

ELECTRICITY

Record Winter and Annual highs hit

The rally in UK power prices has continued since the start of August, with prices across the front six months shunting up as much as another 10%, and pushing Winter '21 to £113.5/MWh and October '21 Annual above £95/MWh – record levels for a front Winter and Annual (although prices were easing back a little at the time of writing). All periods out to Q1 '22 have now moved above £105/MWh. The bullishness, which has focused largely on the front-end of the curve over the last few months, has now also spilt further forwards, with prices for next summer and beyond seeing even greater percentage gains.

Still-rising gas fears, agitated further by a new drop in Russian flows into Europe, have been the main driver again, as global LNG prices have been pushed yet higher by relentless Asian demand, amid growing concerns a lull in renewables output may continue and anxiety about supplies if the coming winter is cold. Nuclear plant maintenance shuffling for the coming weeks and stronger carbon, coal and oil markets, have once more also contributed.

Day-ahead UK power slipped sharply from the £123/MWh high it reached at the end of July as August started, dropping below £95/MWh on August 5th as a burst of windier weather was forecast (leading to wind supplying over 35% of daily output at one stage – the highest level since May) but it has since rebounded and remained above £100/MWh, as wind levels have dropped off again.

Month-ahead prices have meanwhile rallied 8% since the start of August, reaching up to £110/MWh, again a high for the time of year (but still £40/MWh off the record high seen in October 2008).

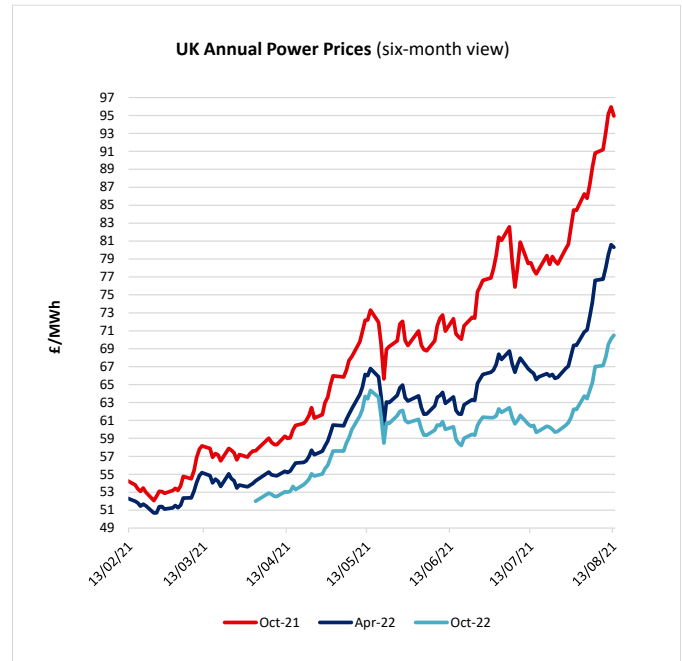
While Winter '21 has ramped up by around £11/MWh, or 11%, since the end of July, even stronger price increases have now been seen in Summer '22, which is up 18%, or £12/MWh, over the same period, and Winter '22, which has risen 15% (up £11/MWh). Annuals as a result have risen more in tandem, preventing inter-annual differentials from ballooning yet wider.

Nine-year highs on the coal market – Year-ahead nudging \$104/tonne, amid low inventories, increased European and Asian coal-burn in the face of gas and renewables tightness, and reported supply constraints in Russia, South Africa and Colombia – added a further upwards shove to sentiment.

This helped boost carbon emissions allowances too, alongside limited state auction volumes this month. 2021 EUAs rallied back towards EUR 58/TCO₂, near their all-time high levels, as 2021 UKAs rose to £49/TCO₂.

While shorter-term prices across Europe all punched into triple digits, Year-ahead electricity prices in France and Germany meanwhile reached their highest levels since September 2008, of EUR 83.5/MWh and EUR 86.5/MWh respectively.

The biggest check on rising global energy prices has been the spread of the Delta variant and lockdowns in China.



Source: Marex Spectron

Outlook:

↑ Strong Asian gas and coal demand and low Russian gas and coal supplies may continue to be dominant themes supporting UK and European power and gas markets, especially if weather forecasters predict a cold start to the winter.

→ Trading activity in EU emissions allowances rose 7% year-on-year, with 5.53 billion allowances changing hands, according to the German emissions trading authority.

↓ The IEA (International Energy Agency) has “appreciably downgraded” its oil demand growth forecast for the second half of this year. “Growth for the second half of 2021 has been downgraded more sharply, as new COVID-19 restrictions imposed in several major oil consuming countries, particularly in Asia, look set to reduce mobility and oil use,” it said. At the same time the US has urged OPEC+ oil states to increase output to prevent rising prices from derailing the global economic recovery.

Key Power indicators:				Key Other 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
94.95	9.17	80.30	9.20	107.14	4.74	105.56	-0.67	81.78	5.78	84.18	6.18
Coal (\$/MT) '22				Oil (Brent) \$/bbl				EUA '21 (€/TCO ₂)			
103.25	7.85	71.08	-0.74			55.45	1.04	55.81	1.04	56.48	1.05

All changes (chg) are compared to last report.

GAS

Winter record but Summer up more

The UK gas curve has shunted higher again over the last fortnight, with prices across the all months to February lifting above 110 p/th and mid-winter months (Dec-Feb) breaching 120 p/th – pushing Winter '21 as a whole to nearly 117 p/th, a clear all-time high for any front Winter. Interestingly though, bigger gains have now been seen further forwards, with Summer '22 up 20% in value since the end of July (compared to 13% for Winter '21), as supply fears have spilt along the forward curve. Prices across the front months were also slipping lower at the time of writing.

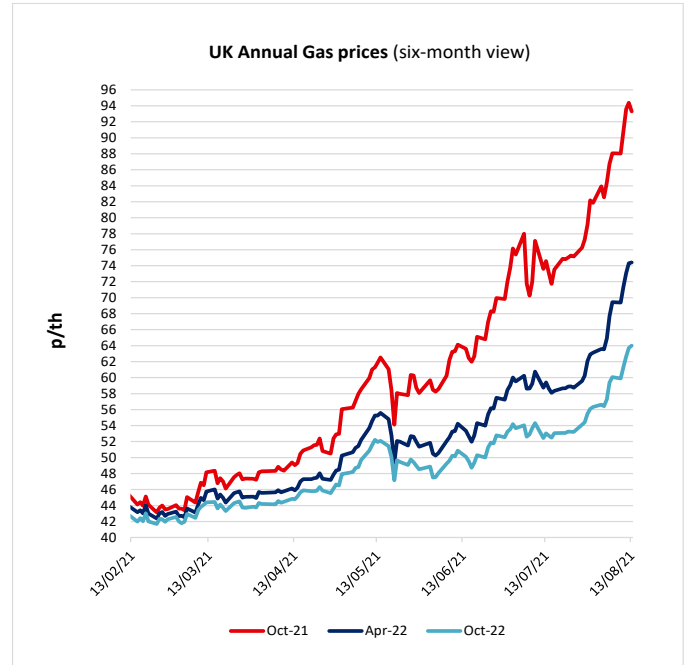
Increased Russian gas supply uncertainty has been a major driver, as a fire broke out at the Urengoy key gas processing plant in the centre of the country, Russian gas flows at Mallnow on the Polish/German border slumped to a quarter of levels seen at the end of July, and LNG exports from the Sakhalin facility were reported being delayed to Far-East customers due to production issues. Asian LNG prices extending their rally has also again been instrumental in driving discussion up: Winter '21 Asian LNG levels are up another 12% over the last fortnight – at \$18/MMBTU, they have doubled in value in four months and tripled in value in eight months.

More unscheduled outages in Norway have also played their part – including at the Troll and Visund fields, as has continued strong generator buying in the face of still very low renewables output (one major wind farm operator describing wind levels this year as “extraordinarily poor”). Nine-year highs on coal and carbon markets nudging record highs have contributed to the mood, despite oil markets being knocked lower by Covid-related demand fears.

Storage concerns also remain, with just seven weeks of the injection season left European gas storage facilities are now at 60% fullness, compared to 88% at this time last year, according to data from Gas Storage Europe, the storage operators' association. Fears that a cold winter will leave storage sites empty and lead to a significant replenishment buying drive next summer have helped propel Summer '22 prices up to 72 p/th.

As a result October '21 Annual has pushed up to almost 94.5 p/th, a 15% gain over the last two weeks, putting it within 1.5 p/th of the record front annual price (of 2008). It has doubled in value over the last four-and-a-half months. Forward Annuals have also risen significantly, despite having lagged over the last few months, as future supply confidence has dropped. October '21 Annual's premium to October '22 Annual remains at 26 p/th, the recent widening having stalled.

Month-ahead UK gas has meanwhile hit 115 p/th over the last few days, just short of the all-time high seen in December 2005, while Day-ahead reached a peak of over 110 p/th, a new three-and-a-half year high.



Source: Marex Spectron

Outlook:

- ↑ A cold start to the winter could exacerbate storage and supply concerns, driving prices higher.
- “New branches of the jet stream will continue to cause unsettled conditions at the beginning of next week, mainly over the north-east of the UK. Temperatures will be generally slightly below average. However the tendency for the rest of next week and beyond is for more settled conditions, due to the expansion of the Atlantic ridge towards the UK, an area of high pressure that will probably bring higher temperatures and more sunshine over much of the country,” says Marex Spectron’s meteorology desk.
- ↓ Further spread of the Delta Covid variant and associated lockdowns in Asia could sap regional energy demand, with knock-on effects for global markets and European gas prices in turn.

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		chg
93.31	10.76	74.42	10.89	112.64	7.04	107.77	1.82	32.03	4.48	71.08	-0.74

All changes (chg) are compared to last report.

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