ELECTRICITY

Prices retreat after mega-spike

Volatility in UK power prices was unprecedented (again) during the opening two weeks of March as the market scrambled to understand how the Russian invasion of Ukraine was likely to impact gas supply. Fears of a Western ban on Russian energy first catapulted prices for most periods well above previous records, before EU states decided against such a ban, causing prices to spiral lower, amid governments across Europe proposing policies to speed up the energy transition and reduce dependence on imports from Russia, including signals from the UK of imminent policy announcements.

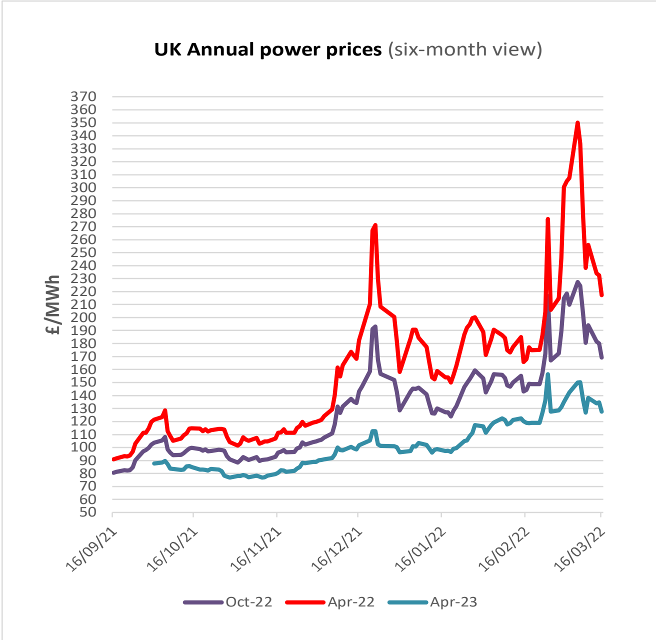
Month-ahead UK power soared above £420/MWh as a result on the peak day, March 7th – more than double the price prior to the invasion, before crashing towards £240/MWh by mid-March.

April '22 Annual power baseload roared up from around £246/MWh at the start of March to a peak of £350/MWh – an uptick of 63% across six working days – before dropping below £233/MWh by the middle of the month. At the time of writing the front Annual had edged down further but remained about 7% above levels prior to the start of the invasion. October '22 and April '23 Annuals followed a similar trajectory – although the spikes were not as pronounced, as the market priced in the expectation the conflict would fizzle out this year – both even dipped below values seen before the start of the war.

The short-term market was boosted by lower renewable generation, with wind farms accounting for 27% of UK supply during the first fortnight – down from 36% over the previous two weeks – while the share of gas and coal generation rose from 25% to 34%. The country switched to consistent net exports to France from March 8th as more nuclear capacity came offline for maintenance there and French wind output slid. Across the entire period though the UK was still a net importer from France, with 40 MW coming in on average each day, although this pales in comparison to the 887 MW delivered during the preceding two weeks.

The UK Day-ahead power Baseload index averaged £321/MWh over the first half of March – up a massive 83% compared to the prior fortnight – with the situation in Ukraine feeding bullish sentiment despite there being no material impact on European gas supply. The Day-ahead power Baseload index spiked to $470/MWh around the time the US was pushing for an all-out ban on Russian energy – a day before UK wind output was expected to reach nearly 13 GW – showing how sensitive prices were to the headlines.

UK carbon prices have largely disconnected from the wider energy complex and have tracked stock markets more closely – with the potential disruption to the global economy the main driver. UKAs started March just over £70/TCO2e – down from record levels of £88/TCO2e before the invasion began – then edged down towards £68/TCO2e, before rebounding above £80/TCO2e at the time of writing.



Source: Marex Spectron

Outlook:

More than 3 GW of French nuclear capacity was taken offline at three reactors on March 15th for long-term maintenance announced that day. At the St Laurent 2 reactor 915 MW will be unavailable until April 24th, 1.3 GW will be disconnected at Paluel 4 until June 26th and the 910 MW Bugey 3 will be closed until April 27th. Another 3.5 GW of French nuclear capacity is due to be taken offline this month for planned maintenance, according to the latest schedule from grid operator RTE. This may shore up export demand from the UK.

The UK government is expected to announce new energy policies in the coming weeks designed to improve supply security, with a push towards supporting renewable and nuclear capacity expected. This followed an announcement earlier this month that the country would phase out imports of Russian oil – accounting for about 8% of the total – by the end of this year.

The 857 MW Triton Knoll offshore wind farm is expected to start delivering power to the grid by the end of Q1 – according to RWE – after turbine commissioning was completed in January.
UK power imports from Norway were up to an average of more than 1.2 GW after full capacity became available on the North Sea Link on March 15th, a rise of about 200 MW on average compared to the first 14 days of the month.

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 '23*	*chg*	*France Cal '23*	*chg*
217.25	-28.65	180.10	-9.20	230.39	-17.86	230.00	16.00	162.25	9.75	198.25	24.75
Coal ($/MT) '23	*chg*	**Oil (Brent) $/bbl**	*chg*	**UKA '22 (£/TCO2)**	*chg*	**EUA '22 (€/TCO2)**	*chg*	**EUA '23 (€/TCO2)**	*chg*	**EUA '24 (€/TCO2)**	*chg*
160.00	-34.35	99.35	-6.51	81.85	11.10	78.80	9.06	80.10	9.02	82.21	9.17
								All changes (chg) are compared to last report.			

GAS

mid March 2022

Russian ban/no-ban fuels record spike

UK gas prices roared up during the first week of March with April '22 gas trading as high as 800 p/th at one point – a record by some margin for any period – before crashing lower when it became clear that immediate EU or UK sanctions on Russian energy exports were not on the table, while falling demand, elevated physical flows from Russia into Europe and strong LNG inflows also helped to ease prices back towards pre-invasion levels. (April is now back around 250 p/th.)

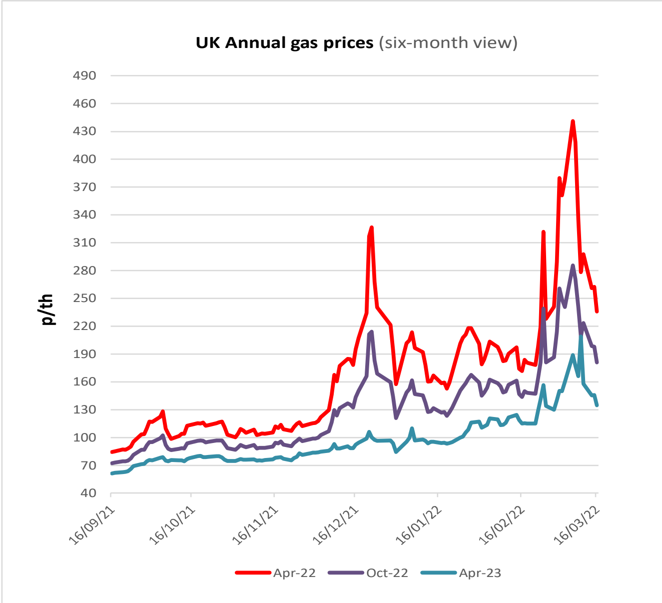
Heat was concentrated in 2022 periods, with October '22 Annual gas closing at an average price of 140 p/th over the first half of this month – more than 200 p/th below April '22 Annual – while April '23 Annual gas closed at 164 p/th on average. At the time of writing the front Annual remained about 14% above its prior to the invasion, compared to 7% and 2% for the October '22 and April '23 Annuals.

Short-term prices were at highs not reached since December although fundamentals were relatively weak with mild weather pushing demand 5% below the seasonal average and LNG terminals delivering more than a fifth of supply. Day-ahead gas closing values have varied by more than 300 p/th and made day-on-day moves of at least 100 p/th on several occasions. Day-ahead gas was around 293 p/th at the start of the month and rumbled up to just over 600 p/th in five days, before shifting below the 250 p/th mark at the time of writing.

A striking consequence of the invasion was that Summer '22 moved above Winter '22 – with the price difference hitting a high of 139 p/th – with more risk of supply disruption priced into shorter-term periods. Another key driver was a European Commission proposal to mandate gas storage sites in EU member states are 90% full by October 1st each year to ensure supply security over the winter.

It is unclear how this would work practically, given that Gazprom owns capacity at several storage sites, although an example of a country with storage policies already in place is Italy, where restrictions on injection and withdrawal profiles are imposed on capacity holders. These rules have been widely criticised by bodies such as the European energy trader's association Efet, which has argued the lack of flexibility hinders market liberalisation. Italian storage was 85% full heading into Q4 last year – compared to an EU average of 75% – and is currently around 33% full, compared to 26% across all member states. At the time of writing the price differential between the front two seasons had narrowed to around 20 p/th.

Elsewhere North Sea oil ballooned to levels not reached since 2012, with a peak around $128/bbl – up 36% since the invasion began. A day after April '22 Annual gas spiked to close at a high of 441 p/th, Summer '22 hit 510 p/th and Q4 '22 closed at 418 p/th – increases of 100%, 137% and 87%, respectively, since February 23rd (the day prior to the start of the conflict), although intraday discussion was even higher. Oil gains were driven by supply concerns stemming from the invasion, with prices curling back below $100/bbl at the time of writing as disruption failed to materialise and China announced new lockdown measures as coronavirus cases started to rear up again.



Source: Marex Spectron

Outlook:

↑ Wind farm generation is expected to average 6.7 GW through the remainder of the month – according to Elexon – down from an average of more than 8.4 GW across the winter period starting on October 1st last year. This should lift gas use from the power sector although mild temperatures are likely to keep a lid on the overall demand increase.

→ The Netherlands will only lift output from the Groningen field as a measure of last resort as ministers announced a reduced production target for the gas year ending on September 30th of 4.6bcm – down from 7.6bcm announced in January – after which production will cease. Groningen produces low-calorific gas that is not used in the UK and the planned closure of the field later this year has been priced into mainland European markets.

↓ First gas has been delivered to the UK grid from the Blythe and Elgood fields, which are part of the Saturn Banks Project, according to producer IOG, which said it would provide an initial view on flow rates after stable production has been established.

Norwegian gas exports are set to be boosted after producer Equinor secured permission from the government to increase output by 1.4bcm from now until September 30th. It will also be allowed to increase production from the giant Troll field by 1bcm in the event of issues at other sites.

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 2023*	*chg*	**Oil (Brent) $/bbl**	*chg*
235.69	-53.78	180.95	-33.16	240.00	-45.77	252.22	-42.78	60.53	-8.23	99.35	-6.51

All changes (chg) are compared to last report.