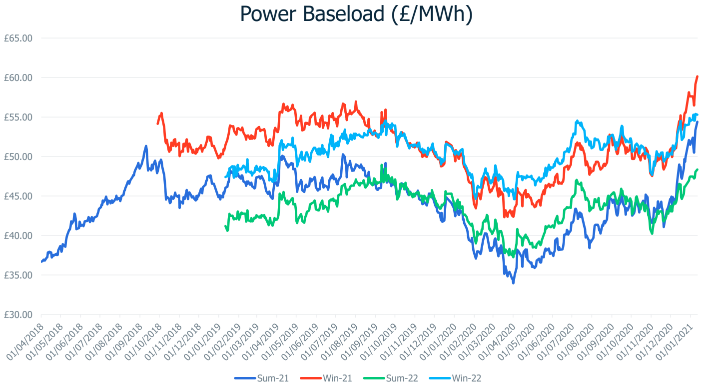
TRIDENT

360° ENERGY EXPERTISE

Weekly Energy Report

11 January 2021

Power

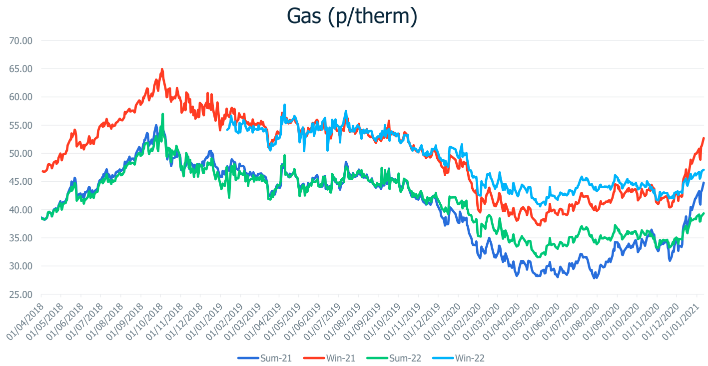


	Price (£/MWh)		
Contract	**Previous Weeks Close**	**Last Weeks Close**	
Feb-21	£ 66.54	£ 71.01	▲
Mar-21	£ 60.06	£ 62.82	▲
Apr-21	£ 54.84	£ 56.80	▲
Q2-21	£ 52.35	£ 54.50	▲
Q3-21	£ 50.64	£ 52.21	▲
Sum-21	£ 51.49	£ 53.35	▲
Win-21	£ 57.62	£ 59.15	▲
Sum-22	£ 47.47	£ 48.06	▲
Win-22	£ 54.49	£ 55.39	▲
Sum-23	£ 46.57	£ 45.98	▼
Win-23	£ 54.84	£ 54.76	▼

Summary

The February 21, Summer 21 and Winter 21 UK baseload contracts increased by £4.47/MWh, £1.86/MWh and £1.53/MWh from the previous weeks close. Tight margins led to two capacity notices from National Grid which were withdrawn as units were called into the balancing mechanism. Temperatures were 3°C below seasonal normal leading to higher demand whilst expensive gas dominated the generation mix contributing 48% over the week. Renewable output only contributed 26% mainly due to much lower wind outturn that averaged just 6.13GW which is also expected to remain low throughout this week. Further support for prices also came from an increase in spark spreads across all periods with the front month increasing by £1.72/MWh week-on-week especially as the carbon market was trading at record highs in the second half of the week. The December 21 EUA gained €2.22/tonne over the week, settling at €34.92/tonne. The contract ventured into unchartered territory as record highs over €35/tonne was reached over bullish technical signals, colder than average temperatures across much of Europe as well as a delayed start to carbon auctions and annual free allocation of allowances in 2021 which will resume on the 29th January according to the EU Commission. The move came as the fourth trading phase of the EU Emissions Trading System started, with an outlook for tighter supply out to 2030 also supporting longer-term gains. EUA's are expected to remain within €30-€35/tonne range for the rest of Q121 though the risk of volatility and potential price spikes remain, particularly if we see a sudden drop in wind output or future cold snaps.

Gas



	Price (p/therm)		
Contract	**Previous Weeks Close**	**Last Weeks Close**	
Feb-21	56.40	60.69	▲
Mar-21	52.31	55.26	▲
Apr-21	46.85	48.39	▲
Q2-21	43.58	44.60	▲
Q3-21	41.09	42.15	▲
Sum-21	42.32	43.37	▲
Win-21	49.96	51.33	▲
Sum-22	38.75	38.92	▲
Win-22	46.27	46.85	▲
Sum-23	36.97	36.40	▼
Win-23	46.82	46.17	▼

Summary

The February 21, Summer 21 and Winter 21 NBP contracts increased by 4.29p/therm, 1.05p/therm and 1.37p/therm from the previous weeks close. There was some bearishness in the price movement during the first half of the week stemming from an upward revision in January temperatures and UK and European lockdowns. However, this movement was short lived as the second half of the week saw an increase in total demand. Additionally, it is likely that LNG supply could be redirected to Asia as the JKM premium to the NBP has widened, caused by higher Chinese demand and shipping rates that have more than doubled in the Atlantic from the lack of available ships leading to record high prices in the Asian LNG market and keeping supply tight in Q121. This is reflected by UK gas storage levels that is currently lower at 66% full compared to the 5-year average at 93% for this time of year, with only three LNG vessels expected to the UK in January so far. However, as the spot LNG market heads towards March, the market should turn more bearish, shown by the $6.50/MMBtu backwardation between the February and March JKM derivative contracts. For now, there are concerns that strong storage withdrawals and continued strength in the Asian market may threaten the UK supply picture in February and March. The March 21 Brent contract gained $4.45/bbl over the week, settling at $55.99/bbl. The oil market has been on a bull trend since November, ignoring negative factors on optimism that a widening vaccine rollout would revive global growth. The market currently trades at 11-month highs after Saudi Arabia announced a 1mbpd production cut in February and March over concerns that new coronavirus lockdowns may impact demand. With Saudi Arabia's move, OPEC's production increase of 0.5mbpd for January is reversed in full, which will result in a tighter oil market in the first half of the year. Further support for prices also came from EIA crude inventory data that displayed an 8.01MB drawdown although there were larger than expected builds in both gasoline and distillate stocks. Meanwhile, the market expects the Biden Administration, with the support of the Democrat-controlled Congress, to push through a green legislative agenda, and the prospect of increased restrictions on oil companies such as drilling activity which limits production and supportive for oil in the medium term which reduces downside risks. Furthermore, the U.S dollar also hit a 33-months low which acted as another supportive factor for oil prices.