

month on month marketview

Review of: October 2021

Net Cost of Electricity and Gas for a 1st April Contract renewal



Electricity: base load cost - excludes distribution, taxation and supplier margin and costs

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
49.92	51.88	48.56	39.66	55.53	46.84	59.06	49.14	45.20	127.33

Gas: core gas cost - excludes distribution, taxation and supplier margin and costs

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
64.05	66.59	52.86	37.84	48.01	46.53	62.40	41.28	37.05	130.41

▲ : Indicates that there was an upward pressure on prices.

▼ : Indicates that there was a downward pressure on prices.

October in summary

October again saw another month of volatility in market prices as the underlying fundamentals of low gas storage across Europe and low numbers of LNG arrivals. Suggestions from Russia on increasing European flows, but with no supporting actions, further exacerbated this volatile market picture.

Market volatility

Volatility in October continued to come from the underlying market fundamentals of a tight supply and looming colder weather, coupled with Russian statements on European storage and disappointing capacity auction results.

Weather

The weather during most of October was unsettled and wet, though there was a drier spell across most areas between the 8th and 17th. Temperatures were above average for much of the time, and frosts were few, but sunshine was in short supply for some areas. The heaviest rain came in the closing days of the month, with some notable totals in Cumbria, and there were gale-force winds across the country on the 31st.

Gas, Storage and LNG News ▲

October saw unprecedented intra-day and daily volatility that pushed markets to historical highs on 5th October, before prices retraced some of those gains over the following weeks. The prices soared on seasonally increased demand and lower Russian flows via the Yamal-Europe pipeline, which dropped by around 75% from September. Russian President Vladimir Putin's statement on 6th October regarding the intended increase of Russian gas sales via Gazprom's electronic sales platform has had a strong but short-term bearish effect on the market. After three consecutive days with a strong downside, gas prices returned to a moderate bullish trend. This was supported by extant storage concerns, upcoming colder weather, and once again disappointing results of the capacity auction on 18th October where Gazprom failed to book any additional transit capacity to NWE for November. However, many thought this auction inaction from Russia was already priced into the contract. Little has changed in terms of underlying market fundamentals, apart from some calling an end to injection season at multi-year lows, with EU nominations switched to net withdrawals. The end of the month saw muted price movement, despite some within day volatility at times, both contracts generally end back near the lower point of their recent, wide trading ranges. However, late news on Wednesday 27th that Putin had told Gazprom to start filling Gazprom owned European gas storage once Russian storage is full provided significant bearish pressure on gas and power contracts. With expectations that this could begin to take place from as soon as the 8th November. Furthermore, strong wind output helped keep length in the system and decrease the need for gas burn generation. News of an increase in LNG arrivals next month also pressured gas prices.

Politics and global economics ▲

Russian President Vladimir Putin made a couple of announcements regarding gas supply to Europe. On the 6th October regarding the intended increase of Russian gas sales via Gazprom's electronic sales platform, and on the 27th he advised Gazprom to start filling European storage once domestic storage is full. In addition, attention was beginning to turn to Glasgow and the arrival of leaders for the COP 26 conference, which officially opened on 31st October.

Oil ▲

Brent markets found support from fuel switching as gas and coal prove to be costly in comparison, despite Brent reaching multi-year highs itself. Global demand recovery is looking bullish as we head into winter, which is helping to support prices.

OPEC+ are continuing to honour supply cuts helping to support the curve, and US stockpiles once again saw a drawdown as refinery margins remain high. Late in the month, a surprise U.S. inventory rise coupled with many countries seeing increased COVID cases did curb the increases over the last few days of the month.

Coal ▲

Steep increases in gas prices are continuing to support large gains in coal prices. In the near-term, there is now diminished scope for additional gas-to-coal switching, as Europe's coal generation has now increased to levels nearing full capacity.

We are now in the 'shoulder' demand season between the northern hemisphere summer and winter, however coal demand remains strong. This is a function of low coal inventories in key import markets, which is driving a need for ample restocking prior to winter. Multiple port fires, as well as multiple damaged shiploaders have combined with the impact of heavy rainfall that has constrained coal production in Indonesia. These disruptions, coupled with the loss of existing coal production capacity such as the Prodeco mine in Colombia, has left the seaborne market in very short supply at a time when demand has recovered strongly.

Carbon ▼

Carbon market decoupling between EUAs and UKAs continued further at the start of the month, with both seeing bearish movement. SA number of UKA auctions cleared below where the market was trading, which only partially cleared, requiring government intervention to do so.

Looking Ahead

The tight market conditions are anticipated to persist through November, keeping prices at elevated levels. At this record high price level, all supply and demand flexibility is nearly exhausted, and the market is predominantly waiting for the decision on Nord Stream2. Russia has hinted that once their domestic storage is full, they will start to flow additional supply into European storage facilities. This could start as early as the 8th November. However, any news on Nord Stream2 and changes in weather and wind forecast could see prices spike in either direction. COP 26 will also be something to be aware of and possible targets which are agreed on during the conference.

Disclaimer: The above information is based on current market data available at the time of producing this document and is subject to change. ECA cannot be held responsible for movement in the commodity market.

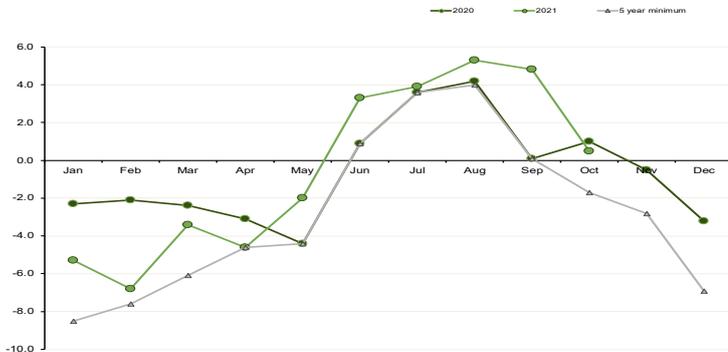
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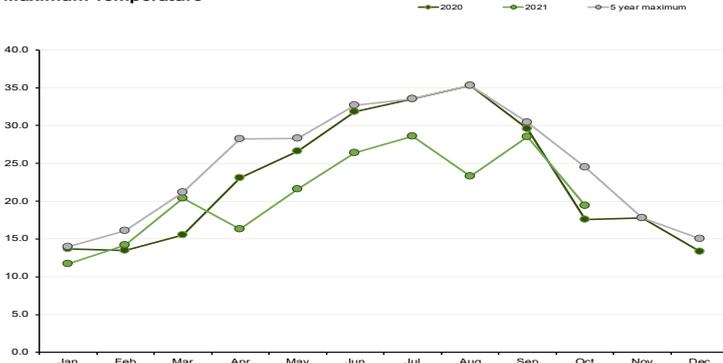
Average Temperature



Minimum Temperature



Maximum Temperature



Met Office UK summary

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Average temp: 2021: Summary

2021 Summary v 5 Year Average

(* Positive numbers = warmer, negative = colder than 5 year average)

2021	Sept	Oct	Year total
°C	-0.3	0.2	-0.2
%	-2.0%	1.5%	0.0%

2020 v 2021 Summary

(* Positive numbers = warmer, negative = colder than 2019)

2021	Sept	Oct	Year total
°C	0.2	0.8	0.2
%	1.8%	7.8%	0%

Min temp: 2021: Summary

2021 Summary v 5 Year Average

(* Positive numbers = warmer, negative = colder than 5 year average)

2021	Sept	Oct	Year total
°C	4.7	2.2	2.0
%	4700%	-129.4%	473.1%

2020 v 2021 Summary

(* Positive numbers = warmer, negative = colder than 2019)

2021	Sept	Oct	Year total
°C	4.7	-0.5	0.0
%	97.9%	-100.0%	16.7%

Max temp: 2021: Summary

2021 Summary v 5 Year Average

(* Positive numbers = warmer, negative = colder than 5 year average)

2021	Sept	Oct	Year total
°C	-1.9	-5.1	-5.4
%	-6.3%	-20.8%	-19.3%

2020 v 2021 Summary

(* Positive numbers = warmer, negative = colder than 2019)

2021	Sept	Oct	Year total
°C	-1.1	1.8	-3.0
%	-3.7%	10.2%	-8.5%

Utility Impact Summary

Bullish trends continued through October due to tight fundamentals.

When you switch your heating on make sure:

-It is on a timer, don't leave it running when there is no-one in the building

-Make sure that timers have been adjusted following the clocks going back

-On a temperature set point, usually around 22 degrees is enough, heating to a higher temperature does not make it warm up faster, it will only use more energy try to reach an unachievable temperature.

It is particularly important this year to check your heating settings as closing the building during lockdown may have meant that the usual settings were altered and timers and temperatures need to be reset.

As the evenings begin to grow darker, adjust any automatic lighting timers to ensure lights are not switching on needlessly.