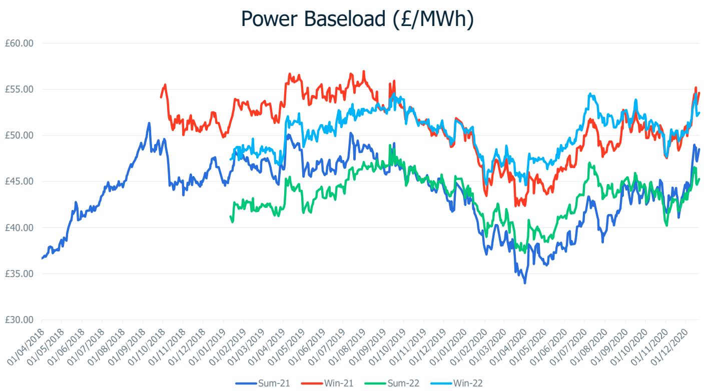
TRIDENT
360° ENERGY EXPERTISE

Weekly Energy Report

21 December 2020

Power

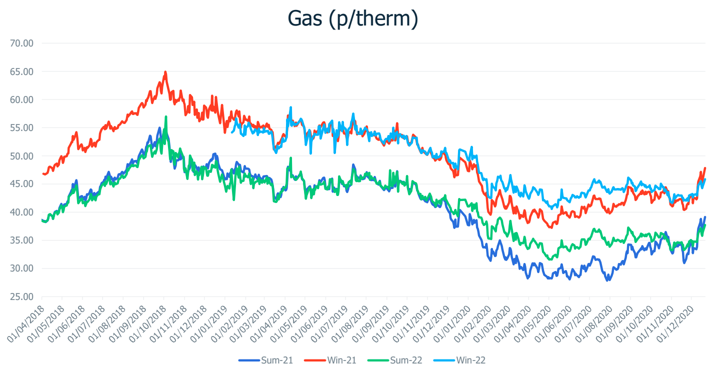


Contract	Price (£/MWh) Previous Weeks Close		Last Weeks Close		
Jan-21	£	56.29	£	57.56	▲
Feb-21	£	57.71	£	58.31	▲
Mar-21	£	51.02	£	52.32	▲
Q1-21	£	54.91	£	56.06	▲
Q2-21	£	47.94	£	48.35	▲
Sum-21	£	46.98	£	47.19	▲
Win-21	£	53.12	£	53.36	▲
Sum-22	£	45.22	£	44.63	▼
Win-22	£	52.81	£	52.10	▼
Sum-23	£	45.08	£	43.56	▼
Win-23	£	54.48	£	52.57	▼

Summary

The January 21, Summer 21 and Winter 21 baseload contracts increased by £1.27/MWh, £0.21/MWh and £0.24/MWh respectively from the previous weeks close. Prices consolidated during the first half of the week as the carbon market remained strong and flows from France were muted on the back of EDF nuclear strikes that lasted longer than expected. As wind generation peaked on Wednesday prices started to fall and tracked movements in the NBP. The increase in wind output which averaged 13.7GW across the week took total renewables to contribute 47% whereas gas-fired output averaged just 29% over the week. Gains were capped on the seasonal contracts as spark spreads narrowed from speculation on pricing and supply of the forthcoming UK ETS. Renewable output is forecast to drop this week however this may be counteracted by falling demand over the Christmas period. Weather runs are continuing to predict mild conditions just before Christmas where temperatures are expected to drop below seasonal normal and continue into January which may lead to support for the front month contract. Furthermore, 11 French EDF nuclear units are planned to come offline for maintenance in early 2021 which could provide some supply tightness in NWE in January and February. The interconnector cable that runs between Britain and Holland was scheduled to be offline only temporarily however reports have emerged that it will remain down throughout the whole of January. The December 21 EUA gained €0.60/tonne across the week, settling at €31.10/tonne. The market was bullish till the mid-week reaching an all-time high ahead of the supply drought and building on recent gains triggered by the EU Council's recent ratification of a more stringent 55% climate emissions cut by 2030. Several other bullish elements remained in play, including the potential for colder winter weather to drive the European power complex higher, and strength in the wider commodity and stock markets as several countries geared up to roll out vaccines to protect against the coronavirus. UK will launch its own emissions trading system in 2021 although the Department for Business, Energy and Industrial Strategy has yet to work out how many UK Allowances will be auctioned. The overall emissions cap is a bit of an unknown quantity as current legislation suggests UK ETS could have a surplus of at least 37m tonnes in the first year but may be adjusted before it gets underway. Another thing to bear in mind is that utilities will be needing to hedge forward power sales with this new carbon allowance, since EUAs won't be eligible. So there could be a repetition of what we saw in the EU ETS back in the run-up to Phase 3, when open interest in futures contracts ballooned as power generators built up their forward carbon portfolios

Gas



Contract	Price (p/therm) Previous Weeks Close	Last Weeks Close	
Jan-21	46.35	45.97	▼
Feb-21	47.64	47.36	▼
Mar-21	44.09	44.22	▲
Q1-21	45.97	45.80	▼
Q2-21	38.25	38.22	▼
Sum-21	37.07	37.15	▲
Win-21	45.43	45.90	▲
Sum-22	36.30	36.48	▲
Win-22	44.80	44.66	▼
Sum-23	35.55	35.71	▲
Win-23	46.27	46.12	▼
		36.98	

Summary

The January 21 contract decreased by 0.38p/therm while Summer 21 and Winter 21 NBP contracts increased by 0.08p/therm and 0.47p/therm respectively from the previous weeks close. This was due to demand falling below seasonal normal, warmer than average temperatures and higher wind outturn. Greater flows from Norway reaching above the 10-day average and recent LNG arrivals also contributed to the bearishness. The front month was consolidating up till the mid-week as henry hub prices increased and LNG tankers were unable to dock due to the high winds which decreased LNG flows below the 7-day average and subsequently reduced system flexibility leading the NTS forecast to close short by 10.2mcm. Prices began to soften from Wednesday evening through till the end of the week as LNG tankers were able to dock. So Far, December has seen 9 LNG tanker arrivals with a further 5 currently on the schedule. Current UK gas storage levels have increased to 98% full which is 20% above seasonal normal. Further on supply, Gassco expects Norwegian gas deliveries to Europe in 2021 to be at the same level as 2020 based on the maintenance schedule and available delivery capacity. Seasonal contracts were impacted by European-bound cargoes rescheduled to a premium Asian market as cold spells are creating stronger demand and ongoing supply and logistic constraints have led to an increase in LNG imports by 86mcm/day above 2019 levels. Even with this increase in imports the Asian market remains short, pushing the JKM price to a 2-year high. The February 21 Brent contract gained $2.37/bbl across the week settling at $52.26/bbl. Prices consolidated during the first half of the week as the IEA see a crude glut enduring to the end of 2021 from strains on demand which will lead to global tanks holding 625MB of more crude at the start 2021 compared to pre-pandemic levels that will dissipate by next December. Furthermore, IEA expects lowered projections for global demand growth in 2021 because of sustained pressure on jet fuel and kerosene use. This means oil demand will rebound by 5.7mbpd in 2021 compared with 2020 levels. Oil demand this year is estimated at 91.2mbpd, which is 8.8mbpd below the 2019 level and down by 100,000bpd from the November report. Further bearishness came as Libya's output increased to 1.28mbpd this month, threatening OPEC's efforts to balance the market. Prices in the second half of the week traded higher as EIA U.S crude inventory data displayed a 3.13MB drawdown and three of India's refiners were operating almost at 100% capacity, indicating crude demand remains strong. Furthermore, optimism around progress on a COVID-19 relief bill and a slide in the U.S. dollar to a two-and-a-half year low provided further support, taking brent to 9-month highs.