TRIDENT

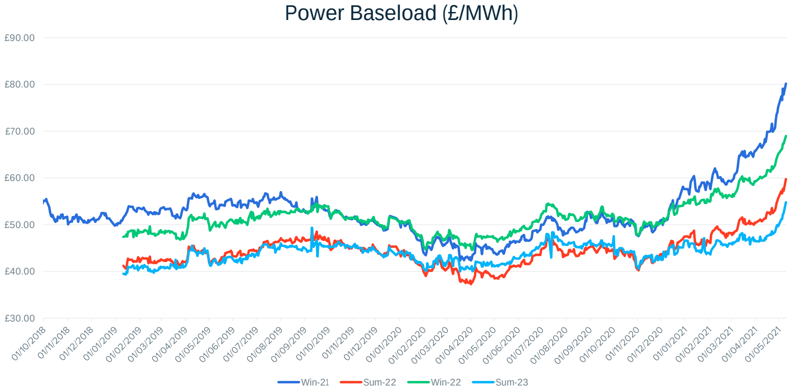
360° ENERGY EXPERTISE

Weekly Energy Report

10 May 2021

Power

Power Baseload (£/MWh)



Price (£/MWh)

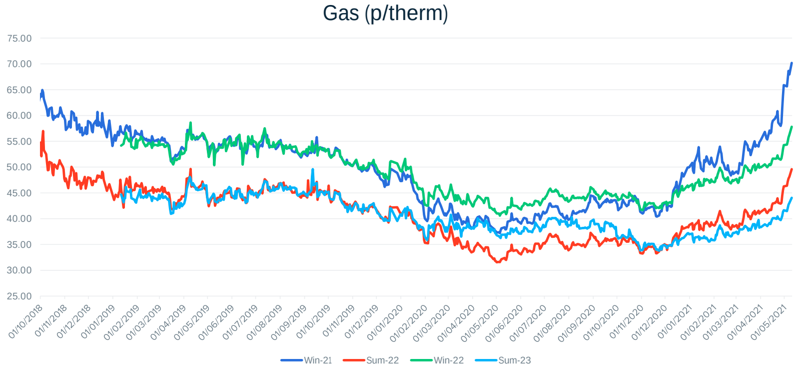
Contract		Previous Weeks Close		Last Weeks Close	
Jun-21	£	68.91	£	69.43	▲
Jul-21	£	68.39	£	70.26	▲
Aug-21	£	67.69	£	68.97	▲
Q3-21	£	68.44	£	69.83	▲
Q4-21	£	73.70	£	76.52	▲
Win-21	£	75.11	£	77.82	▲
Sum-22	£	55.62	£	57.23	▲
Win-22	£	65.10	£	67.30	▲
Sum-23	£	49.63	£	52.50	▲
Win-23	£	61.17	£	62.17	▲
Sum-24	£	50.37	£	50.73	▲

Summary

The June 21, Winter 21 and Summer 22 contracts increased by £0.52/MWh £2.71/MWh and £1.61/MWh. The front month proved volatile with the price action driven by swinging wind output followed by Friday's sell-off as renewables were expected to rise over the weekend. Gas-fired generation averaged 30% over the week with renewables accounting for 49% of the generation mix. IFA2 interconnector has now returned online and the BritNed is expected to return on the 19th May. Supply tightness in the gas market and all-time high carbon prices led the front-season close to £80/MWh with risk premiums filtering into the Summer 22 contract. The December 21 EUA gained €1.50/tonne over week, settling at €50.45/tonne after comments from Frans Timmermans who stated that the EU has no plans to intervene the EU ETS in the bull run and that prices should be higher to achieve the climate goals. Although the compliance deadline has passed, there is a real possibility that the market could ignore other upcoming bearish drivers, including the arrival of 2021 free allocations in June and the start of UK ETS auctions on 19th May that could lead UK entities to unwind EUA hedges. Rising gas prices also lift the implied coal-to-gas fuel switching price for carbon which is a bullish sign for forward hedging demand for EUAs among power generators. There is also the supporting factor of an exceptionally cold winter and early spring in Europe driving up energy demand and increase emissions from the power sector. In addition, financial investors have contributed to fuelling the upward move as ICE data shows investment funds positions in EUA futures are at record high levels and non-compliance companies now hold a quarter of the long positions in the EU ETS.

Gas

Gas (p/therm)



Price (p/therm)

Contract	Previous Weeks Close	Last Weeks Close	
Jun-21	60.24	61.23	▲
Jul-21	57.96	59.65	▲
Aug-21	57.62	59.18	▲
Q3-21	58.12	59.73	▲
Q4-21	64.77	66.65	▲
Win-21	65.87	67.94	▲
Sum-22	46.25	48.12	▲
Win-22	54.25	56.26	▲
Sum-23	41.65	43.05	▲
Win-23	50.73	51.85	▲
Sum-24	42.56	43.31	▲

Summary

The June 21, Winter 21, and Summer 22 NBP contracts increased by 0.99 p/therm, 2.07 p/therm and 1.87p/therm respectively over the week. The colder weather kept demand above seasonal normal and high prompt prices have meant that storage sites have been withdrawing over the last week. The NTS also remained significantly undersupplied at times by more than 20mcm from supply-side restrictions. UK gas storages have now depleted to just 5% capacity and LNG storage levels have dropped sharply over the past 10 days after strong sendout. Furthermore, rising Asian gas prices are increasing the apparent risk of vessels heading to the Far East rather than to Europe. Looking ahead, temperatures are expected to drop to around 2°C below seasonal average for the next fortnight and Norwegian maintenance is expected to ramp up from the 15th May which adds to the tight gas picture over the coming weeks. The July 21 Brent contract increased by $1.58/bbl over the week, settling at $68.28/bbl. Easing of lockdowns in the U.S and parts of Europe signalled an increase in fuel demand over the summer months. In the mid-week prices reached an 8-week high after a record surge in U.S exports to 4.1mbpd and EIA U.S crude stocks data displayed a 7.99MB drawdown. Thereafter, downward movement was seen as the Covid situation in India and Japan posed a threat to fuel demand. There is also an increasing expectation that the U.S and Iran will announce a deal by the end of May that will allow for the lifting of sanctions and return Iran's oil production back to pre-pandemic levels next year. Furthermore, the overproduction of 3.3mbpd from OPEC+ through to March has not helped. However, under the terms of the OPEC+ agreement, each country must compensate for any excess production with cuts of equivalent volume below its quota by the end of September. Therefore, as the producer group ease its cumulative production quota by close to 1.2mbpd by July, such compensation could help keep the market in balance.