ELECTRICITY

Historic, eye-watering rally continues

Previous price records have been left in smithereens over the last fortnight, as forward prices, particularly for this winter, have rocketed yet further – the exponential rally completely dwarfing all forward price rallies in the market's history. Winter '21 prices saw single-day gains of more than 10% and doubled over the course of September, trading as high as £245/MWh as it went off the board, while forward seasons and annuals have also torn higher. Although upwards momentum started to slow at the end of last week, prices continue to push sharply higher this week, with Q1 '21 and next summer breaking to new highs of over £250/MWh and £125/MWh respectively at the time of writing. Short-term prices have meanwhile been much weaker than a fortnight ago and mostly well below forward levels.

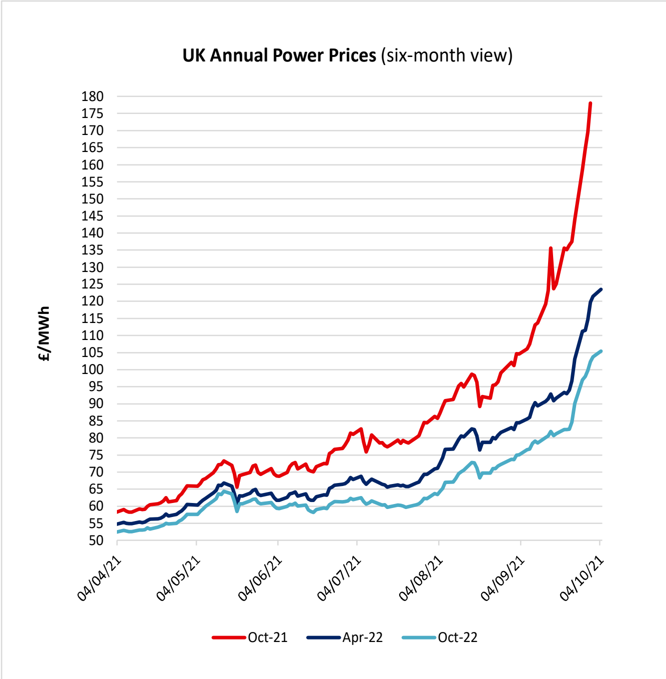
A drop in Russian physical gas flows into Germany has been a new factor feeding into the unbridled supply nervousness across European gas and power markets, adding to the ongoing panic over low storage volumes, soaring Asian LNG demand and prices, dwindling underlying Russian supply confidence, low renewables output and raging coal markets.

The rally in forward UK power prices has at times outstripped those seen in other markets – as UK nerves have been further rattled by more localised factors/concerns. One major driver has been UK carbon emissions allowances rocketing above £75/TCO2, to a premium of as much as EUR 25/TCO2 (40%) to EU allowances, amid low auction volumes and utilities reportedly shifting their hedging strategies onto the UK permits. Fears repairs on the fire-damaged IFA1 interconnector with France may not be completed by the scheduled end-March completion date and nuclear plant output anxiety – amid outage delay fears (Hartlepool's restart has just been delayed until the end of November) and the release of winter refuelling schedules – have also been factors. Talk that suppliers taking on customers from the raft of bankrupt smaller suppliers may be forced out to buy extra volumes on the market to cover their commitments, and worries the current national supply chain crisis may impact energy infrastructure support and maintenance, have also added to the bullish mood.

UK power seasons and quarters out to the end of Winter '22 have all smashed into triple digits for the first time, on concerns the supply crunch may linger. October '21 Annual went off the board at £178/MWh, while the new front Annual, April '22 Annual, started October by breaking above £123/MWh, as October '22 Annual surged above £105/MWh.

Month-ahead, meanwhile, has pushed to a new record of £271/MWh as this goes to print, up a dramatic 9% this morning alone, 69% since mid-September and 128% since the start of September.

Day-ahead power prices however are now well below the record £400-540/MWh levels seen in mid-September, a sharp increase in wind output helping push levels as low as £138/MWh, although at the time of writing they were trading as high as £275/MWh, colder and less windy forecasts alongside surging gas prices sweeping levels up again.



Source: Marex Spectron

Outlook:

🡅 A seasonal drop in temperatures could bolster markets, particularly if it they go beneath seasonal norms and result in significant gas storage withdrawals to meet demand in the first part of the Winter.

🡆 Plans to build an electricity interconnector between the UK and Morocco by the end of this decade have been announced by a UK start-up company, Xlinks. The company plans to build 10.5 GW of solar, wind and battery capacity in Morocco, exporting the output to the UK through the £16.5 billion, 3,800 km cable – which, if completed, will be the world's longest undersea power cable (and more than five times the length of the current longest – the Norway-UK NSL interconnector, which has just started commercial operations).

The UK government is to announce a target of making all electricity green by 2035, according to *The Times*.

🡇 The UK could import around 6 TWh of electricity through the new NSL Norway-UK interconnector over the course of this winter, based on expected price differentials, according to analysts Volue. Up to 10 TWh of imports could occur over the course a typical year, a number of analysts told newswire Montel. The link could also lead to German electricity being transited through southern Norway and into the UK at times, they said.

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*
123.50	31.88	105.38	24.20	248.00	87.07	180.72	-149.78	144.38	44.60	152.00	48.35
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*
176.00	51.60	81.56	6.75	69.00	13.84	63.60	4.10	64.02	4.18	64.69	4.21
								All changes (chg) are compared to last report.			

early October 2021

GAS

January nears 300 p/th

The unprecedented rally in prices has accelerated even further over the last fortnight, leading to exponential gains in forward prices, with Winter '21 going off the board at over 240 p/th (having doubled in value since mid-August and increased five-fold over the last six months) and October '21 Annual at 166 p/th, while periods beyond have continued to push higher since the start of October. At the time of writing January gas had just traded above 290 p/th, up almost 14% this morning alone, with December and February just a few pence behind. Month-ahead UK gas has meanwhile soared above 280 p/th – another first.

Reduced physical Russian gas flows into Germany just ahead of Winter and colder forecasts have further agitated nerves in a market that is hyper-sensitised to any potential supply issues, big or small, while panic over LNG supplies, low gas storage levels and Russian supply prospects continues to rage. Thin trading volumes again appear to have exacerbated the price volatility.

Some improvement in North Sea supplies, Norway committing to increasing its gas output by 2 BCM for the year from October, and some reduction in generator demand as renewable power output ramped up, helped rein in the bullishness at times, but mostly on the short-term market.

The new front annual, April '22 Annual, wavered when it hit 117 p/th late last week, but it has since powered up to 128 p/th, while October '22 Annual has broken above 100 p/th for the first time.

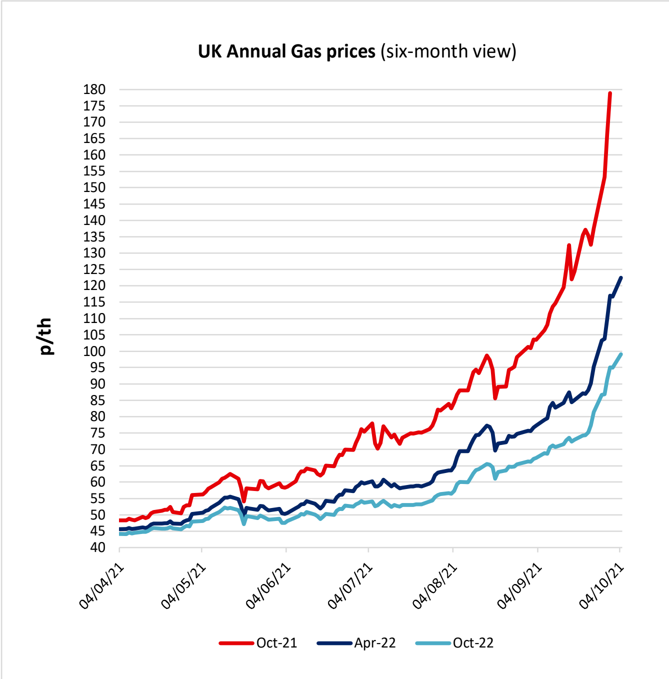
Oil prices rallying to a three-year high of almost $82/barrel (US oil prices to a seven-year high of $78/barrel), as OPEC+ oil-producing states agreed not to raise production quotas, also helped the bullishness. Surging coal prices did too – with month-ahead coal reaching a record $270/tonne amid a scramble by Chinese and Indian generators for feedstock and tight global supply and inventories.

Several unplanned gas outages in the Norwegian North Sea – including at the Aasta Hansteen, Gullfaks and Sleipner fields – has kept the Day-ahead spiky, pushing it to a record 250 p/th today and beating the levels seen during the *Beast from the East* cold snap in 2018.

UK LNG imports in September were down 38% on the same month last year, while western Europe saw a 21% drop, according to vessel tracking analysis by Montel newswire. Chinese LNG imports were up 17% and South Korean imports up 60% by comparison. Imports into Europe have however started to improve over the last few days.

Prices in mainland Europe have also reached records, with Month-ahead prices on the Dutch TTF, Europe's biggest gas market, hitting EUR 110/MWh – the first time they've ever reached triple digits, and 2022 TTF breaking above EUR 60/MWh.

European gas storage facilities are now at 74.5% fullness, compared to 95% at this time last year, according to data from Gas Storage Europe, the storage operators' association.



Source: Marex Spectron

Outlook:

↑ The Chinese government has reportedly ordered state-owned energy firms to secure winter energy supplies "at any cost", as the country faces power blackouts. Continued acute Chinese buying will shore up LNG and coal prices in Asia and globally.

→ The European Commission says it is to publish a "temporary and targeted structured toolbox" of measures to help EU states mitigate the effect of soaring energy prices across the continent. These are said to include VAT and excise duty waivers, storage rule changes and vulnerable customer support initiatives.

↓ A mild European winter could lead to the market tumbling back to "more normal" levels, especially if it is accompanied by consistently strong renewables output curbing gas buying from generators and if there is also a milder than normal winter across the rest of the northern hemisphere.

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*
122.42	37.36	99.14	26.15	253.97	91.17	215.56	56.65	59.23	19.18	81.56	6.75
								All changes (chg) are compared to last report.			