Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

GAS GAINS HELP TO LIFT FRONT ANNUAL 5%

Electricity prices have been moving upwards over the past few days – following a spike then slump earlier this month – with the uptrend catalysed by gains in the wider energy complex, particularly wholesale gas. April '24 Annual Baseload is currently valued at £69/MWh, down from peaks above £70/MWh a week earlier but still more than 5% higher than at the end of February. October '24 and April '25 Annuals have meanwhile moved above £70/MWh after rising by 4% over the last fortnight. At the time of writing all three front Annuals were now in line with levels last seen in the first week of February.

Production from the UK's nuclear fleet – which has been generating 25% less power in 2024 than last year – remains lacklustre following delayed restarts at several units, although the return of Hartlepool 1 has led to a slight improvement in output in the past couple of days. The nuclear downturn has been largely offset by net imports from the Continent averaging nearly 6 GW – a jump of 6% compared to the latter half of February and almost double net inflows during January – with French deliveries rising 12% against the last two weeks. As with the UK French nuclear generation has been patchy as EDF manages a heavy maintenance burden – including an additional month-long outage at one reactor following the discovery of corrosion on two welds – but a lift in hydro generation combined with declining exports elsewhere has allowed France to deliver more electricity to the UK.

At the start of March UK wind output was limited – lifting next-day Baseload prices above £70/MWh briefly – but wind speeds have been picking up recently, with production frequently topping 10 GW. The lift in renewables – as well as the aforementioned strong imports – had helped to pull Day-ahead power all the way down to £59/MWh, although the period had risen above £68/MWh at the time of writing on more settled forecasts. April '24 electricity had been hovering between £60-63/MWh – before dipping to £58/MWh – but the recent rally has lifted the period back towards £62/MWh, up about 2% during the month to date.

Meanwhile coal prices have rebounded following a weak start to the year, driven in part by stronger demand in China and India. On the supply side, the US has levied sanctions on Russian coal exporter Suek, which market commentators have suggested could lead to buyers in Asia shunning the company to avoid secondary sanctions. This means competition for supply from other producers – the EU stopped buying Russian coal in 2022 – could hot up, lifting coal prices globally. Month-ahead coal for delivery into northwest Europe was over $115/tonne at the time of writing, jumping 11% in a fortnight.

Elsewhere emissions have been dealing in a tight range with the market seemingly waiting for a major stimulus. The UK carbon benchmark has been in a $35-38/TCO2e range during March and is currently just under £38/TCO2e, while EUAs have fluctuated between EUR 56/TCO2e and EUR 61/TCO2e and are now just under EUR 60/TCO2e. Companies have reportedly been reducing short positions in the carbon market in a sign that the downwards momentum that has characterised emissions this year could be running out of steam.

UK Annual power prices (six-month view)

The planned restart of two nuclear reactors at the 1.2 GW Heysham plant – originally scheduled for the second week of March – has been pushed back to March 17th and 20th, according to EDF. Just under 600 MW has been restored at Hartlepool 1, although the resumption of operations at the facility's second reactor – previously expected on March 11th – has been delayed until March 28th.

WIND GENERATION

Wind generation slumped in first half of March, increasing electricity prices

The EU installed a record 16.2 GW of new wind capacity last year – according to a report from industry association WindEurope – the majority of which (79%) was onshore. Wind accounted for 19% of overall EU power supply in 2023, while solar delivered another 8%. The report forecast EU wind additions of 29 GW per year on average between 2024 and the end of the decade.

GAS STORAGE

EU gas storage remains above long-term averages at 60%

The UK energy price cap – which sets a maximum level per unit of gas and electricity that can be charged to retail consumers – will be cut by 12% in Q2, regulator Ofgem has announced. The reduction is a result of falling wholesale market prices.

NUCLEAR OUTPUT

UK nuclear output in 2024 is around 25% less than in the same period of 2023

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '24	chg	France Cal '24	chg
67.88	2.33	67.65	0.00	60.25	-1.17	57.91	-5.34	77.38	2.68	75.13	2.00

KEY OTHER INDICATORS:

Coal ($/MT) '24	chg	Oil (Brent) $/bbl	chg	UKA '23 (£/TCO2)	chg	EUA '23 (€/TCO2	chg	EUA '24 (€/TCO2)	chg	EUA '25 (€/TCO2)	chg
107.50	5.50	85.28	1.59	37.95	2.32	58.80	2.36	61.00	2.30	62.85	2.58

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GAS

ASIAN LNG BUYING LEADS TO UK UPSWING

Weak LNG imports have helped to push UK gas prices upwards despite soft demand and well-stocked storage. Perhaps counterintuitively, low spot LNG prices in Asia have led to concerns over European gas supply because price-sensitive Asian buyers have been snapping up cargoes. This has reduced volumes available for delivery into the UK (as well as mainland Europe) and has helped push April '24 Annual gas above 73 p/th, a rise of 4% since the end of February but below a peak of 75 p/th seen earlier in the month. October '24 and April '25 Annuals have risen 2-3% – to 76 p/th and 77 p/th, respectively.

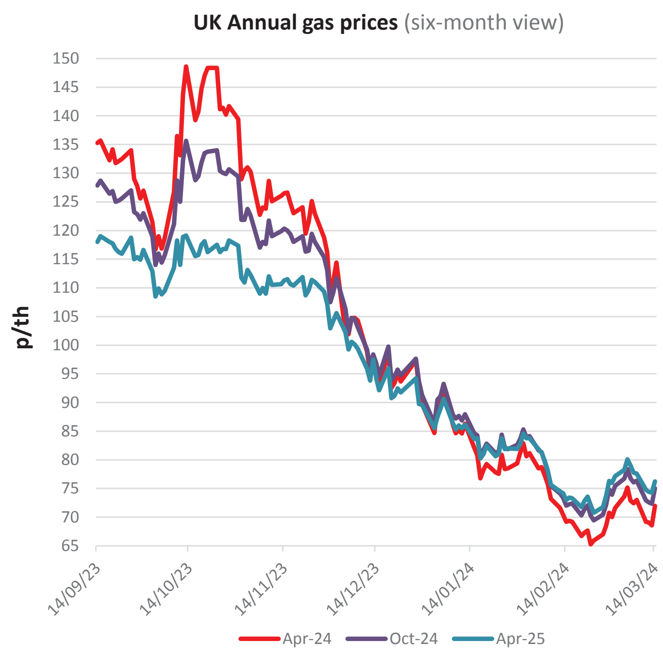
Supply from UK LNG facilities has dived by 50% compared to the previous fortnight as the pace of cargo arrivals has diminished. This initially led to some upside on short-term periods such as the Day-ahead and front month (April '24), before values slipped lower again amid mild weather and weak demand. But renewed concerns around Asia's appetite for LNG has led to a resurgence and month-ahead gas is now up almost 8% since the end of February, at 67 p/th.

In early March there was a (mini) panic over reports of falling gas production in the US – currently Europe's largest supplier of LNG – as oversupply and falling prices have led producers to shut-in wells and cancel projects there. Ironically the narrative from some quarters in the US has been about how LNG exports have been driving up domestic prices – an argument that was doing the rounds back when US policymakers were discussing whether to allow any LNG exports in the late 2000s and early 2010s – although the country's wholesale gas prices remain a fraction of values seen in Europe and Asia.

Storage on the European mainland remains well-stocked and limited injections over the summer could lead to some pressure on short-term values in the coming months. EU storage is currently above 60% full, compared to 56% a year ago and 43% on average between 2019-23. Facilities in Germany – which has the largest storage capability in Europe – are even more buoyant and sites are close to two thirds full. German gas prices for delivery this summer have declined by 16% since the start of the year.

Meanwhile Ukraine has continued to target Russian oil refineries and has reportedly disrupted operations for about a fifth of the country's processing capacity since February, although the industry has been able to ramp operations back up fairly quickly. The attacks – combined with reduced North American crude stocks and extensions to OPEC+ production cuts – have pushed some strength into the oil market.

However, weak oil demand in Europe and scepticism around China's economic growth prospects this year – as well as the inability of western central banks to get inflation to target levels – has acted to cap any gains. Month-ahead North Sea crude is just over $85/bbl, creeping nearly 4% higher since the end of February. The US-based Energy Information Administration (EIA) now expects North Sea oil prices to average $87/bbl this year – up from its previous prediction of $82/bbl – and anticipates $85/bbl on average in 2025.



The UK's ability to import gas from Norway through the SEGAL pipeline network will be restricted for most of next week due to planned maintenance. Flows through the SEGAL route have averaged about 14 million cubic metres (mcm) this month, around 6% of all UK demand.

OIL DEMAND

The IEA's revision of non-EU oil demand, pushed global prices to a six-month high of $85/bb

The EU could have 352 billion cubic metres (BCM) of excess LNG and pipeline gas import capacity by the end of the decade – according to a report from the Global Energy Monitor – if all infrastructure under construction is completed. If all LNG and gas projects that have been proposed are implemented, the excess could reach more than 600 bcm. The report stated that LNG import capacity last year – at about 319 bcm – was almost double LNG demand (around 135 bcm).

UK WEATHER

UK weather predicted to be colder than average over the rest of March

The UK has extended a 35% windfall tax on oil and gas production by one year until 2029, it was announced in the budget. A 45% tax on the profits of low carbon power generators will run until March 2028.

ENERGY PRICES

Energy prices on the rise due to reduced LNG delivery scheduled for March

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2024:	chg	Oil (Brent) $/bbl:	chg
71.99	1.95	75.03	1.13	63.06	0.30	61.13	-2.60	29.65	0.26	85.28	1.59

All changes (chg) are compared to last report

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