

ELECTRICITY

Month-ahead nears £500

Month-ahead and quarter-ahead UK power prices have soared to all-time highs over the last few days, rocketing to £490/MWh and £385/MWh respectively yesterday, up 36% and 18% on the day – after the sudden shutdown of two reactors at the Chooz French nuclear plant for preventative safety checks panicked European power and gas markets that were already hypersensitised to any supply issues. January French power leapt by more – ending Thursday at EUR 660/MWh – up 70% on the day.

Ahead of the news, the market had already been witnessing growing nervousness over French power supply in January and February, amid several warnings about nuclear availability and outages, including from French grid operator RTE. Colder and windless weather forecasts (including snow) for the UK and much of Europe for the second half of December also bolstered talk, against the background of the ongoing gas supply and storage crunch.

While prices on some periods have eased slightly today, helped by some profit-taking and Omicron fears, Q1 '22 UK power has pushed even higher, to nearly £395/MWh. Month-ahead and Q1 '22 prices are now up by 62% and 52% respectively since the start of December (and 2.5 times where they were at the start of November).

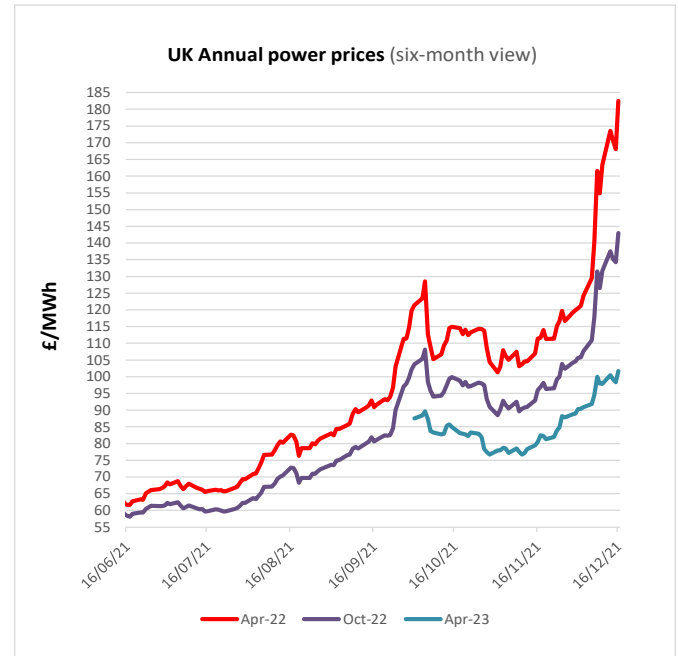
Power prices further forward have been less bullish over the last few days – Summer '22 and Winter '22 gaining up to 8% in a day – but saw bigger gains last week as a “stronger for longer” price perception gained traction – amid escalating Russian war/sanction fears, new carbon price records and French power supply concerns (with multiple French nuclear plants facing extended 10-year maintenance outages throughout 2022).

As a result April '22 Annual has been driven up to £182.5/MWh – the highest ever level for an Annual – and a gain of just over 50% since the start of December. October '22 Annual has at the same time reached £143/MWh, while even April '23 Annual has broken above £100/MWh for the first time.

Low wind levels have helped propel Day-ahead hourly prices for the early evening up to £1500/MWh on a couple of days, while Day-ahead all-day values have roared up to £400/MWh.

EUA carbon allowances hit a new record of EUR 90/TCO2 a week ago, strong buying ahead of the expiry of options derivatives cited as a primary driver. Although they were tumbling below EUR 76 at the time of writing they have remained largely above EUR 80/TCO2, a price level not seen before this month. UKAs meanwhile hit a new record high of over £79/TCO2 yesterday – helped by a decision by the UK ETS Authority to “not redistribute or release additional supply...at this time,” despite the CCM (Cost Containment Mechanism) threshold being triggered at the start of December.

Mainland European power annuals have also seen new all-time highs, with Year-ahead French prices reaching over EUR 292/MWh, and German prices over EUR 242/MWh.



Source: Marex Spectron

Outlook:

↑ A ramp-up in operational capacity in the NSL Norway-UK interconnector, from 700 MW to at least 1050 MW, has been delayed by yet another month to mid-February while its operators continue to resolve technical issues with the cable. Further delays will limit the UK's power import potential.

→ The UK ETS Authority has decided to “not redistribute or release additional supply...at this time” to rein in UKA carbon allowance prices, despite the CCM (Cost Containment Mechanism) threshold being triggered at the start of December.

Global coal-fired generation is expected to reach a record 10,350 TWh this year, up 9% on last year, due to the global gas supply squeeze, according to the IEA (International Energy Agency), which says output may increase further over the next three years.

↓ After the last price spike in late September/early October, the market witnessed a sharp and sustained downwards correction. Could the same thing now happen after this latest spike?

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)				Month-ahead index				Germany Cal '22			
Apr'22 Annual	chg	Oct'22 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	Germany Cal '22	chg	France Cal '22	chg
182.50	61.25	143.00	37.12	427.70	134.70	404.89	146.34	241.73	94.92	292.65	116.22
Key Other indicators:				UKA '21 (£/TCO2)				EUA '22 (€/TCO2)			
Coal (\$/MT) '22	chg	Oil (Brent) \$/bbl	chg	UKA '21 (£/TCO2)	chg	EUA '21 (€/TCO2)	chg	EUA '22 (€/TCO2)	chg	EUA '23 (€/TCO2)	chg
128.50	19.50	75.05	5.60	79.20	10.39	84.35	4.37	85.26	4.89	86.06	4.91
All changes (chg) are compared to last report.											

GAS

Annals hit record 195p

UK gas annual prices have hit consecutive record levels over the last week, peaking yesterday as the front Annual (April '22 Annual) reached 195 p/th (well above the 166 p/th peak of the previous spike in late September). Record levels have been seen on other periods too, with end-of-day Month-ahead and Quarter-ahead prices hitting 360 p/th and 345 p/th respectively. All periods out to March are now valued well above 300 p/th.

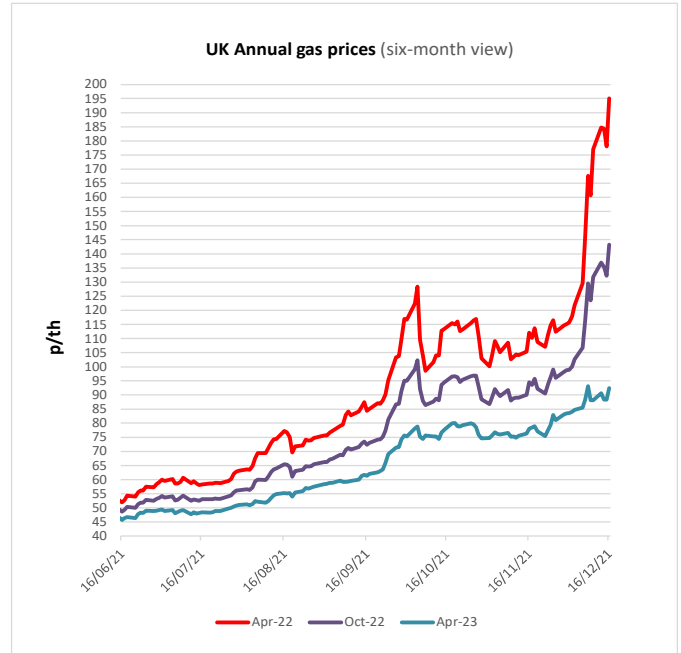
The latest upwards jolt came yesterday from the power market, which surged as two French nuclear reactors were shut down for inspection following the discovery of cracks in safety equipment at another similar nuclear plant that was undergoing maintenance. Fears that the reactors may be out for some time and/or other reactors may face similar inspections, prompted concerns of increasing gas demand from generators to make up for the shortfall in output, when the market is already undergoing a record supply squeeze.

Ahead of that, gas prices had already been rising across the board, as the first real cold weather of the winter boosted physical end-user demand and storage withdrawals just as wind output dropped, while a “stronger for longer” price perception pushed forward levels higher – amid fears that Russian gas supply uncertainty may linger throughout next year, as the geopolitics surrounding the potential Ukraine invasion plans and Nord Stream 2 pipeline persist (the German regulator has said it is unlikely to provide any certification of Nord Stream 2 until the second half of next year), while storage concerns have become more structural than short-term. Colder mid-term weather forecasts, nuclear plant uncertainty on both sides of the Channel, strong carbon prices and unscheduled gas production outages in Norway also helped stoke the bullishness.

Fears over the Omicron covid variant and European lockdowns have only provided some mild bearishness amid expectations they may dampen demand and weigh on oil prices, which feed into some European gas contracts. North Sea oil prices which bounced up to \$76/barrel in the first week of December, are now edging down towards \$73/barrel, rising inflation figures helping dent sentiment.

At 195 p/th, April '22 Annual has increased in value by 80p, or 67%, since the start of December, and 95% since the start of November. October '22 Annual meanwhile, at 143 p/th, is up 45% since the start of the month. Annals beyond this have similarly rallied to new records, with April '23 Annual reaching 93 p/th for the first time.

European gas storage volumes have dropped to 61% fullness overall, compared to over 79% fullness at this time last year, according to Gas Storage Europe, the storage operators' association.



Source: Marex Spectron

Outlook:

- ↑ Any further unexpected supply issues, even minor ones, may trigger more bullishness, while an extended cold snap in the UK or Europe could send supply and storage fears into overdrive.
- Extremely cold weather is forecast for western Russia until mid-January, with temperatures in Moscow expected to drop beneath -17 degrees C next week. While this will boost demand there, this should be easily met by the significant volumes of gas in Russia's domestic storage sites, which were nearly fully replenished ahead of the winter.
- ↓ Strike action by 300 workers at fields and other North Sea gas and oil infrastructure owned by TotalEnergies, which was to last between December 6th until late February, disrupting production and operations, has been called off after a week, after the workers were offered an improved pay deal.

Key Gas indicators:				Short-term UK (p/th)				European gas (€/MWh)		Crude Oil	
Long-term UK (p/th)				Month-ahead index				TTF 2022		Oil (Brent) \$/bbl	
Apr'22 Annual	chg	Oct'22 Annual	chg	Month-ahead index	chg	Day-ahead index	chg	91.65	34.60	75.05	5.60
195.07	77.22	143.23	43.23	336.57	102.99	334.12	98.76				

All changes (chg) are compared to last report.

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