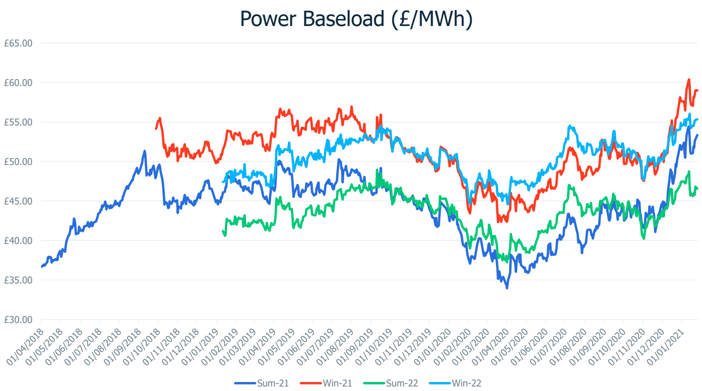
# Weekly Energy Report

**25 January 2021**

## Power



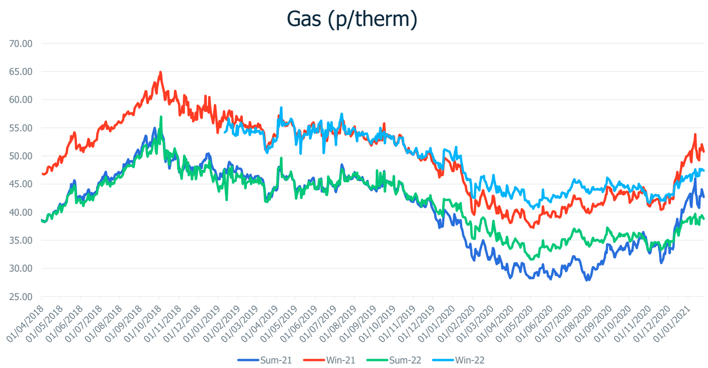

**Price (£/MWh)**

| Contract | Previous Weeks Close | Last Weeks Close | |
|---|---|---|---|
| Feb-21 | £ 72.04 | £ 69.76 | ▼ |
| Mar-21 | £ 60.50 | £ 62.53 | ▲ |
| Apr-21 | £ 55.79 | £ 57.97 | ▲ |
| Q2-21 | £ 52.22 | £ 53.99 | ▲ |
| Q3-21 | £ 49.77 | £ 51.62 | ▲ |
| Sum-21 | £ 50.99 | £ 52.80 | ▲ |
| Win-21 | £ 57.22 | £ 59.01 | ▲ |
| Sum-22 | £ 45.98 | £ 46.82 | ▲ |
| Win-22 | £ 54.25 | £ 55.25 | ▲ |
| Sum-23 | £ 44.33 | £ 44.29 | ▼ |
| Win-23 | £ 54.41 | £ 54.51 | ▲ |

### Summary

The February 21 baseload contract decreased by £2.28/MWh whilst the Summer 21 and Winter 21 contracts increased by £1.81/MWh and £1.79/MWh respectively from the previous weeks close. Prices tracked gains in gas and carbon markets as temperatures were revised down over the coming weeks. The only anomaly was the front month losing value after the spark spread dropped £2.48/MWh after news that the IFA2 interconnector, which was originally scheduled to commence in November 2020, would go live on 22nd January, adding 1GW capacity to the UK. Gas-fired output account for over 43% of the generation mix whereas renewable generation only accounted for 33% over the week as wind output remained volatile. Nuclear generation was also lower at 5.42GW on average as Heysham 1-2 was on reduced capacity and turned offline until 26th January. There is a lot of uncertainty surrounding weather forecasts for the UK with weather patterns changing regularly, however recent runs are predicting a very cold spell in the early to mid-part of February averaging 3-4°C below seasonal normal. Unplanned outages and relatively low European storage levels from withdrawals doubling year-on-year could set up another volatile week ahead. The December 21 EUA gained €2.62/tonne on the week, settling at €34.21/tonne. The market tracked gains in gas with the prospect of colder weather in February whilst technical buying also aided to move above the 100-day moving average. However, gains were capped on the scheduled return of EUA auctions on 29th January which may lead to consolidation this week especially as the Euro has continued to strengthen. British companies are still buying permits from the EU carbon market as uncertainty over Britain's planned domestic carbon market means they can't yet use it to protect themselves against future price rises. British emitters were among the biggest buyers of permits in the EU ETS before Britain left the system at the end of 2020 and launched a domestic equivalent. The government has said auctions of UK carbon permits will start no later than the second quarter of 2021. Once the UK ETS is active it will be very similar to its EU predecessor, covering the same industries and with only a slightly higher fine for exceeding the emissions limit, reflecting a more ambitious emissions reduction target for 2030. The EU and Britain have agreed to consider linking their carbon markets however no decision has yet been made. It is expected that, without a link between to the two markets we may see at an initial premium to the EU ETS.

## Gas




**Price (p/therm)**

| Contract | Previous Weeks Close | Last Weeks Close | |
|---|---|---|---|
| Feb-21 | 59.35 | 60.15 | ▲ |
| Mar-21 | 53.45 | 56.81 | ▲ |
| Apr-21 | 45.92 | 48.68 | ▲ |
| Q2-21 | 42.58 | 45.32 | ▲ |
| Q3-21 | 40.34 | 42.79 | ▲ |
| Sum-21 | 41.45 | 44.05 | ▲ |
| Win-21 | 49.71 | 52.06 | ▲ |
| Sum-22 | 38.20 | 39.44 | ▲ |
| Win-22 | 46.36 | 47.65 | ▲ |
| Sum-23 | 36.21 | 36.32 | ▲ |
| Win-23 | 46.22 | 46.32 | ▲ |

### Summary

The February 21, Summer 21 and Winter 21 NBP contracts increased by 0.80p/therm, 2.60p/therm and 2.35p/therm respectively from the previous weeks close. There was continued volatility in the gas markets especially on the front month as it remains sensitive to weather forecasts. The week started with prices falling to levels seen on 6th January as Asian LNG prices continued to fall on warmer weather and Japan having planned to introduce a power price cap of $1.93/kwh, offering additional downside. Prices gained higher by Wednesday morning following consecutive days of losses which mainly came from revised temperature forecasts as it was expected fall 3-4°C below seasonal normal over the weekend along with low LNG volume supporting the near curve. Furthermore, Norwegian flows dropped below the 10-day average due to planned maintenance at one of the three main pipelines to the UK for a two-day period. Despite this, prices headed lower up to the close on Thursday as mid-range storages started to replenish to levels in line with this time last year to 76% full. LNG supplies have been thin as the UK has only received 5 shipments so far this month compared to 17 in December. LNG arrivals could pick up from April as the East Asia Index April 21 contract trades below the NBP equivalent which provided further downside especially as shipping rates have also declined to $200,000/day from $300,000/day early in the month. By the end of the week prices shifted higher as colder weather and low wind generation is expected in mid-February which would push demand higher leading to further reliance on storage withdrawals in the near term. The March 21 Brent contract gained $0.66/bbl on the week, settling at $55.41/bbl. The first half of the week saw prices increase. with renewed hope for U.S. demand under the influence of loose fiscal and monetary policy keeping prices well supported. Further support also came from IEA expecting a 300,00bpd drop in OPEC oil production in 2021 at 27.7mbpd. However, the report also showed a 240,000bpd reduction from last month's forecast it its outlook for oil demand across 2021 at 5.5mbpd. highlighting mixed fundamentals in the crude market. In the second half of the week, prices headed lower as signs of weaker demand weighed on the market as COVID cases rise pointing to lockdowns in Hong Kong, China and possibly France which may restrict business activity and fuel consumption. EIA data also displayed a 4.35MB build in crude stocks from an expected drawdown which added pressure. In addition, the rig count is expected to rebound further in the coming weeks as producers maximise output ahead of spring. This week, oil markets await clarity on Iran and Venezuela sanctions from the Biden administration.

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