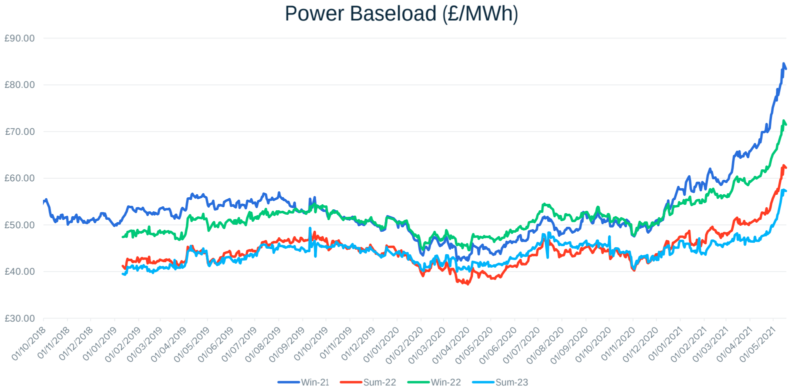
Weekly Energy Report

17 May 2021

Power



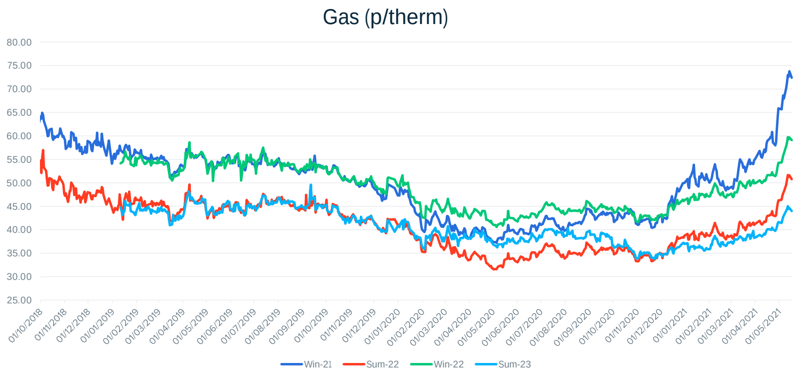
Price (£/MWh)

Contract		Previous Weeks Close		Last Weeks Close	
Jun-21	£	69.43	£	77.63	▲
Jul-21	£	70.26	£	77.53	▲
Aug-21	£	68.97	£	76.30	▲
Q3-21	£	69.83	£	77.34	▲
Q4-21	£	76.52	£	83.54	▲
Win-21	£	77.82	£	84.62	▲
Sum-22	£	57.23	£	62.78	▲
Win-22	£	67.30	£	72.38	▲
Sum-23	£	52.50	£	57.55	▲
Win-23	£	62.17	£	66.84	▲
Sum-24	£	50.73	£	54.91	▲

Summary

The June 21, Winter 21, and Summer 22 baseload contracts increased by £8.20/MWh, £6.80/MWh and £5.55/MWh respectively over the week. Gas supply concerns and an all-time high carbon market remained supportive for prices. Near curve increases were attributed to below seasonal normal temperatures and low renewable output that averaged 35% over the week. This put higher reliance on gas-fired generation accounting for 43% with some support from coal units as margins improve which in turn supports the carbon market as demand for EUA's increase. Spark spreads have also seen some volatility which could be partly attributed to the impending start of the UK ETS. The December 21 EUA gained €5.75/tonne over the week, settling at €56.65/tonne. Rising European gas prices have contributed to gains in the EU ETS, as lower prospects for coal-to-gas fuel-switching have spurred compliance demand for allowances to cover the more carbon-intensive, coal-fired generation. Prices have also been driven by growing interest from investors and reforms to the EU ETS that will tighten the cap on emissions. The European Commission announced almost 380 million more carbon allowances will be withdrawn from the EU ETS through next summer and inserted into the MSR following the market's oversupply increasing by 14% last year largely due to the pandemic. Focus will be on the UK ETS with the first carbon auction set to take place on the ICE Futures Europe exchange on 19th May, along with the start of UK carbon allowance futures trading. The first UK ETS auction is of 6m allowances from a total of 38m to be auctioned before the year end. The UK government will hand out 39.1m/t of free carbon allowances to industrial companies in 2021 which is slightly lower than what UK companies received under the EU ETS (42.03m/t).

Gas



Price (p/therm)

Contract	Previous Weeks Close	Last Weeks Close	
Jun-21	61.23	68.71	▲
Jul-21	59.65	66.33	▲
Aug-21	59.18	65.71	▲
Q3-21	59.73	66.11	▲
Q4-21	66.65	72.41	▲
Win-21	67.94	73.78	▲
Sum-22	48.12	51.62	▲
Win-22	56.26	59.66	▲
Sum-23	43.05	44.62	▲
Win-23	51.85	53.49	▲
Sum-24	43.31	44.51	▲

Summary

The June 21, Winter 21, and Summer 22 NBP contracts increased by 7.48p/therm, 5.84p/therm and 3.50p/therm respectively over the week. The bullish price action was dictated by strength in the carbon market, low gas storages that sit at just 9% capacity and as Norway is set to enter the heaviest period of maintenance planned for 2021 with 85mcm/day of gas unavailable for the rest of May which is around a quarter of Norway's gas export capacity. Volatility was also coming from cooler weather revisions for the rest of May where temperatures could fall to 4°C below seasonal average. The supply picture may improve after June following the completion of Norwegian maintenance and the return of the forties pipeline which could lead to further storage injections depending on demand. The competitive LNG market may add supply risk however the UK and European gas hubs currently trade at a premium to the Asian LNG market which incentivises further shipments to Europe and may help remove some risk premium. Another key driver would be whether Russia book additional transit capacity through Ukraine to supply Central Europe which may also ease prices. The July 21 Brent contract decreased by just $0.17/bbl, settling at $68.71/bbl. The week started with some concerns over supply disruption after a major U.S. fuel operator shut fuel pipelines due to a cyberattack. Prices then began to ease following Covid concerns in India and after EIA U.S crude inventory data displayed a less than expected drawdown of 0.42MB with total U.S exports falling to their lowest level since September 2018. However, price support was seen at the $66.50 mark as IEA expect demand for oil will exceed the output of top producers beyond the second quarter and raised its 2022 global demand outlook by 100,000bpd. The widening supply and demand gap paves the way for a further easing of OPEC+ supply cuts or even sharper stock draws with OECD figures already close to the 5-year average.