ELECTRICITY

Putin gas tease pops bubble, briefly

The superlatives used to describe UK power and gas market conditions in September – "extraordinary", "unprecedented", "exponential" etc. - were no longer sufficient to describe the market as October started and prices skyrocketed to "unbelievable", "beyond crazy", "jaw-dropping" levels…before collapsing (and then climbing again). The most extreme price movement was seen on October 6th when prices across the winter witnessed a mega-spike which was popped abruptly by Vladimir Putin hinting Russia could increase gas supplies to Europe.

The charts on the right don't tell the whole story – as they show end-of-day prices for next summer and beyond and not the intra-day highs for this winter seen on the 6th, when Month-ahead soared to £360/MWh as an intense wave of panic-buying seized the market, helped by colder forecasts – it had never been above £150/MWh until last month (even Day-ahead levels only reached this level for the first time briefly last month). Even prices for next summer and winter and April '22 Annual burst above £130/MWh.

By early afternoon however price tags had spiraled lower again. While the Putin reports were a key factor, analysts also said that traders being forced to close their market positions as clearing houses raised collateral requirements due to the volatility, stimulating credit fears, contributed, alongside stop-loss levels being triggered and carbon prices slumping. By the end of the day Month-ahead was down nearly £100/MWh from its peak.

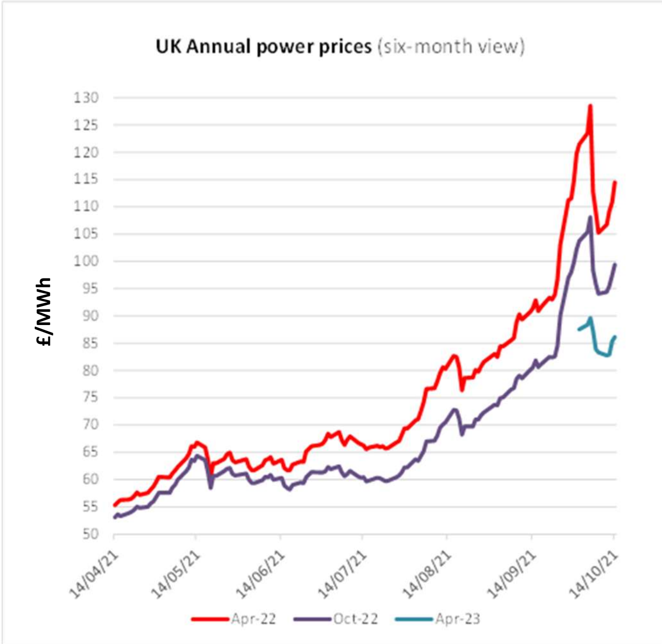
Having rocketed to a record of more than £75/TCO2 at the end of September, UKA emissions allowances had tumbled 20%, to £60/TCO2, by the 6th (while EUA allowances slid 11%), amid calls by EU states for market intervention, subsequently dismissed by the European Commission, and as recent utility buying dried up.

Year-ahead coal meanwhile surged to a fresh 13-year high of over $182/tonne in the first few days of October in the general panic, before slumping by a mighty $50/tonne.

Over the last few days however prices have started to ratchet higher again across all markets – power, gas, coal, emissions – amid lingering underlying supply nerves and no evidence that Russian gas supplies will actually increase in the wake of Putin's comments. Coal prices have been lifted too by a sharp increase in Chinese imports as flooding has knocked out some domestic mines there and a fire at a Russian export terminal.

Short-term UK power prices have also been volatile over the last fortnight – Day-ahead swinging between £180/MWh and £270/MWh largely on changes in the weather, although new nuclear plant outages on both sides of the Channel have applied upwards pressure while the return of several fossil-fuelled plants from outage over the last few days has helped apply some downwards pressure.

Future annuals appear to be cheap by comparison to the front Annual, with April '23 Annual now around £85/MWh – a sizeable £28.5/MWh discount to April '21 Annual, and April '24 Annual discussed just under £75/MWh, although these are still historically high levels.



Source: Marex Spectron

Outlook:

↑ "Weather corrected peak demand is expected to be higher than the previous winter, largely due to COVID-19 restrictions being lifted, and broadly in line with winter 2019/20. Weather corrected minimum demand is expected to be greater than last winter," National Grid says in its Winter Outlook Report.

There is a more than 70% chance of a La Nina weather phenomenon developing in the southern hemisphere (changing ocean temperatures in the Pacific Ocean) during the December-January period, according to US and Australian forecasters. La Nina often results in heavier than normal monsoon rains and potential coal mine flooding in Australia and Indonesia and colder than normal weather in northeast Asia, potentially boosting energy demand in China.

→ OTC UK power trading volumes surged 82% in September, year-on-year, according to the wholesale market brokers' association LEBA.

↓ "After a period of settled weather due to an Atlantic ridge of high-pressure, more unstable conditions are on their way for next week over UK/NW Europe: winds and precipitation will affect much of this region, while temperatures will increase due to the milder flow coming from the Atlantic," says Marex Spectron's meteorology desk.

Key Power indicators:											
Long-term UK (£/MWh)				**Short-term UK (£/MWh)**				**European power (€/MWh)**			
Apr'22 Annual	*chg*	*Oct'22 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*Germany Cal '22*	*chg*	*France Cal '22*	*chg*
114.50	-9.00	99.43	-5.94	255.25	7.25	260.15	79.43	133.25	-11.13	142.70	-9.30
Key Other indicators:											
Coal ($/MT) '22	*chg*	**Oil (Brent) $/bbl**	*chg*	**UKA '21 (£/TCO2)**	*chg*	**EUA '21 (€/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*	**EUA '23 (€/TCO2)**	*chg*
156.00	-20.00	84.06	2.50	67.40	-1.60	61.28	-2.32	61.56	-2.46	62.45	-2.24
								All changes (chg) are compared to last report.			

GAS

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400 p/th mega-spike shakes market

Month-ahead just above 400 p/th and Day-ahead above 350 p/th were two of the astonishing peak prices seen on October 6th as the market witnessed a stratospheric spike amid feverish panic buying in the face of few offers, as colder weather forecasts and productions glitches just as winter officially started lit the fuse on the recent explosive bullish cocktail of supply fears. These peak prices were very short-lived however, as within hours levels had collapsed, the bubble punctured by comments from Vladimir Putin that Russia may "think through possibly increasing supply" of gas to Europe "if there are appropriate requests". The sell-off this triggered pulled Month-ahead and Day-ahead levels down by a third by the end of the day.

Prices then stabilised for a few days as a shell-shocked market paused to reassess itself, but underlying supply nerves soon regrouped and have been driving prices higher again over the last few days.

During the early October spike, it wasn't just Month-ahead that was catapulted to jaw-dropping levels, as prices across all months to February and Q1 '22 as a whole soared above 350 p/th, eclipsing all previous records. Forward periods were also propelled higher, albeit much less dramatically, with prices for next summer, next winter and the front Annual all reaching above 130 p/th at one stage.

While Putin's gas tease has been one major factor driving volatility, other factors have also been at play, including weather forecast changes, exchanges increasing collateral requirements (forcing some traders to close positions), LNG market price swings and profit-taking. Stop-loss buy and sell levels being triggered and low market liquidity have further exacerbated the price movement.

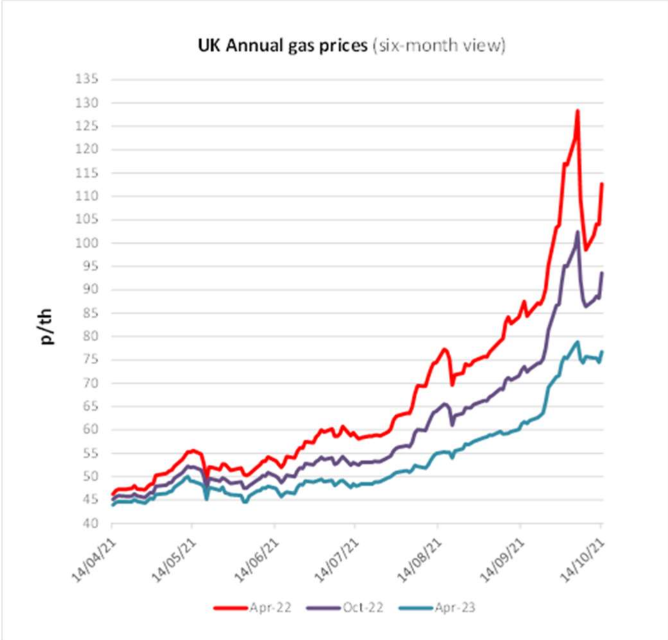
Concerns over low storage volumes, low Russian supply confidence and low renewables output on the one hand and raging winter Asian LNG and coal demand on the other continue to firmly underpin sentiment.

European gas storage facilities are now at 78% fullness, compared to 95% at this time last year, according to data from Gas Storage Europe, the storage operators' association.

Unplanned outages in the North Sea have continued to support short-term prices, although operators have also postponed some planned but non-essential maintenance in the face of the current gas squeeze, while LNG imports into northwest Europe have continued to improve.

North Sea oil prices at $84/barrel, on a par with prices last seen three years, are close to breaking to a seven-year high, although they are now no longer a price driver but being driven by the gas supply crunch, as generators look to switch to oil-fired generation from gas-fired generation where possible, as this is now more economic.

Having slumped back 100 p/th, April '22 Annual gas has since rallied back up to 113 p/th, although at the time of writing all periods were softening again as milder and windier forecasts emerged across Europe.



Source: Marex Spectron

Outlook:

↑ "In case of a cold European winter…the exceptionally low storage level combined with the decreasing indigenous production would require an increase of imports by about 5% to 10% higher than the maximum volumes observed in recent years," says ENTSOG, the European gas network operators' association, in its Winter Outlook.

→ Stable prices seem highly unlikely given recent volatility and market flux.

OTC UK gas trading volumes slipped 17% in September, year-on-year, according to the wholesale market brokers association LEBA.

↓ Gazprom has previously said it will have replenished Russian gas storage sites by the start of November, which could mean that it will then have extra gas to send to Europe, analysts suggest.

National Grid estimates that winter gas demand in the UK this year is likely to be 2.5% lower than last year, in its Winter Outlook Report.

Projections for US LNG exports in 2022 have been revised upwards by 10% by the EIA (the US Energy Information Administration), to an average of 316 mcm/day, helped by new capacity coming online.

Key Gas indicators:											
Long-term UK (p/th)				Short-term UK (p/th)				European gas (€/MWh)		Crude Oil	
Apr'22 Annual	*chg*	*Oct'22 Annual*	*chg*	*Month-ahead index*	*chg*	*Day-ahead index*	*chg*	*TTF 2022*	*chg*	**Oil (Brent) $/bbl**	*chg*
112.68	-9.74	93.57	-5.57	250.00	-3.97	235.80	20.24	58.00	-1.23	84.06	2.50
								All changes (chg) are compared to last report.			