

# MARKET UPDATE: DECEMBER 2019

## OVERVIEW

- Gas prices have fallen further over the last month, mainly as a result of high levels of LNG flows
- Electricity prices for the winter months have also fallen over the same period but increases in carbon prices has provided support to prices for Summer 2020 and beyond
- LNG shipments into the UK are significantly higher than previous years with a further 11 cargoes due before the end of the month
- Volatility in both gas and electricity markets has increased significantly in recent days due to potential disruption to Russian gas flows into Europe in the New Year

MONTHLY PRICE MOVES													
ELECTRICITY PRICES (BASELOAD) £/MWh							GAS PRICES p/therm						
	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual		LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change		CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Jan-20	46.85	-4.48	48.27	50.90	43.75		Jan-20	39.08	-5.70	41.13	44.43	35.17	
Feb-20	47.50	-4.25	48.55	51.45	44.25		Feb-20	39.36	-6.17	41.82	45.15	35.94	
Mar-20	45.15	-3.95	48.43	50.65	41.55		Mar-20	38.40	-5.78	40.75	44.00	35.14	
Winter 20-21	52.25	-0.58	51.26	52.80	48.98	-12.55%	Winter 20-21	47.23	-2.33	47.29	49.50	43.95	-22.58%
Winter 21-22	52.20	1.27	50.20	52.20	48.88	-0.57%	Winter 21-22	49.64	-0.47	48.82	50.57	46.18	-14.38%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
<b>Brent oil</b>	\$66.54	\$4.25	\$63.48	\$66.54	\$60.82	16.25%

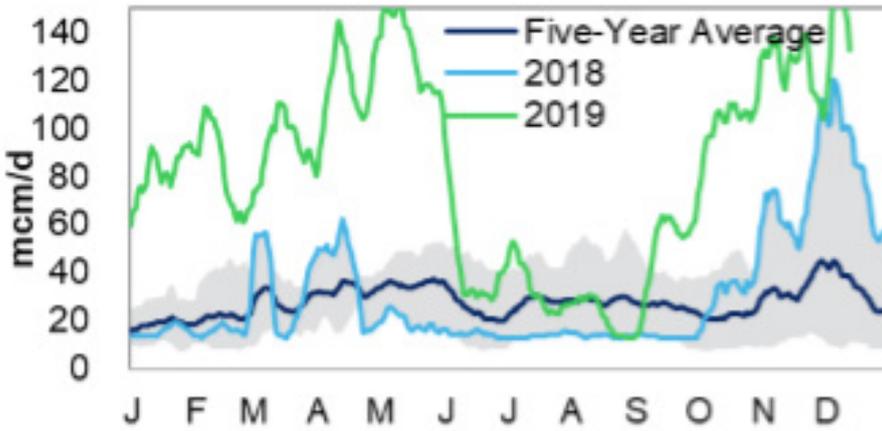
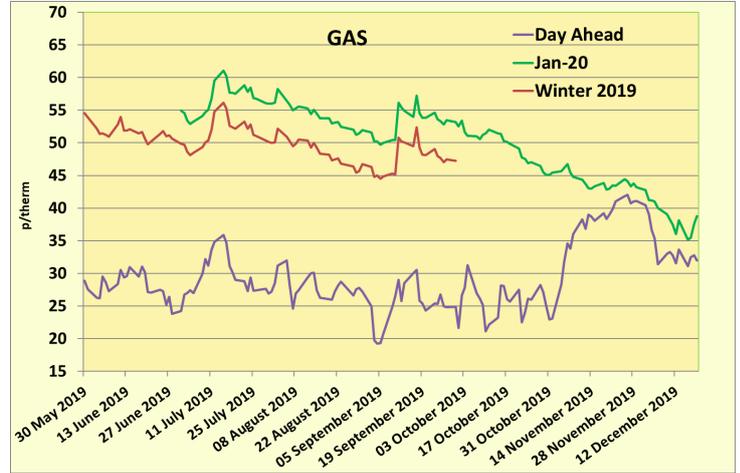
## LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Day Ahead gas prices
- Brexit
- Gas storage levels
- LNG shipments into Europe and the UK
- Market sentiment
- Currency exchange rates
- Weather forecasts for January onwards
- Coal prices
- Oil prices
- Domestic and global economic indicators
- Carbon Prices
- European and Asian gas prices
- Ongoing talks between Ukraine and Russia to extend their gas transit arrangement

## IN DETAIL

Gas prices have continued on their downward trend over the last month.

As can be seen from the graph on the right Day Ahead gas prices (the price of gas for delivery on the following day) rose during November to trade above 40p per therm but has subsequently fallen back and has traded around 32/33p in recent weeks. This has allowed gas prices for January to fall in line with Day Ahead prices before finding support in recent days. The falls in Day Ahead price has also seen falls in prices for February onwards.

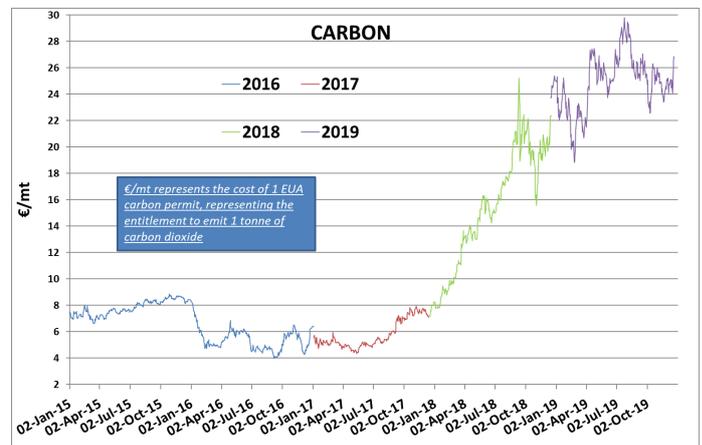


**UK LNG Sendout**

Source: Bloomberg, Schneider GR&A

The main driver for the falls in gas prices has been a continuation of the significant increase in LNG flows that we have seen since September, as demonstrated by the graph on the left. During December the UK has received an unprecedented volume of LNG cargoes with a further twelve due before the end of the month. As a result, LNG flows have accounted for as much as 35% of daily gas demand, removing the requirement for higher cost imports.

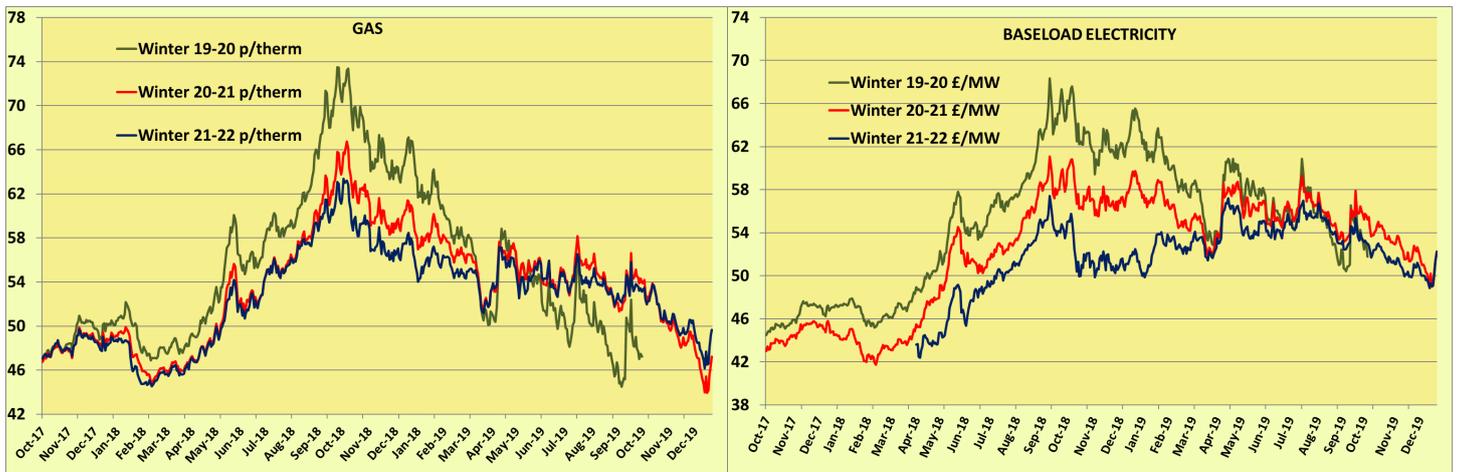
Electricity prices for the winter months have also fallen over the last month, with the equivalent falls in gas prices being the main driver. Electricity prices for Summer 2020 and beyond have found support in recent days from an increase in carbon prices which as can be seen from the graph have risen sharply and are now trading at their highest levels since mid September. Carbon prices represent a tax on electricity generation and movements in carbon prices can be reflected in corresponding movements in electricity prices.



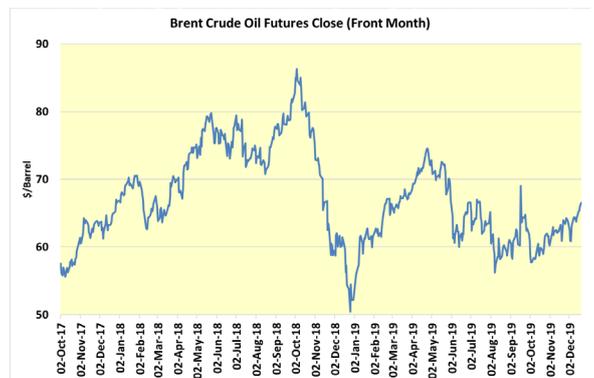


We have seen significant volatility return to the energy markets in recent days which can be attributed to ongoing talks between Russia and Ukraine aimed at renewing a transit agreement for Russian gas to flow through Ukraine into Europe. Approximately 18% of European gas imports from Russia are carried through this pipeline, and the 10 year transit agreement ends on 31st December. Should a new deal not be agreed then there is the potential for a disruption to future imports. An announcement by the CEO of Ukrainian Naftogaz on Wednesday that the chances of a new transit deal were 'close to zero' saw January gas prices rise by 1.3p in 10 minutes, whilst an assurance from President Putin that Russian gas would flow irrespective of any agreement has since calmed the markets. Further volatility is likely, however, as the deadline is approached, exacerbated by limited liquidity over the Christmas period.

As can be seen in the graphs below both gas and electricity price have found support in recent days having reached relative lows - winter 20 gas prices dipped to their lowest levels since January 2016 at the beginning of the week.



Oil prices have risen steadily since early October, partly as a result of the recent OPEC meeting which extended production cuts into 2020. The upward trend in oil prices has also been fuelled in recent days by progress on a potential US-China trade deal. The increase in oil prices has provided some support to gas and electricity prices for Summer 2020 and beyond, partly because some European gas contracts are index linked to oil prices, and partly due to market sentiment.



## SUMMARY

In the short term the markets are focused on the outcome of the Ukraine/Russia transit talks. The consensus of opinion is that a risk premium has been built into gas prices to account of the possibility that no deal is agreed, but that the premium does not fully account for the potential risk due to expectations that a deal will be reached. Consequently there remains the risk of an increase in prices if talks fails to reach an agreement, and Russian gas flows are subsequently disrupted.

Gareth Maude, 20th December