

# MONTHLY MARKET UPDATE: NOVEMBER

## OVERVIEW

- Gas and electricity prices have risen over the last month, continuing on their recent upward trend
- The main driver for the increases in gas prices has been higher demand for gas as the weather becomes colder
- Electricity prices have been pushed higher partly as a result of the higher gas prices and partly due to increasing coal prices
- Oil prices have also risen in the last month and are now trading comfortably above \$60 per barrel, contributing to the increases in gas prices
- A reduction in the number of LNG shipments arriving into the UK has resulted in a drop in LNG flows, another contributor to the increases in gas prices

### 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
Dec-17	52.85	1.32	52.37	54.08	50.95		Dec-17	54.20	3.04	52.34	55.68	49.84	
Jan-18	54.78	1.58	54.40	55.83	52.80		Jan-18	55.42	3.11	53.59	56.89	51.20	
Feb-18	54.28	1.13	54.27	55.95	52.90		Feb-18	55.69	3.16	53.84	56.95	51.46	
Winter 18-19	49.90	2.00	48.86	50.40	47.85	16.45%	Winter 18-19	52.28	2.74	50.86	52.98	49.35	13.80%
Winter 19-20	47.28	2.05	46.20	47.65	45.10	17.05%	Winter 19-20	50.37	2.56	48.98	50.95	47.56	10.17%

	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
<b>Brent oil</b>	\$63.32	\$5.57	\$60.66	\$64.27	\$56.25	42.52%

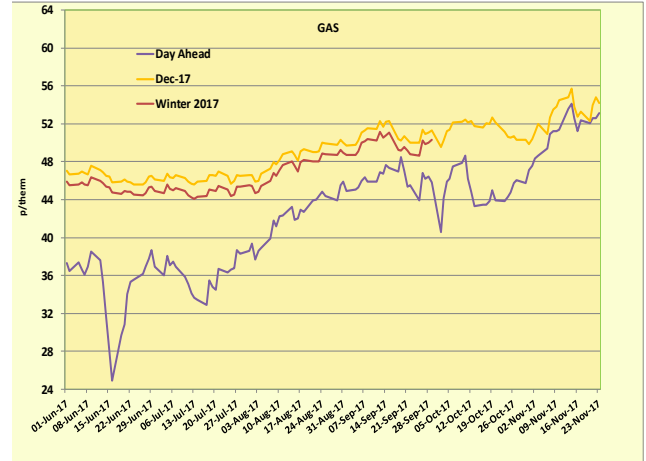
## LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Weather forecasts for early winter
- Day Ahead gas prices
- Gas storage levels
- The level of gas imports from Norway, Belgium and Holland
- The volume and frequency of LNG shipments into the UK
- Currency exchange rate fluctuations
- Coal prices
- Oil prices
- European gas prices
- Domestic and global economic indicators

## IN DETAIL

In the last month gas and electricity prices have continued on their upward trend which commenced in mid/late July this year. In common with recent months this increase can be attributed to a number of factors.

Day Ahead gas prices have increased over the last month as a result of an increase in demand for gas due to colder weather. As can be seen from the graph on the right, as Day Ahead gas prices have risen, December gas prices have also moved higher to reflect the likely costs of gas during December. Apart from higher demand for gas, the increase in the Day Ahead gas price can also be attributed to concerns regarding the availability of gas in the short term, with a decline in LNG flows due to a scarcity of incoming shipments during November and no sign of an improvement one of the major concerns. The increase in Day Ahead gas prices can be seen as a key driver in the increase in gas prices for the winter months.



Looking ahead once again it will be useful to reconsider some of the other main factors affecting the markets:

**Currency exchange rates** - the pound has maintained its value against the euro in the last month but will continue to take direction from Brexit negotiations. As such it has had minimal influence over energy prices in recent weeks. A weak pound can often lead to higher UK gas and electricity prices as traders dealing in euros are incentivised to buy up the comparatively cheaper British contracts to sell off later when the currency trend reverses.

**Oil prices** - crude oil prices have continued to gain in value and are trading at their highest levels for two years which can be seen as a contributory factor in the increase in gas prices for next summer and beyond. Rising oil prices can often lead to increases in UK gas prices due to the prevalence of oil indexation in some long-term supply deals which are fairly common in Europe - any movement in European gas prices tends to impact on UK prices, with a six month lag.

**Coal** - after a brief respite coal prices have continued on their upward trend and are at their highest levels for four years and have doubled since their lows of two years ago. Coal prices can influence UK gas prices because coal and gas compete with each other for electricity generation. An increase in coal prices is likely to result in an increase in demand for gas for electricity generation as gas become relatively cheaper. If there is insufficient gas available gas prices will rise to maintain parity with coal.

**LNG** - as discussed above flows remain low as a result of a lack of incoming shipments during November. Currently there are no confirmed shipments due to arrive in the UK in the short term, with Asian demand remaining high continuing to attract LNG shipments away from Europe. LNG flows can help to compensate at times of lower gas imports and provide flexibility of supply.

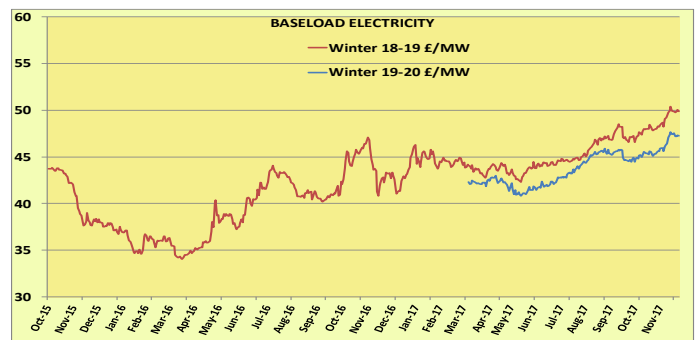
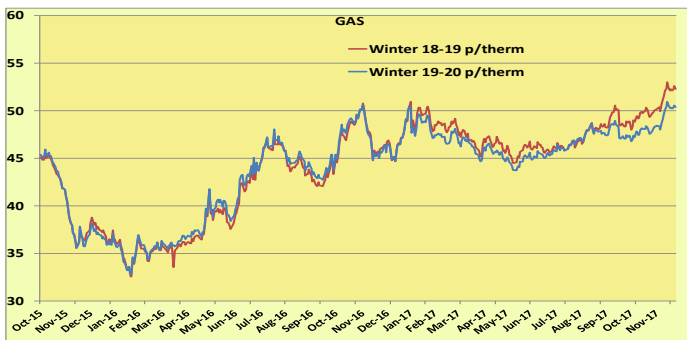
**Carbon prices** - eua carbon permit prices remain relatively high and, along with coal, contribute to the increase in electricity prices. This permit represents the entitlement to emit 1 tonne of carbon dioxide, which is produced by both gas and coal fired power stations. Any increase in the cost of permits, therefore, will be reflected in higher electricity generation costs.

**Generation margins** - as highlighted in the recent National Grid winter outlook report, electricity generation margins are likely to remain healthy this winter, with the tightest margins expected in mid December. As such electricity prices are likely to be less volatile than last winter when margins were particularly tight.

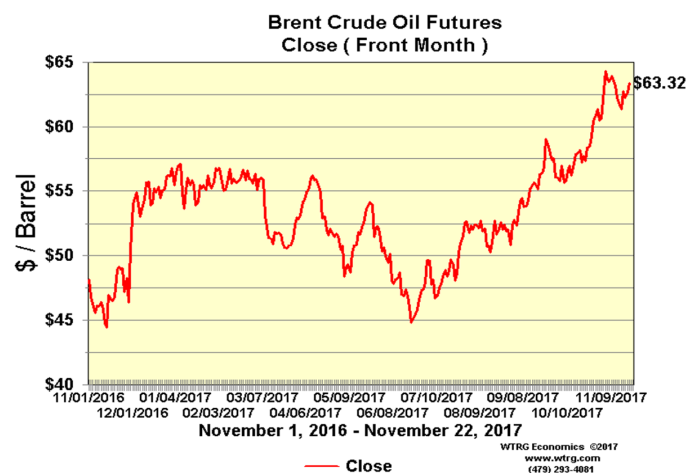
**Concerns regarding French nuclear availability** - these concerns continue with a number of nuclear plants remaining offline. In the absence of any new reports, however, these concerns have had less impact on UK electricity prices in recent weeks. The impact on the UK of continuing issues with French nuclear capacity is likely to be less than last year due to the improved outlook for generation margins - the UK is less reliant on imported electricity from France than last year.

**Gas storage levels** - the lack of availability of gas in storage in the UK for the winter after the closure of the Rough storage site is becoming more of a focus as we approach the start of winter. The UK will be more vulnerable to colder weather than previously, especially any extended periods. As a result of this gas and electricity prices will be even more sensitive to fluctuations in weather forecasts than previous years.

The graphs below demonstrate how a combination of these factors have resulted in a continuation of the upward trend in gas and electricity prices for winter 18 and beyond



Speculation that in their next meeting at the end of November OPEC will announce an extension to their current production cuts through until the end of 2018 has provided Brent oil prices with support in the last month, continuing the upward trend and defying predictions of a fall back towards \$50 per barrel.



## SUMMARY

In the short term the markets will be focused on the ability of gas and electricity supplies to meet increasing demand as temperatures fall. With the reduced availability of gas in storage the UK will be more dependant upon imports from Belgium and Holland this winter and consequently more price sensitive to European gas prices and fluctuations in currency exchange rates.