

SEPTEMBER MARKET UPDATE

OVERVIEW

- Gas and electricity prices have risen significantly over the last month, mainly driven by ongoing supply concerns and increases in coal and carbon prices
- Oil prices have risen back towards the top of their recent trading range, threatening to break above \$80 per barrel for the first time since July 2015 and lending support to the increases in gas and electricity prices
- UK LNG flows remain relatively low, adding to supply concerns for the winter and supporting Day Ahead 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 |
| Oct-18 | 69.05 | 7.62 | 65.89 | 72.25 | 59.80 | | Oct-18 | 73.50 | 11.88 | 67.73 | 76.14 | 60.34 | |
| Nov-18 | 73.10 | 8.00 | 70.00 | 77.08 | 62.19 | | Nov-18 | 78.55 | 11.37 | 72.94 | 81.24 | 64.94 | |
| Dec-18 | 74.68 | 8.68 | 70.44 | 78.00 | 64.45 | | Dec-18 | 81.47 | 12.21 | 75.13 | 83.75 | 67.27 | |
| Winter 18-19 | 73.15 | 8.37 | 69.32 | 76.30 | 63.13 | 55.14% | Winter 18-19 | 79.23 | 11.93 | 73.19 | 81.61 | 65.46 | 62.71% |
| Winter 19-20 | 65.08 | 6.03 | 62.43 | 68.33 | 58.68 | 45.58% | Winter 19-20 | 70.56 | 9.24 | 65.51 | 71.36 | 60.73 | 49.36% |

| | LAST NIGHT'S | MONTHLY | 30 DAY | 30 DAY | 30 DAY | Annual |
|------------------|--------------|---------|---------|---------|---------|--------|
| | CLOSE | CHANGE | MEAN | HIGH | LOW | Change |
| Brent oil | \$79.40 | \$8.64 | \$75.82 | \$79.74 | \$70.76 | 44.00% |

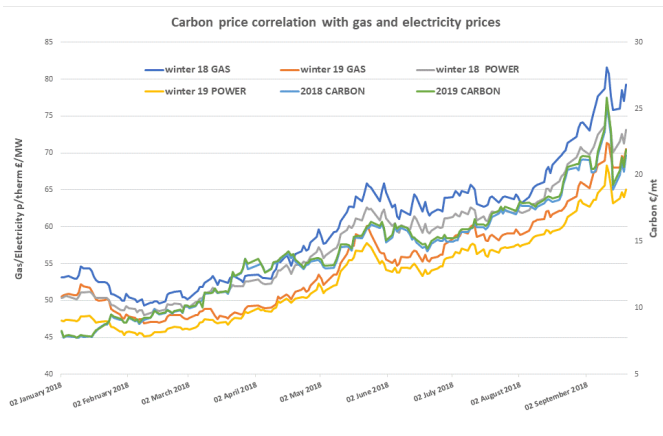
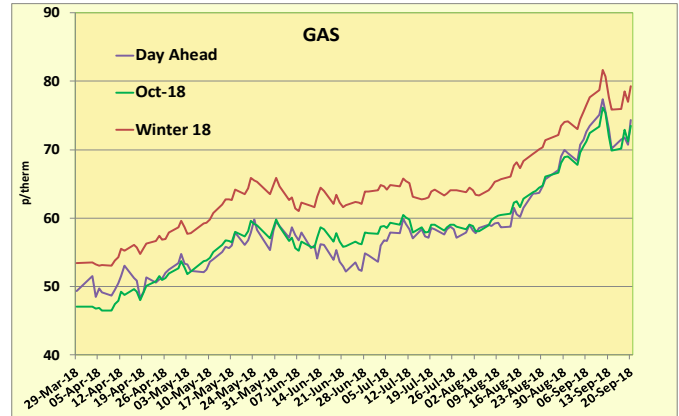
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

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

IN DETAIL

Volatile trading over the last month has seen sharp increases in gas and electricity prices for the remainder of the current year and beyond, with increases of 15% for gas prices for winter 2019 and 10% for electricity prices for the same period.

As can be seen in the graph on the right, gas and electricity prices have risen consistently over recent weeks, peaking in mid September. One of the main drivers for these increases has been an increase in carbon prices over the same period. Carbon prices in effect represent a tax on carbon emissions which has a direct impact on electricity generation costs and have increased by 15% in the last month. The strong correlation between carbon prices and gas and electricity prices can be seen in the graph below.



In addition to the impact of the increase in carbon prices, ongoing supply concerns have also been instrumental in driving gas and electricity prices higher over recent weeks. A number of planned and unplanned outages reducing Norwegian gas imports into the UK has resulted in an increase in Day Ahead gas prices in order to incentivise alternative sources of supply. As a result of this, Day Ahead gas prices have consistently traded above 70p per therm for the first time outside the winter months since 2008. A reduction in LNG shipments into Europe over the summer months has added to supply concerns, with little prospect of any increase in the short term.

Six Month Review

Given the upward pressure and volatility of the energy markets over the summer months it would be useful to recap on the market movements in the six months from April. During this period gas prices for the coming winter have increased by 48% with electricity prices for the same period up by 38%. Gas prices for the next financial year (April 2019 - March 2020) have increased by 46% and electricity prices by 37%. To recap, these increases are the result of a number of contributory factors, summarised below:

UK gas storage levels - closure of the Rough storage site has left the UK more dependant on imports raising supply concerns for the coming winter

European gas storage levels - severely depleted during the cold weather at the end of last winter increasing summer demand for gas throughout Europe in order to replenish stocks; concerns remain regarding replenishment prior to the coming winter with levels still at 5 year lows, raising supply concerns

Carbon prices - have tripled since the start of the year adding to the cost of UK and European power generation

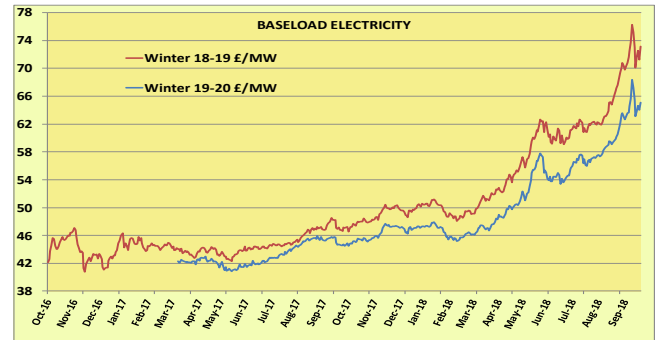
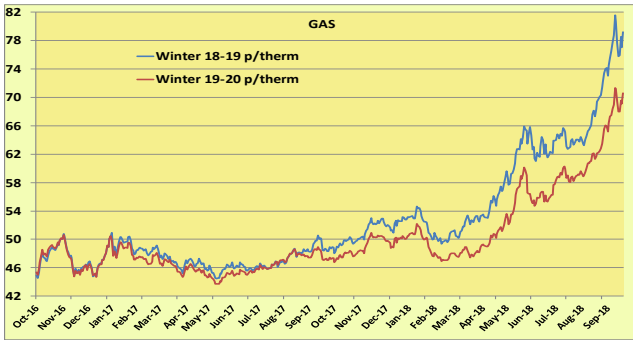
Coal prices - have risen steadily since March to reach multi-year highs adding further to the cost of UK and European power generation

LNG - reduction in imports into Europe in recent months due to unfavourable cost differential with Asian gas prices, raising supply concerns for the coming winter

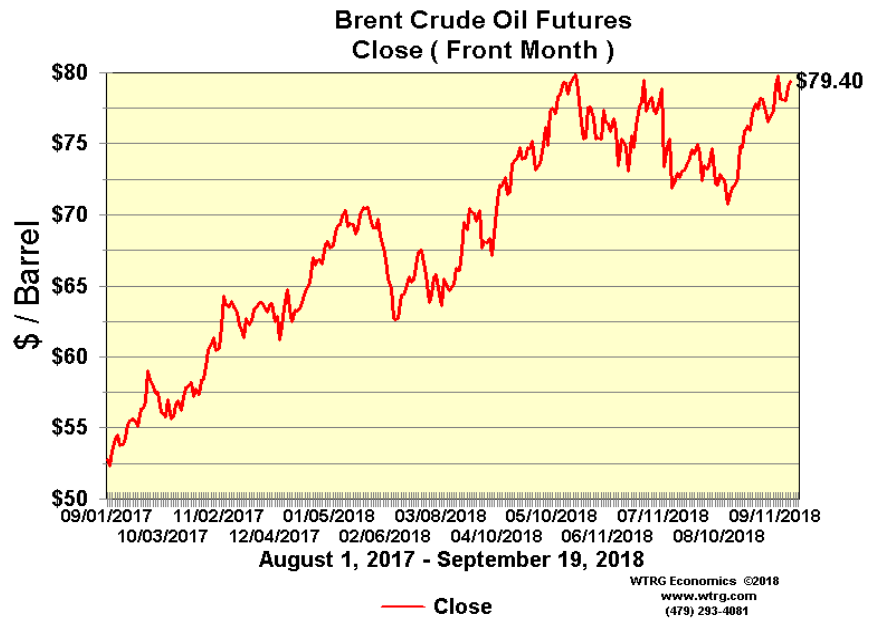
Currency - weakness in the pound since April has increased cost of gas imports and made exports more attractive

Nuclear availability - concerns regarding UK outages prior to Christmas reducing supply margins; concerns regarding French and Belgian nuclear availability this winter, increasing European power prices

Market sentiment - concerns regarding the impact of a cold winter increasing buying interest as market participants lock-in volumes to avoid risk



Oil prices have risen over the last month to once more threaten the \$80 per barrel resistance level. Concerns regarding US sanctions on Iran reducing global supplies are competing with increasing concerns over a trade war between the US and China and the damage this could do to the global economy and consequentially demand for oil. Oil prices have risen 13% since April and are another contributory factor in the increases in gas and electricity prices.



SUMMARY

After a period of consistent gains, gas and electricity prices have been more volatile in the last week, in line with similar volatility in carbon prices. While carbon prices remain at current levels, or increase further, gas and electricity prices are likely to remain well supported, taking further support from supply concerns as we approach winter. Whilst a short term downward correction in prices is possible it is difficult to see this becoming a prolonged move unless the fundamentals driving the markets change.



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