Beond Weekly UK Insight

17 May 2021

Gas

p/therm	7 May 21	14 May 21	Change
Day-Ahead	62.00	68.85	11.0%
Jun 2021	61.23	68.71	12.2%
Winter 2021/22	67.94	73.78	8.6%
Summer 2022	48.12	51.62	7.3%
12M Annual Oct 2021	58.03	62.70	8.1%

Source: ICE

Power

£/MWh	7 May 21	14 May 21	Change
Day-Ahead	65.51	78.73	20.2%
Jun 2021	69.62	77.85	11.8%
Winter 2021/22	78.19	84.33	7.9%
Summer 2022	57.51	62.07	7.9%
12M Annual Oct 2021	67.85	73.20	7.9%

Source: ICE

The **June 2021 Gas** price surged 12.2% to 68.71p/therm last week as forecasts for cooler than normal temperatures combined with low European gas storage lifted energy prices.

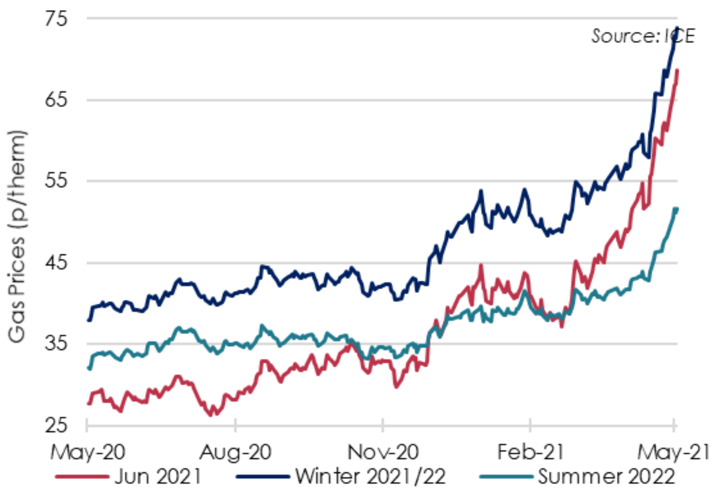
The European storage surplus triggered by Covid-19 peaked near 30 bcm vs the five-year average last spring but now stands at a 13 bcm deficit, sitting at just 33% of maximum capacity. In the UK, gas storage is just 9% full.

The **June 2021 Power** price tracked the gas market closely, gaining 11.8% to £77.85/MWh. Prices remain high as carbon breached €56/tCO2 for the first time in its history. Carbon remains the main price driver, with a share of fundamentals supporting the previously speculative rises in the market. With low gas storage across Continental Europe, the need to burn coal for power generation continues to increase. This has subsequently provided support to the carbon market as demand for credits has increased.

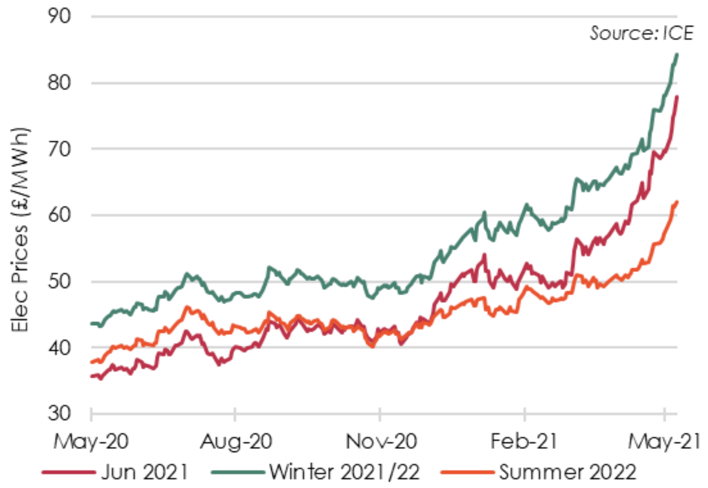
The **Oct 2021 12 Month Gas** price increased significantly last week, rising by 8.1% to 62.70p/therm. This is driven principally by the very high costs of Winter 2021/22 as low European storage will likely take time to recover, heightening the risk of Winter shortages.

The **Oct 2021 12 Month Power** price rose by 7.9% to £73.20/MWh. Increases in the price of power are expected, with easing Covid-19 lockdown measures spurring demand. The current magnitude of the price increases remains driven by the record-breaking cost of EU carbon.

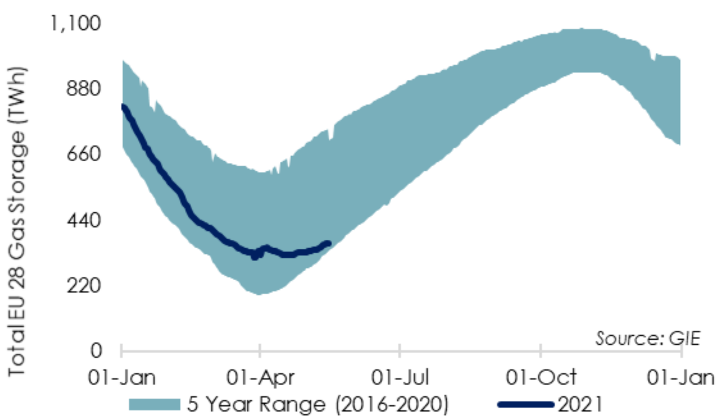
UK Gas



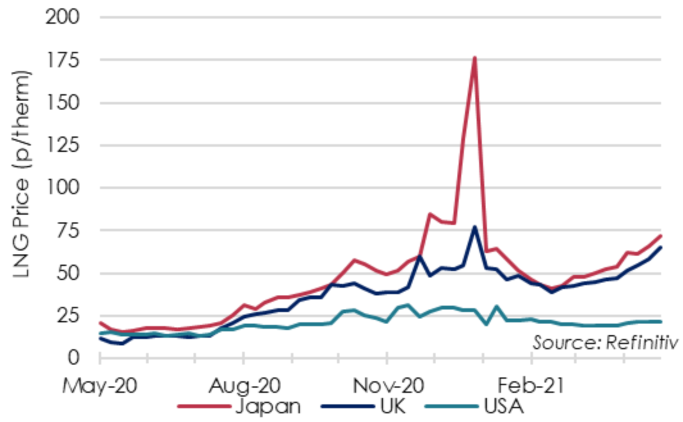
UK Power



European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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Oil

$/bbl	7 May 21	14 May 21	Change
Brent Crude Jul 21	68.28	68.71	0.6%

Source: Reuters

Brent crude oil saw a rise of 0.6% to $68.71/bbl last week. Global oil demand has fallen due to the second Covid-19 wave currently plaguing India, one of the three largest oil consuming countries. However, global oil demand overall continues to rise as countries emerge from lockdowns following successful vaccination programs.

Oil prices were also supported this week by an outage at one of North America's largest pipelines due to a ransomware attack. The outage led to many Americans scrambling for gasoline with many stations running out.

Exchange Rates & Economics

£/$	7 May 21	14 May 21	Change
GBP/USD	1.3972	1.4096	0.9%

Source: Reuters

Pound Sterling rose 0.9% last week as the government confirmed that the UK will continue with the planned roadmap out of lockdown that sees further reopening of domestic activities and expansion of international travel from the 17th May.

Despite a concerning number of new infections linked to the Indian strain of Covid-19 detected in some parts of the UK, Prime Minister Boris Johnson confirmed no intention to delay reopening.

Carbon

€/tCO2	7 May 21	14 May 21	Change
EUA Dec Yr	50.33	56.49	12.2%

Source: Reuters

European carbon recorded a new high again last week, surging 12.2% to €56.49/tCO2. EUA Carbon price rises have several factors driving their increase as the EU looks to reform the carbon market to take on new 2030 decarbonisation targets.

A high carbon price marginalises coal for power generation as it is too expensive, this is occurring whilst European Gas supply is tight and storage stocks are low.

Coal

$/tonne	7 May 21	14 May 21	Change
API2 CIF ARA Yr	78.15	79.40	1.6%

Source: Reuters

European coal prices continued to rise last week, climbing 1.6% to reach a two-year high, as European gas storage remains at around 30% full and prices for natural gas and electricity surge on the continent.

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Regulatory and Market News

UK carbon trading system likely to lead to government intervention, traders warn

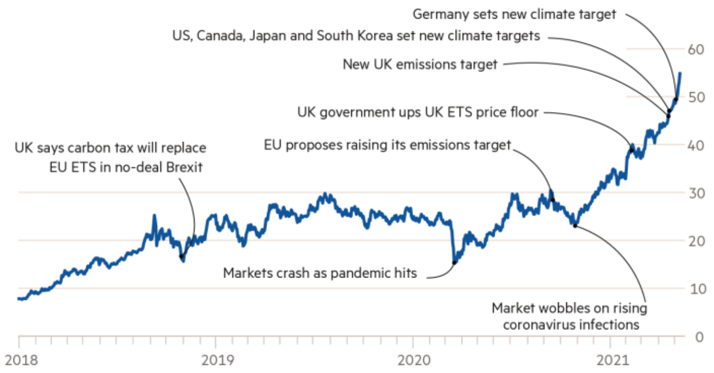
The UK's effort to put a price on carbon pollution through a new trading system that launches this week is likely to lead to government intervention to reduce the cost to companies within months, traders have warned.

Pent-up demand and the UK's strict emission targets are expected to lead to a sustained rally in the price of carbon credits on the UK Emissions Trading Scheme (ETS) when it goes live on Wednesday.

Under its rules, the government must consider measures to reduce the cost of allowances that companies must buy to offset their emissions if they consistently trade at more than double their average price of the previous two years.

The EU carbon price has soared this year as governments have upped their climate pledges

Closing price of allowances traded under the EU ETS



Source: Refinitiv
© FT

The government last week set the threshold at £44.74 a tonne, or about €52 a tonne, based on EU prices between May 2019 and December 2020. But this is below the current cost of EU allowances, which hit a record of €55 a tonne last week, after a strong, sustained rally this year prompted by governments upping their climate commitments. When the UK left the EU system five months ago the price was closer to €30 a tonne.

Carbon traders and analysts said UK prices were likely to rise sharply when trading began — driven by strong demand and the limited number of allowances initially set to be auctioned — to close to or above that of the EU market. The government raised the price floor, the minimum that credits can be sold for at auctions, from £15 to £22 a tonne this year.

LINK: FT

JPMorgan Chase announces new 2030 carbon reduction targets for clients

JPMorgan Chase has announced new 2030 carbon reduction targets to help its clients become more sustainable.

For its clients in auto manufacturing, its 2030 targets include a 41% reduction in the carbon intensity of building new vehicles compared to a 2019 baseline and accelerating its clients' transition to electric vehicles (EVs).

For clients in the power sector, it aims for a 69% reduction in the carbon intensity of electricity generation, looking to accelerate the power sector's shift to renewable sources such as solar and wind.

In terms of its oil and gas clients, it targets a 35% reduction in operational carbon intensity and a 15% reduction in end-use carbon intensity.

This follows the company's announcement today that it achieved carbon-neutrality across its operations in 2020, as well as its statement last month that it would invest $1 trillion (£710m) into green activities to address climate change across the next 10 years.

Jamie Dimon, Chairman & CEO, said: "Setting our Paris-aligned targets is an important step toward accelerating the transition to a low carbon economy and meeting the goals of the Paris Agreement.

LINK: JPMorgan

Energy switchers set new record in April

Last month saw the second-highest electricity switching activity recorded in a single month, Energy UK's latest figures suggest. Nearly 657,000 customers switched to a new supplier in April.

That translates to a 39% increase compared to the same month last year, when nearly 472,000 customers switched supplier.

The analysis also stresses so far, more than 2.1 million customers have moved to a new supplier, up by 3% compared with this time last year.

Emma Pinchbeck, Energy UK's Chief Executive, said: "Shopping around to see what's on offer from your own supplier or on the wider market can help save hundreds of pounds, important as we come out of lockdown and see other costs, like transport and leisure, increase."

LINK: Energy UK