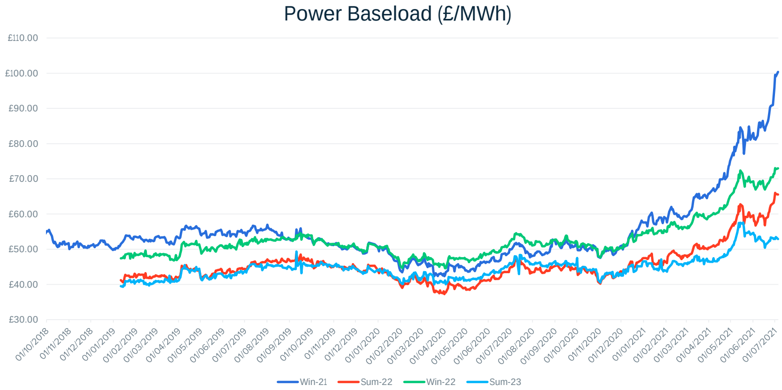
TRIDENT

360° ENERGY EXPERTISE

Weekly Energy Report

05 July 2021

Power



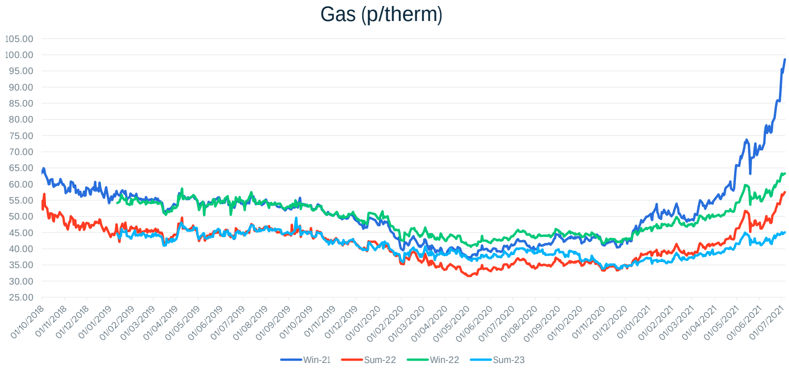
Price (£/MWh)

Contract		Previous Weeks Close		Last Weeks Close	
Aug-21	£	83.04	£	93.94	▲
Sep-21	£	83.45	£	95.45	▲
Oct-21	£	87.31	£	95.69	▲
Q4-21	£	90.45	£	99.10	▲
Q1-22	£	91.00	£	99.15	▲
Win-21	£	90.72	£	99.13	▲
Sum-22	£	62.50	£	65.68	▲
Win-22	£	70.44	£	72.74	▲
Sum-23	£	53.36	£	53.46	▲
Win-23	£	64.43	£	64.84	▲
Sum-24	£	53.43	£	53.62	▲

Summary

The August 21, Winter 21 and Summer 22 baseload contracts increased by £10.90/MWh, £8.41/MWh and £3.18/MWh respectively from the previous weeks close. Prices generally tracked gains in the gas and carbon market. Gas-fired output accounted for 40% of the generation mix whilst total renewables averaged 30% over the week. Lower than expected wind output and high gas prices encouraged more carbon intensive coal generation which supported the front month. This week, wind generation will start around seasonal normal but will drop off through the week to very low levels by Friday, increasing the need for thermal generation and potentially supporting the prompt market. The latest 45-day temperature forecast highlights a brief dip below averages this week before a sustained period of around 1°C higher than normal in the second half of July. The December 21 EUA contract increased by €2.30/tonne over the week, settling at €57.35/tonne. The bullish sentiment was related to a sharp rise in gas prices starting to drive fuel switching back to coal power and optimistic expectations surrounding the upcoming market reform proposals. Volatility is expected ahead of the publication of the "Fit for 55" package by the European Commission on Wednesday, 14th July. A leaked draft showed plans to tighten the annual carbon caps. It also included plans to expand the EU Emissions Trading System to include shipping from 2023 in a 3-year phased-in approach and to create a new carbon market for CO2 emissions from road transport and buildings. The UK carbon auction cleared at £45.05/tonne with a bid-to-cover ratio of 2.12 indicating high demand although clearing £1.59/tonne below the secondary market. The UK has also announced over 4.36m of free carbon allowances for the aviation industry this year. The only bearish note could come from the UK Cost Containment Mechanism, but this will take a while before it kicks in, leaving the outlook bullish given the lack of contrasting drivers.

Gas



Price (p/therm)

Contract	Previous Weeks Close	Last Weeks Close	
Aug-21	79.69	88.94	▲
Sep-21	80.35	89.54	▲
Oct-21	80.65	90.92	▲
Q4-21	84.89	94.29	▲
Q1-22	86.82	94.60	▲
Win-21	85.93	94.44	▲
Sum-22	54.05	56.44	▲
Win-22	61.08	62.81	▲
Sum-23	44.66	44.55	▼
Win-23	53.43	53.30	▼
Sum-24	45.70	44.57	▼

Summary

The August 21, Winter 21 and Summer 22 NBP contracts increased by 9.25p/therm, 8.51p/therm and 2.39p/therm respectively from the previous weeks close. No interruptible transit capacity was booked by Russia last week according to auction results held by the Ukrainian Transmission System Operator. High summer gas prices saw Russian flows to Europe increase after the Beast from the East in 2018, but politics surrounding Nord Stream 2 are standing in the way of increased flow this year as U.S politicians have called for a repeal on the sanctions waiver. The lack of bookings makes it clear that the drop in gas flows over July is all but certain, which will in turn hamper injections into storages. UK gas storage levels have depleted to 14% capacity compared to the 5-year average at 50%. This month the Yamal Pipeline will be down for maintenance between 6th-10th July and the Nord Stream 1 pipeline will also be down for maintenance between 13th-23rdJuly. Both pipelines bring much needed gas to Western Europe and the maintenance will reduce Russian flows from 320mcm to 160mcm, adding further weight to the bullish sentiment. At the same time, Asian demand will remain strong, as economic activity continues to pick up, with cooling demand being a major driver for the coming months, strengthening the Asian LNG spot Index. This remains a point of pressure as only one LNG tanker has been declared for the UK, however the NBP is steadily closing the gap to the Asian spot prices. The September 21 Brent contract increased by $0.79/bbl over the week, settling at $76.17/bbl. Prices initially trades lower on Monday following concerns about an outbreak of the number of COVID-19 cases in part of the world, threatening oil demand recovery. However, the following day Goldman Sachs forecasted that demand would rise by an a further 2.2mbpd by the end of 2021, leaving a 5mbpd shortfall in supply. Therefore, more OPEC+ supply will be needed to balance the oil market by 2022. Support also came from by EIA data displaying a 6.71MB drawdown is U.S crude inventories, taking stocks almost 7% below the 5-year average. Further increases were seen after OPEC+ failed to reach a deal last week. On Friday OPEC+ voted to lift output by 400,00bpd each month from August to December 2021 and to extend their remaining cuts to the end of 2022, instead of ending in April 2022 however the UAE blocked an agreement and talks are now expected to continue this week.