MONTHLY MARKET UPDATE

OVERVIEW

- Gas and electricity prices have risen over the course of the last month
- These increases can be attributed to a number of contributory factors including weather related supply issues and weakness in the pound
- Oil prices have fallen back towards $70 per barrel in recent days but this has not impacted on gas prices
- UK LNG flows remain relatively low, adding to short term supply concerns and supporting Day Ahead gas prices

MONTHLY PRICE MOVES

ELECTRICITY PRICES (BASELOAD) £/MWh								GAS PRICES p/therm						
	LAST NIGHT'S CLOSE	MONTHLY CHANGE	30 DAY MEAN	30 DAY HIGH	30 DAY LOW	Annual Change			LAST NIGHT'S CLOSE	MONTHLY CHANGE	30 DAY MEAN	30 DAY HIGH	30 DAY LOW	Annual Change
Sep-18	61.00	2.55	59.12	61.43	57.30			Sep-18	61.59	2.70	59.12	62.37	57.43	
Oct-18	61.43	2.58	59.29	61.88	57.75			Oct-18	61.62	2.33	59.38	62.43	57.91	
Nov-18	65.10	2.70	62.61	65.60	61.00			Nov-18	67.18	2.99	64.07	67.86	62.20	
Winter 18-19	64.78	2.68	62.44	65.15	60.80	39.90%		Winter 18-19	67.30	2.44	64.58	68.11	62.75	41.56%
Winter 19-20	59.05	2.02	57.56	59.53	55.98	30.21%		Winter 19-20	61.32	1.92	59.62	62.13	58.06	28.72%

	LAST NIGHT'S CLOSE	MONTHLY CHANGE	30 DAY MEAN	30 DAY HIGH	30 DAY LOW	Annual Change
Brent oil	$70.76	-$6.63	$73.87	$78.86	$70.76	39.29%

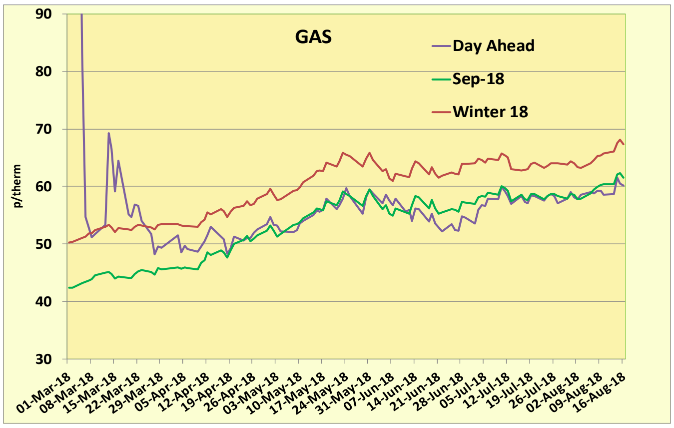
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- European gas prices
- Day Ahead gas prices
- Gas export levels from the UK to Europe
- Carbon prices
- Coal prices
- Gas storage levels
- Oil prices
- The volume and frequency of LNG shipments into the UK
- Currency exchange rate fluctuations
- Domestic and global economic indicators
- Weather forecasts for summer

IN DETAIL

Steady upward pressure over the course of the last two weeks has pushed gas and electricity to new historic highs, despite a fall in oil prices.

As can be seen in the graph on the right, winter gas prices fell during the early part of July, sustaining these lower levels for the rest of the month. Since the beginning of August, however, a steady increase in Day Ahead gas prices has driven similar increases in gas prices for September and winter. It is difficult to attribute these increases to any one factor but more to a combination of factors which are worth considering in more detail.



Gas storage levels - storage levels throughout Europe were severely depleted during last winter which has supported European demand throughout the summer as gas is injected back into storage. This has maintained European gas prices at a relatively high level increasing the cost of imports into the UK.

Weather - the unseasonably warm weather in Western Europe throughout June and early July increased demand for electricity through greater requirement for air conditioning. In addition, nuclear generation was reduced, particularly in France as river temperatures rose to levels which reduced their capacity to cool the nuclear reactors. Higher demand and lower supply inevitably pushed electricity prices higher throughout Europe.

Carbon prices - EUA carbon permit prices continue to rise, gaining 20% since early July, and have more than doubled over the course of the year. 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.

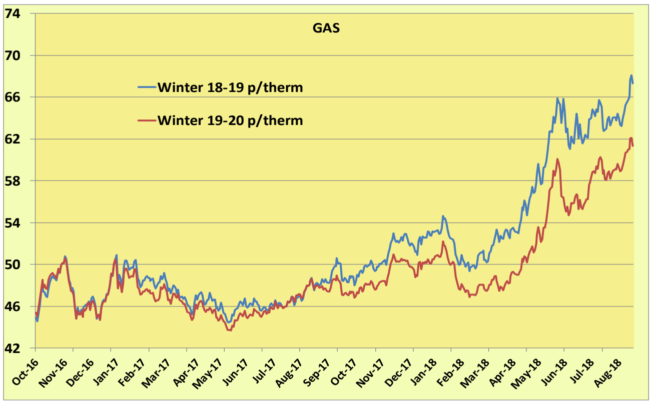
Currency exchange rates - the pound has consistently fallen in value since the end of May as Brexit negotiations fail to make substantial progress, increasing the possibility of no deal being in place when the UK exits. A weak pound can often lead to higher UK gas and electricity prices as traders dealing in euros are incentivised to buy up the comparatively cheaper British energy contracts to sell off later when the currency trend reverses. In addition, relatively cheaper gas prices as a result of a weak pound is likely to increase demand for gas for exports pushing prices higher.

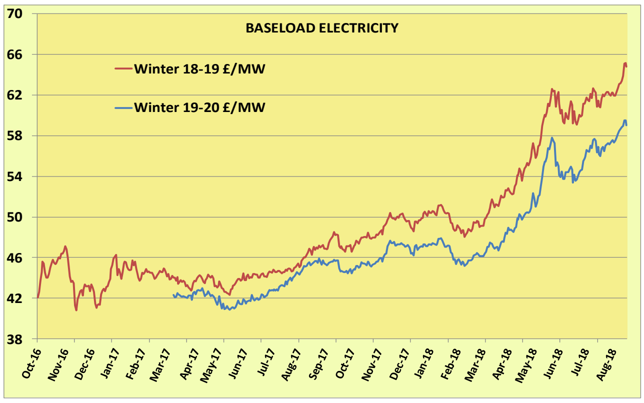
Coal - Coal prices remain relatively high, supported by strong demand out of Asia and India combined with supply issues in Australia and South Africa. Coal prices can influence UK gas prices because coal and gas compete with each other for electricity generation. An increase in coal prices is likely to result in an increase in demand for gas for electricity generation as gas becomes relatively cheaper. If there is insufficient gas available gas prices will rise to maintain parity with coal.

LNG - Asian demand for LNG has remained high throughout the summer to meet high levels of air conditioning demand reducing the availability of LNG shipments for Europe, with the UK particularly hard hit. LNG flows can help to compensate at times of lower gas imports and provide flexibility of supply

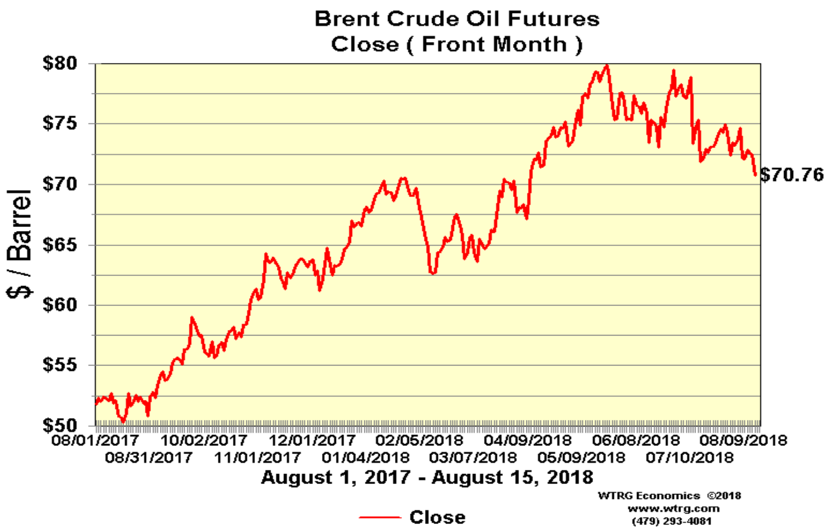
Gas imports - imports of gas into the UK from Norway have remained relatively high thought the summer, providing certainty of supply and helping to limit gas price increases. In addition, Russian gas imports into Europe have also remained high. Recent announcements of planned maintenance to several Norwegian oil fields which will impact on imports into the UK in the short term have provided further support to UK gas prices.

The graphs demonstrate the impact of these factors on gas and electricity prices for winter 18 and beyond, with prices continuing to find new levels.





Oil prices have fallen over the last month mainly as a result of demand concerns surrounding a potential trade war between the USA and China, and threaten to break below $70 per barrel for the first time since mid-April. A fall in oil prices can lead to lower 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.



SUMMARY

Day Ahead gas prices are likely to remain one of the main drivers to energy prices in the short term. Without a fall in these Day Ahead prices it is difficult to envisage a sustained fall in longer term contracts. The failure of gas prices to fall in line with oil prices where correlation between the two had previously been strong suggests that market sentiment remains bullish.