

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

RUSSIAN GAS SENSITIVITIES THROW MARKET



After moving higher again towards the middle of October, an eerie calm settled over the UK power and gas markets for much of the second half of October, with prices barely changing for the first time in several months, providing traders with a welcome breather after the record wild swings seen earlier in the month. This calm was shattered on the 28th though, as Vladimir Putin publicly asked Gazprom to start exporting gas to its storage sites in western Europe from November 8th.

Prices across the remainder of this winter then started crashing lower...until they were jolted higher again at the start of this week, albeit temporarily, amid reports that actual physical flows of Russian gas into Germany via a key pipeline through Poland had stopped and were even reversing back up the pipeline. Prices have since been volatile with forward levels rising again at the time of writing, helped by news that the fire-damaged IFA1 interconnector between France and the UK is unlikely to be fully repaired and operational until October 2023 – 18 months later than was last indicated.

Amid the choppiness this week Month-ahead UK power slid as low as £170/MWh – more than 50% down from the record £360/MWh it reached during the early October super-spike, while all remaining winter periods dropped back beneath £200/MWh for the first time since late September. Q3 '22 also became the first period out to the end of Winter '22 to slip sub-£100/MWh since early October, although it has just clawed back above this level.

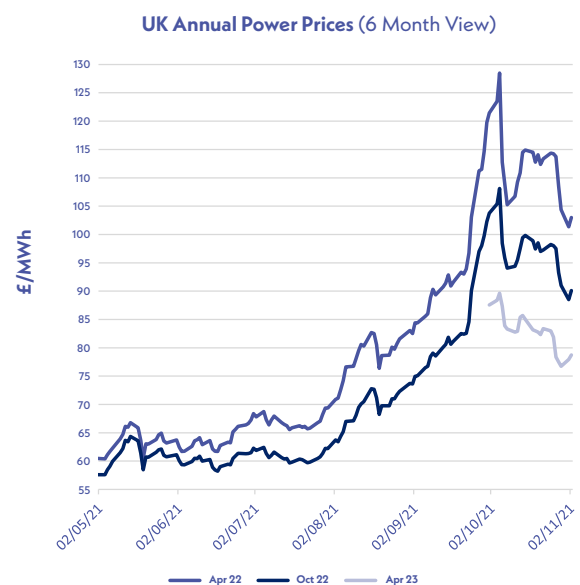
April '22 Annual UK power has meanwhile softened to as low as £101.5/MWh – down almost 12% in value since mid-October and 22% since the spike, while October '22 Annual has fallen back beneath £90/MWh.

UK power price losses, while significant, have been less dramatic than those on the gas market – buoyant carbon markets alongside renewables and nuclear uncertainty appearing to lend a supportive hand. 2021 EUA carbon allowances are now around EUR 59/TCO₂, barely 3% down on levels a fortnight ago, with the COP26 climate summit in Glasgow cited as bolstering discussion, although UKA

carbon allowances have slumped by £8/TCO₂ over the same period – to under £52/MWh, as the recent wave of hedging interest receded.

Year-ahead coal meanwhile has cratered to \$100/tonne, down almost \$50/tonne since mid-October, as China has pledged to ramp up domestic production.

Day-ahead UK power prices were also relatively stable for most of the second half of October – oscillating in a £160-180/MWh channel for the most part – before hitting turbulence over the last few days and swinging as low as £130/MWh and as high as £275/MWh, largely again at the mercy of changes in wind levels.



ELECTRICITY: OUTLOOK

 The 2000 MW IFA1 France-UK interconnector will be operating at half-capacity until next November, then at 1500 MW until May '23 and then at half-capacity again until the end of October '23, National Grid has confirmed. The partial outage is to repair damage caused by a major fire at a convertor station in mid-September.




MARKETS DIP

Markets dip from October peaks but still at significant highs




GAS EXPORTS

Russia increasing gas exports from 8th November

 All eyes are on Russian gas flows into Europe from November 8th, whether they do improve and by how much: significant volumes could pressure prices, while disappointing volumes could cause the market to rebound.

Renewables' share of the UK power mix rose to a 20-month high of 37.8% last month, according to analysis by newswire Montel. In Q3 renewables output fell by 20% year-on-year.

 The world's largest floating offshore wind farm – the 50 MW Kincardine facility – has started operations off the coast of Aberdeenshire.

Two new 50 MW battery storage facilities are to be built by UK company Anesco in Wiltshire and Dundee, coming onstream by next Autumn. Around 1,100 MW of battery capacity is currently operational in the UK, with a further 16,000 MW of battery projects said to be being planned or in development.



UK-FRANCE

UK-France interconnector off line until late 2023

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
102.98	-11.52	90.10	-9.33	175.44	-79.81	167.76	-92.39	108.60	-24.65	116.50	-26.20

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
100.50	-55.50	84.08	0.02	51.70	-15.70	59.45	-1.83	59.78	-1.78	60.52	-1.93

All changes (chg) are compared to last report

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GAS

ROLLERCOASTER RESUMES AFTER LULL



After hitting a rare steady spell between October 15th-27th – when Day-ahead simmered just above 200 p/th, the front Annual oscillated either side of 115 p/th, and Month-ahead drifted from 235 p/th to 220 p/th – the price rollercoaster has since re-engaged in force, with significant volatility rocking the UK gas market again.

Prices took a major dive last Thursday and Friday after Vladimir Putin ordered Gazprom to start exporting gas to its storage sites in western Europe from November 8th, ostensibly once Russia's domestic storage replenishment targets had been met. Month-ahead and Q1 '22 crumbled by 25%, and April '22 Annual by 12%.

Prices then rebounded sharply on Monday morning as physical flows of Russian gas into Germany at the Mallnow entry point from Poland were reported stopping over the weekend and then reversing direction (while the end of a Spanish gas supply contract and Bulgarian gas pipeline explosion added to the bullish mix), but by the end of the day prices were showing losses again. Since then sentiment and prices have been in a state of flux, while at the time of writing they were moving higher again.

Colder, less windy forecasts have helped provide some uplift, scooping Day-ahead up from below 140 p/th to 188 p/th, and Month-ahead from a 160 p/th low to 195 p/th.

Generally improved Norwegian flows, despite technical glitches at the Sleipner and Oseberg fields, and better LNG inflows into Europe over the last few weeks – said to have pushed October deliveries to a six-month high – have provided some underlying bearishness too.

April '22 Annual, meanwhile, nearly pushed beneath 100 p/th at its low point – but is now valued back up above 106 p/th.

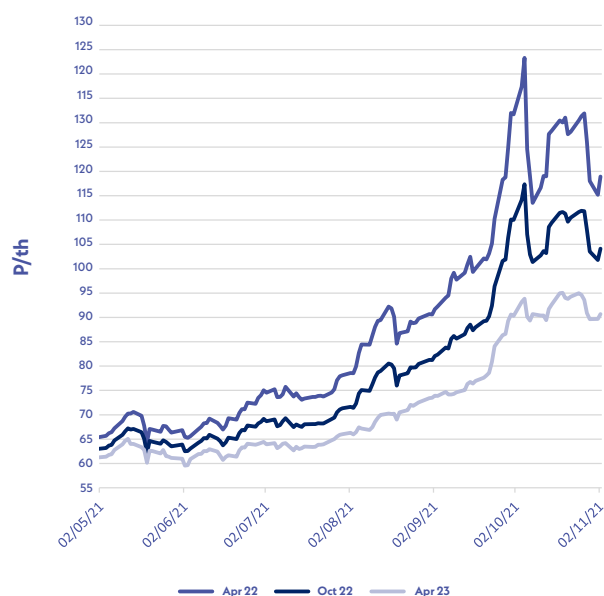
Prices are hugely below where they were during the early October super-spike. Day-ahead and Month-ahead have halved in value since then, while April '22 Annual is now 20% lower (having been as much as 25% lower in recent

days). But they remain very high historically – Day-ahead and Month-ahead five times higher than where they were at this time last year, and the front Annual nearly three times higher. (In May/June last year both Day-ahead and Month-ahead reached single digits.)


European gas storage volumes have nudged lower amid some withdrawals, with facilities now at 77% fullness, compared to almost 95% fullness at this time last year, according to data from Gas Storage Europe, the storage operators' association.

North Sea oil prices at the same time hit a seven-year high of \$86.5/barrel in late October, as OPEC+ nations reaffirmed their commitment to keep to quotas, but China releasing refined oil products from its state reserves and calls from several nations for production to be increased to help ease the current global energy crisis have since helped push prices back down to \$83/barrel.

UK Annual Gas Prices (6 Month View)



GAS: OUTLOOK

 To completely fill its storage sites in Germany and Austria, Gazprom will need to export almost 4 BCM of gas. While this will help improve gas availability in Europe, this volume is equivalent to less than 1% of Europe's annual gas demand. So will it be enough to end the current supply crunch?




FORECAST


Low wind forecasts boost prices



NORTH SEA

North sea oil at a seven year high

 While the end of an Algeria-Spain gas supply agreement via Morocco at the end of October was initially seized on as a bullish factor for the market amid fears it would further reduce gas supplies into Europe, Algeria has pledged to continue to deliver the gas (estimated to account for a quarter of Spanish demand) to Spain via an expanded direct pipeline and in LNG shipments.

 LNG deliveries into Europe were up 18% year-on-year in October, according to analysts. Reduced Japanese demand in the face of warmer weather there is said to be one factor. If LNG import volumes continue to improve this could weigh on prices.



STORAGE

Gas storage levels remain low

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
103.93	-8.75	89.14	-4.43	172.57	-77.43	164.76	-71.04	46.03	-11.98	84.08	0.02

All changes (chg) are compared to last report

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