater decline than other markets, according to market analysts Prospex. While last year's trading volumes on Europe's biggest market, the Dutch TTF, showed a tripling in size since 2015, they halved on the UK's NBP over the same period, Prospex says.

↓ A sharp uptick in renewables output, a warm start to the winter, a slump in Asian LNG demand, the end of seasonal infrastructure maintenance, economic jitters, a stock market downwards correction and rising oil output all helped end the last summer super-rally in 2018. Could some of these factors (and/or an increase in Russian exports) also emerge to end this one?

Key Gas indicators:				Short-term UK (p/th)				European gas (€/MWh)		Crude Oil	
Long-term UK (p/th)				Month-ahead index		Day-ahead index		TTF 2022	Oil (Brent) \$/bbl		
Oct'21 Annual	chg	Apr'22 Annual	chg		chg		chg			chg	
82.55	9.02	63.53	5.18	105.60	20.10	105.95	19.65	27.55	2.48	71.82	-1.06
All changes (chg) are compared to last report.											

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