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MarketPulse

Marex Spectron

TWICE MONTHLY INDEPENDENT MARKET ANALYSIS

early February 2013

ELECTRICITY

CO_2 crash offsets gas and oil gains

A collapse in the price of CO_2 emissions allowances (EUAs) has counteracted the effect of firmer oil and gas markets on UK power prices over the last two weeks, leaving Annuals stable to marginally higher than where they were in mid-January.

EUA prices halved in the second half of January, following the cancellation of an auction of 4 million EUAs by Germany due to insufficient interest, and amid fresh concerns of oversupply and growing uncertainty over market intervention. 2013 EUAs slumped to EUR 3/TCO2 as a result, as faith in the emissions trading scheme evaporated. Prices have since rebounded to around EUR 4.4/TCO2, on the back of Germany indicating that it is looking to cut renewable energy subsidies, which could increase EUA demand, and on speculation that Germany may vote to support 'backloading' – the temporary withdrawal of allowances from the market in order to tighten supply.

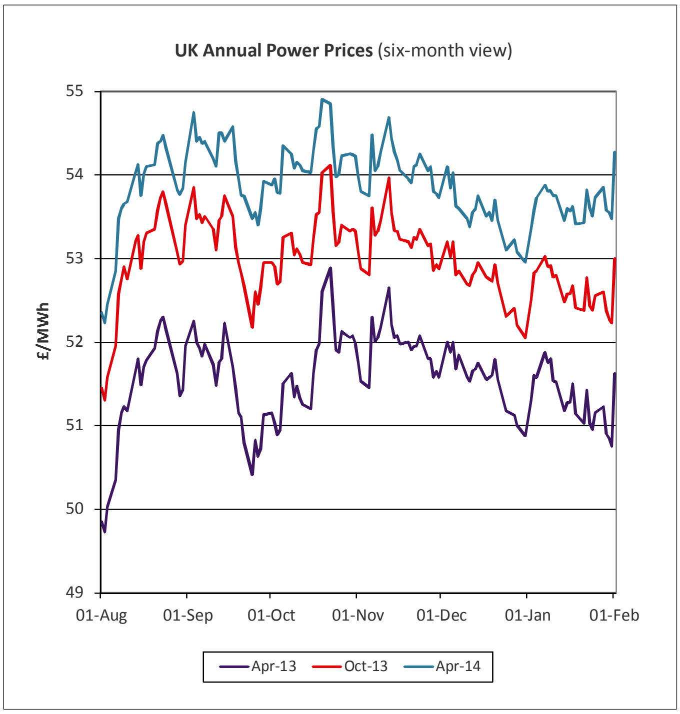
The EUA slump, added to weak German economic confidence, weighed on German power prices too, with 2014 values dropping 5%, to a fresh low of less than EUR 41/MWh – a record low for the period and the lowest front Annual price there since 2005. With French power prices slipping towards similar long-term lows as well, UK electricity prices came under some cross-Channel pressure.

However, oil prices have been rising at the same time – gaining 5% – on the back of increased Middle-East tensions following an Israeli air strike in Syria. This, along with a related 2% rise in gas prices, has conversely provided uplift to UK power discussion.

Coal prices meanwhile have remained broadly stable, weak buying interest being counterbalanced by strike action in Colombia and flooding in Australia, keeping 2014 European coal prices bubbling just above $100/tonne.

On the short-term market, the end of the mid-January freeze brought Day-ahead prices back down to below £44/MWh, from £55/MWh, with high wind power output contributing. (UK wind output records have been broken a couple of times in recent days, with the latest record set on the weekend, as for the first time more than 5,000 MW of electricity was produced from wind – during the half hour period between 11:00 and 11:30 a.m.)

Day-ahead prices have since climbed again on forecasts of colder weather, nudging £48/MWh, with March and April pushing towards £49 and £50/MWh respectively in their wake.



Source: Marex Spectron

Outlook:

Any escalation in Middle East tensions will drive oil prices higher and other markets in turn.

The EUA crash may have exerted an influence on UK power prices but it hasn't changed generator behaviour, analysts say, as coal, which becomes relatively more economical to burn the cheaper EUAs get, is already the most favoured feedstock for generators.

Belgium is planning to build an artificial doughnut-shaped island in the North Sea to store wind energy, Reuters reports. Surplus wind power will be used to pump water out of a hollow in the middle – which will then be allowed to flood in again, powering turbines, when wind farm output is low.

World coal production is expected to rise 3.7% this year, according to analysts at Barclays. With the global market already well-supplied, this may put pressure on coal prices, and power prices in turn.

Key Power indicators:											
Long-term UK (£/MWh)				**Short-term UK (£/MWh)**				**European power (€/MWh)**			
Apr '13 Annual	*chg*	*Oct '13 Annual*	*chg*	*Month-ahead in*	*chg*	*Day-ahead index*	*chg*	*Germany Cal '14*	*chg*	*France Cal '14*	*chg*
51.63	0.13	53.00	0.33	48.20	-3.44	46.80	-6.82	41.20	-2.00	44.55	-1.60
Key Other indicators:											
Coal ($/MT) '14	*chg*	**Oil (Brent) $/bb**	*chg*			**EUA '13 (€/TCO2**	*chg*	**EUA '14 (€/TCO2**	*chg*	**EUA '15 (€/TCO2**	*chg*
100.05	-0.25	115.75	5.49			4.29	-1.33	4.50	-1.39	4.69	-1.46
								All changes (chg) are compared to last report.			

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GAS

Troll field outage lifts months

A compressor problem at Norway's largest gas field, Troll A, which will reduce Norwegian exports by up to 37 mcm/day – or more than 10% – until the start of April, has helped boost prices across the coming months, although a drop in demand due to an unseasonably warm end to January – offset the immediate impact of this.

Meanwhile Annual prices have broken out of the longstanding price channel that has established itself since August, pushed higher by Middle East tensions and rising oil prices – with April '13 Annual heading towards 68 p/th and April '14 Annual towards 69 p/th, their highest levels in 10 months.

Over the second half of January Day-ahead gas prices tumbled back from 73.5 p/th to 65 p/th as temperatures swung from being 6 °C below normal to 8 °C above normal, slashing consumption. They have since clawed higher again, as temperatures have moved back in line with seasonal norms.

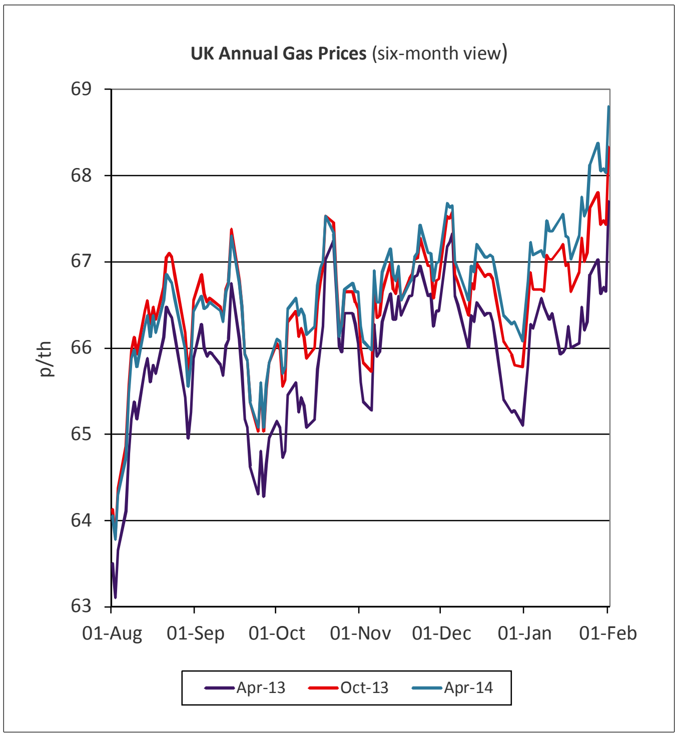
The return on stream of the Cormorant Alpha platform in the North Sea after an oil leak was fixed and the return of the Britannia field from outage have helped boost UK production, while the arrival of two LNG (liquefied natural gas) ships towards the end of January also shored up supply.

Heavy withdrawals from the giant Rough storage site and other facilities have also helped meet demand over the last fortnight, with several sites (including Rough) now around 50% full.

Imports through the interconnectors with Belgium and Holland have similarly contributed to supply, although flows through the former had whittled down to zero by the end of January.

The end of the gas plant siege at In Amenas in Algeria on January 19th lent a mildly bearish tone to market talk, although the downwards price drift was cut short by the Troll outage, which was originally projected to last three days, before being revised to a one week and then a two month shutdown. It has since been confirmed that as soon as the repair work is over Norwegian flows will be cut by another 47 mcm/day from April 1 to Aug 3 due to other planned infrastructure maintenance.

As a result March prices were driven as high as 67.5 p/th, up from a low of 63.7 p/th, with prices across all talked months (out to July) tripping higher in line.



Source: Marex Spectron

Outlook:

↑ Weather forecasters are predicting another very cold spell in mid-February. With Norwegian supplies constrained by a 2-month outage at the giant Troll field, any resultant surge in demand could lead to a price spike, especially if mainland Europe is cold and competing for gas supply at the same time.

→ Operators of the Elgin Franklin gas field, which was shut-in after a gas leak last March, say it is due to resume production within "days or weeks". However they also say it will be "months or years" until the field will be able to operate at full capacity again.

↓ With the UK and global economy still in shaky condition, some commentators suggest UK gas prices may come under pressure this year. Investment bank Goldman Sachs has just reduced its forecast of UK gas prices in 2013 by 19% and its estimate of northwest European gas demand for the year by 6%.

Key Gas indicators:											
Long-term UK (p/th)				Short-term UK (p/th)				**European gas (€/MWh**		**Crude Oil**	
Apr '13 Annual	*chg*	*Oct '13 Annual*	*chg*	*Month-ahead in*	*chg*	*Day-ahead index*	*chg*	*TTF 2014*	*chg*	**Oil (Brent) $/bb**	*chg*
67.70	1.45	68.33	1.45	66.07	-2.70	66.99	-5.72	26.48	-0.38	115.75	5.49
								All changes (chg) are compared to last report.			