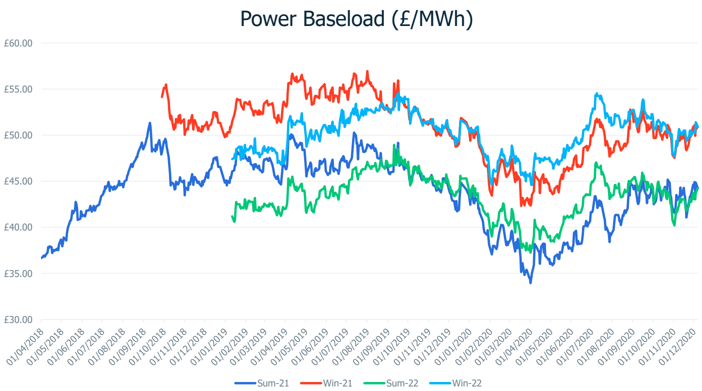
Weekly Energy Report

07 December 2020

Power

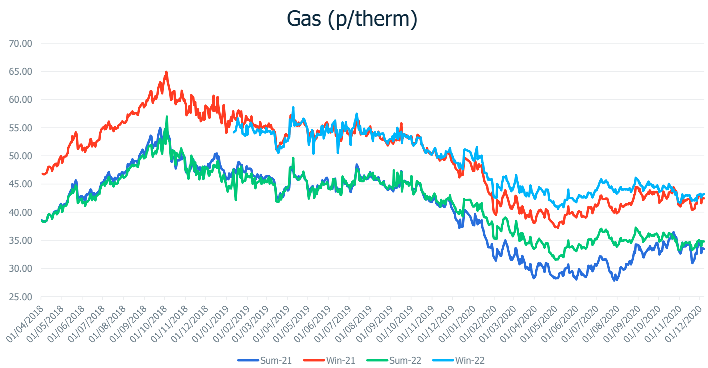


Contract	Price (£/MWh) Previous Weeks Close	Last Weeks Close	
Jan-21	£ 52.50	£ 55.01	▲
Feb-21	£ 52.20	£ 54.70	▲
Mar-21	£ 47.06	£ 48.93	▲
Q1-21	£ 50.59	£ 52.82	▲
Q2-21	£ 44.09	£ 45.72	▲
Sum-21	£ 43.61	£ 44.85	▲
Win-21	£ 50.03	£ 50.62	▲
Sum-22	£ 42.76	£ 43.72	▲
Win-22	£ 49.95	£ 51.41	▲
Sum-23	£ 42.39	£ 44.23	▲
Win-23	£ 51.82	£ 53.20	▲

Summary

The January 21, Summer 21 and Winter 21 baseload contracts increased by £2.51/MWh, £1.24/MWh and £0.59/MWh respectively from the previous weeks close. Near dated contracts were supported by fears of tight supply margins and French power strikes which drove spark spreads higher. Temperatures were 2°C below seasonal normal leading to higher demand which put pressure on the system as wind output averaged only 5.53GW over the week, leading to a ramp up in gas-fired generation averaging 21.09GW or 73% of the power generation mix over the week. This made it more expensive to produce power which was reflected in prices along with additional support coming from strength in the carbon market. Temperatures are expected to increase to reach 4°C above seasonal normal by 14th December. However, should we again see a drop in wind generation in the UK and Europe further system tightness would be expected. The December 20 EUA gained by €1.76/tonne on the week, settling at €30.11/tonne on prospects of colder weather and speculative buying, adding to bullish sentiment stemming from an imminent tightening of EUA supply. Prices reached near 3-month highs by the end of the week ahead of expiry next week. The focus will shift to the December 21 contract with most of the open interest already rolled over. EU carbon allowance prices under the EU Emissions Trading System are expected to range between €56/tonne to €89/tonne by 2030 in their base-case scenarios as market reforms tighten the supply balance. The functioning of the Market Stability Reserve, which controls oversupply of allowances in the market, is also up for review in 2021 and the EU could decide to adjust its annual intake rate of 24% a year, which is set to revert to 12% a year after 2023 under current legislation. With the EU summit this week considering the extent of emissions targets, carbon is likely to be volatile.

Gas



Contract	Price (p/therm) Previous Weeks Close	Last Weeks Close	
Jan-21	42.24	42.57	▲
Feb-21	42.33	43.24	▲
Mar-21	39.33	39.70	▲
Q1-21	41.27	41.79	▲
Q2-21	34.33	34.81	▲
Sum-21	33.58	33.64	▲
Win-21	42.27	42.53	▲
Sum-22	34.75	34.80	▲
Win-22	42.94	43.03	▲
Sum-23	34.79	34.65	▼
Win-23	44.68	45.12	▲

Summary

The January 21, Summer 21 and Winter 21 NBP contracts increased by 0.33p/therm, 0.06p/therm and 0.26p/therm respectively from the previous weeks close. Prices were well supported at the beginning of the week as colder weather revisions increased demand significantly. The strikes by security in two Norwegian gas fields, threatened to disrupt supply where risk premium was built into the market although no impact was felt, with Norwegian gas flows remaining strong above the 10-day average. Furthermore, Europe isn't receiving Qatari cargoes due to supply issues and a premium Asian market. The JKM price is now approaching a premium of $2.50/MMBtu to the front-month TTF price, which could start to attract more U.S. cargoes, taking away LNG supply from Europe. At this point UK gas prices remained volatile with strong resistance coming from high LNG sendout throughout the week after November recorded the highest number of LNG imports since April. Furthermore, Norwegian strike action was resolved by the end of the week as the workers union reached a pay deal which removed threat of any further supply disruption from the Nyhamma processing plant. Seven LNG cargoes are expected to the UK by 17th December with five from the U.S. as exports recover. UK gas storage levels are back to 97% full, which has consistently remained above the 5-year average. The February 21 Brent contract gained by $1.35/bbl over the week, setting at $49.25/bbl. The price action was consolidating for most of the week as formal talks amongst OPEC members did not progress quickly, which led to a further meeting being pushed back to 3rd December. Oil prices slipped since the meeting postponement was announced however prices remained 16% above levels last month with support from weakness in the U.S. dollar. Additional support also came from EIA crude inventories data displaying a small than expected drawdown of 0.68MB. By the end of the week OPEC+ agreed to boost production by an initial 500,000bpd in January, after which ministers will meet monthly to determine whether to adjust that for the month ahead. Therefore, total production cuts from the start of next year will be 7.2mbpd from the current 7.7mbpd. The impact of the vaccine will take some time and if demand remains low, Brent is forecasted to average $45/bbl in the first half of 2021.

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