

MONTHLY MARKET UPDATE: FEBRUARY

OVERVIEW

- Gas and electricity prices have risen over the last month, mainly as a result of the spell of cold weather at the end of February
- A further spell of cold weather forecast for next week has seen a further increase in prices
- Gas storage levels are at their lowest levels since 2013 throughout Europe leaving supplies vulnerable to any increase in demand
- Oil prices have fallen from their highs of early February and are now trading around \$65 dollars per barrel
- LNG stock levels are also at low levels due to an increase in demand during the recent cold weather

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
Apr-18	51.43	5.70	46.73	51.43	44.80		Apr-18	53.57	8.09	47.17	53.57	44.08	
May-18	46.73	3.88	43.75	46.73	42.25		May-18	47.26	4.68	43.52	47.26	41.77	
Jun-18	44.50	3.45	41.96	44.50	40.60		Jun-18	43.95	4.17	40.58	43.95	39.09	
Winter 18-19	51.73	2.90	49.31	51.73	48.05	17.29%	Winter 18-19	53.36	3.17	50.71	53.36	49.38	12.12%
Winter 19-20	47.38	1.75	46.11	47.48	45.18	11.47%	Winter 19-20	48.42	0.78	47.77	48.91	46.90	2.72%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$64.95	-\$3.63	\$65.69	\$69.65	\$62.59	26.44%

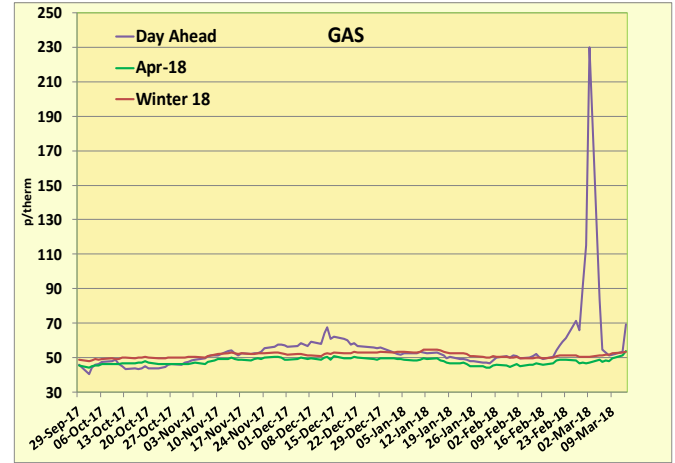
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- The extent and duration of colder weather forecast for next week which is likely to affect most of Europe
- Weather forecasts for early spring
- 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

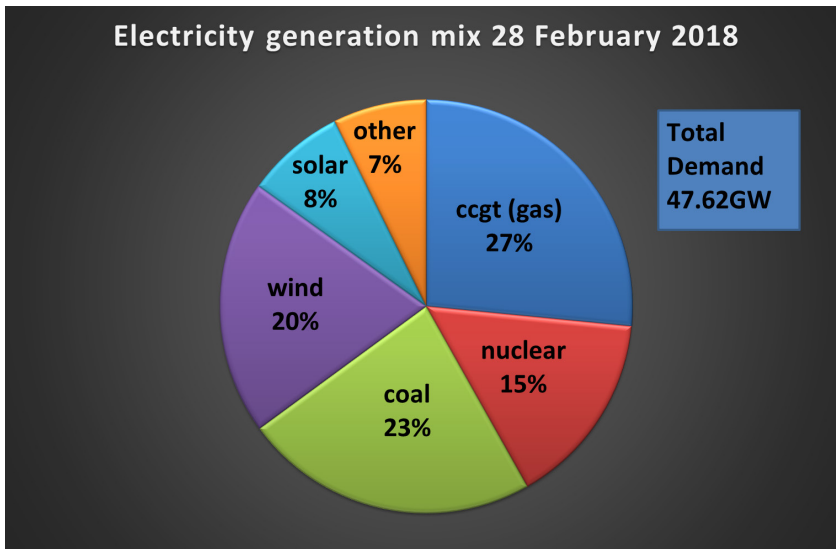
The severe weather which affected the UK and Europe at the end of February resulted in unprecedented increases in gas and electricity prices as high UK demand was coupled with supply disruption and similarly high levels of demand throughout Europe, limiting the availability of imports.

As can be seen from the graph on the right, Day Ahead gas prices spiked dramatically at the start of March. On the 1st March the British gas system opened 46mcm short, with demand in excess of 400mcm, 40% higher than seasonal normal. This induced system operator National Grid to issue a gas deficit warning in the morning. At its most stretched point during the day the system was around 54mcm short. As a result of the shortage in supply the Day Ahead gas price doubled in value day on day to £2.30 per therm and Within Day gas prices dealt at their highest ever brokered levels of £3.50 per therm in mid-afternoon. Demand from households and small businesses was particularly high as end users switched on gas fired heating systems, with total consumption from these users approximately 355mcm.



The impact of the cold weather on the UK energy prices was accentuated by similarly severe weather in mainland Europe and the limited levels of UK gas storage as a result of the closure of the Rough storage site last year. Gas in storage is relied upon to meet peak winter demand - with these storage levels now restricted the UK is more reliant on imports from Europe. When gas demand in Europe is also high UK gas prices have to increase to continue to attract imports.

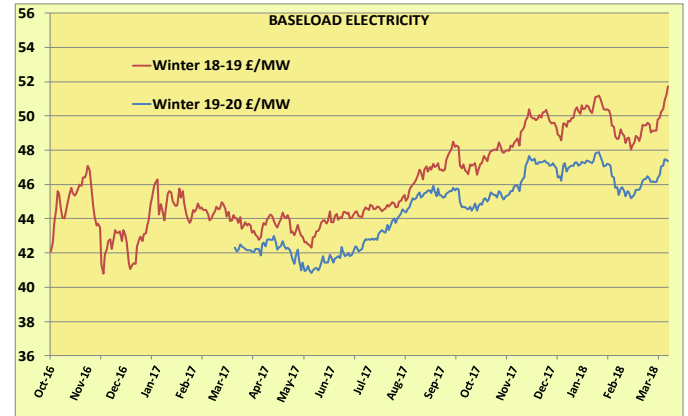
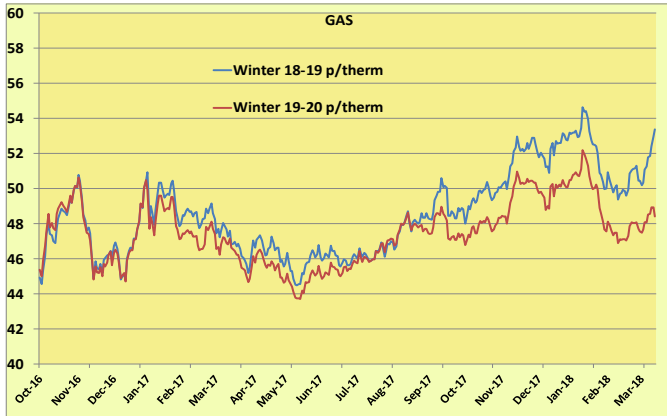
As bad as the situation was on the 1st March, it could have been worse. Electricity generation throughout the week had been aided by near record levels of wind generation. In addition, as Day Ahead gas prices increased it became more economic to operate coal-fired power stations. The chart below illustrates the generation mix on the 28th February, with gas fired generation accounting for 27% of generation, or 12.64GW. Gas fired generation would normally account for approximately 20GW of supply. Although electricity prices also increased during the cold weather, in general the grid coped well with the additional demand.



Despite the high levels of volatility that we saw in Day Ahead gas prices at the end of February, gas and electricity prices for March and beyond were remarkably unaffected. Gas prices for winter 2018 actually fell during the week. As temperatures returned closer to seasonal normal, Day Ahead gas prices fell back to the levels they were trading at prior to the colder weather. In contrast we have seen a steady increase in future prices for gas and electricity as the markets reassess the associated risks. In addition, the threat of a return of colder weather next week has resulted in an increase in buying interest as market participants look to avoid a repetition of two week ago.

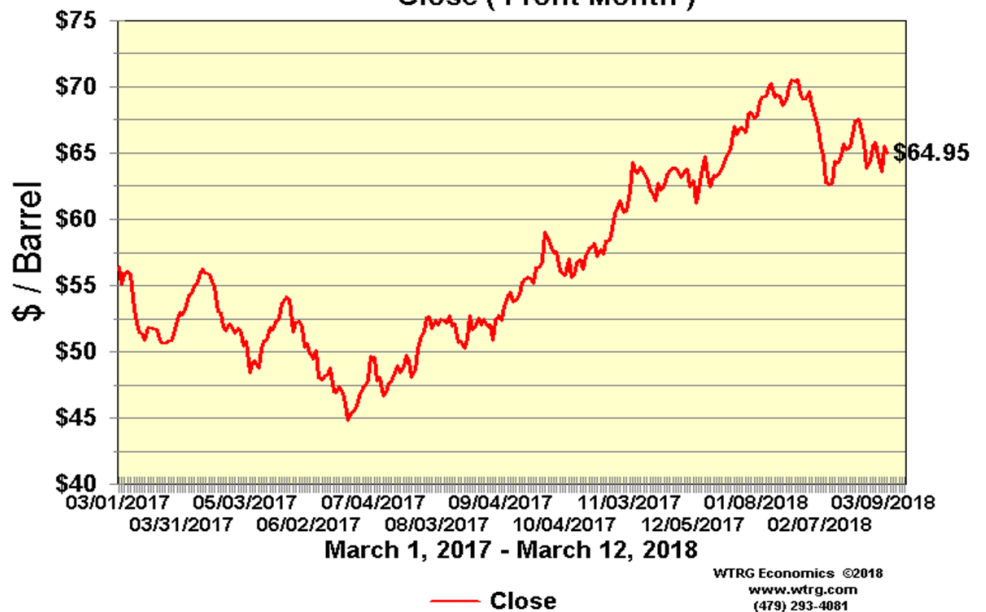


The relatively low level of gas storage levels throughout Europe will result in higher demand for gas during the summer months to replenish stock levels which has resulted in an increase in summer gas prices. Gas prices for next winter have traded around 50p in recent months which, in the context of the current volatility in prices, looks good value and can explain an increase in buying interest.



Having tested the \$70 per barrel level, oil prices have found a level between \$65 and \$70. \$70 per barrel appears to be the level at which US production increases to offset the OPEC/Russian production cuts and may prove to be a ceiling for prices in the short term. Falling oil prices can often lead to falls in UK gas prices due to the prevalence of oil indexation on some long-term supply deals in Europe but currently the markets are concentrated on issues closer to home.

**Brent Crude Oil Futures
Close (Front Month)**



SUMMARY

The focus of the markets is on the colder weather due to affect UK and Europe next week. Whilst current forecasts suggest it will be less severe than the last week of February when temperatures were sub-zero across much of the UK, it would be enough to stretch UK and continental gas markets following recent depletion of storage facilities, with LNG storage levels in the UK also at relatively low levels. In the short-term, therefore, the markets are likely to remain volatile.