

MARKET UPDATE: OCTOBER 2019

OVERVIEW

- Gas and electricity prices for the forthcoming winter have fallen in the last month
- Electricity prices for Summer 20 and beyond have remained relatively flat over the same period whilst gas prices have increased
- LNG flows have increased significantly in recent weeks, contributing to the falls in winter gas prices
- The falls in electricity price in the last month can be partly explained by lower carbon prices which have fallen by 11% since the beginning of October

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
Nov-19	48.45	-2.05	51.18	56.23	48.13		Nov-19	41.87	-1.63	43.96	49.60	41.18	
Dec-19	51.88	-2.58	53.89	58.80	51.40		Dec-19	48.37	-1.01	49.81	54.49	46.88	
Jan-20	55.05	-0.80	57.56	62.40	54.45		Jan-20	51.46	-0.47	52.61	57.21	49.73	
Winter 20-21	54.23	0.18	54.90	57.90	53.13	-7.78%	Winter 20-21	53.40	1.23	53.42	56.63	51.31	-16.13%
Winter 21-22	52.50	-0.48	53.19	55.38	51.70	0.10%	Winter 21-22	53.18	0.67	53.14	55.79	51.95	-12.26%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$58.32	-\$2.76	\$61.24	\$69.02	\$57.69	-31.39%

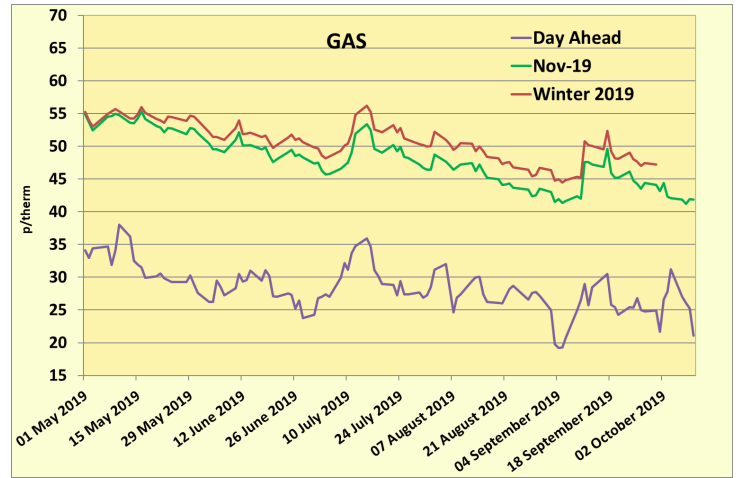
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Day Ahead gas prices
- Brexit
- Gas storage levels
- LNG shipments into Europe and the UK
- Market sentiment
- Currency exchange rates
- Coal prices
- Oil prices
- Domestic and global economic indicators
- Carbon Prices
- European and Asian gas prices

IN DETAIL

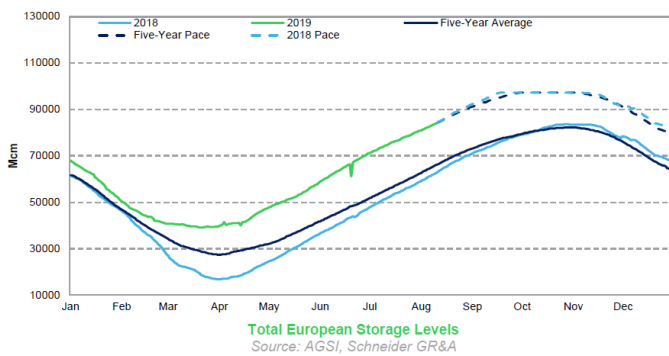
Gas and electricity prices continued on their downward trend up to the middle of September at which point the markets moved sharply upwards as a result of three major 'incidents'.

On 10th September news of potential French nuclear unavailability for the winter due to safety concerns, combined with a court ruling effectively limiting Russian gas flows into Europe, caused gas and electricity prices to surge. Gas prices for the coming winter rose by 12% with electricity prices for the same period up by 10%. Then on Monday 16th September the markets reacted to a sharp rise in oil prices as a result of an attack on Saudi oil fields the day before. The impact of these events can be seen on the graph alongside.



Both gas and electricity prices lost value after the initial impact as the risks to supply became clearer. The safety concerns regarding the French nuclear units were much less significant than initially feared, as was the potential impact on Saudi oil production. Since the end of September the gas and electricity markets have resumed their downward trend driven mainly by a significant increase in LNG flows coupled with mild, windy weather.

Another driver for the falls that we have seen in electricity prices in recent days has been a fall in the price of carbon. As can be seen from the graph below, carbon prices have fallen below the significant €25 per tonne level and have lost 11% of value since the start of October. This can be partly explained by concerns regarding a 'No Deal' Brexit at which point UK carbon allowances would be returned to the market resulting in an over-supply and pushing prices down. There is currently a strong correlation between carbon prices and Brexit negotiations, as identified in the chart alongside.

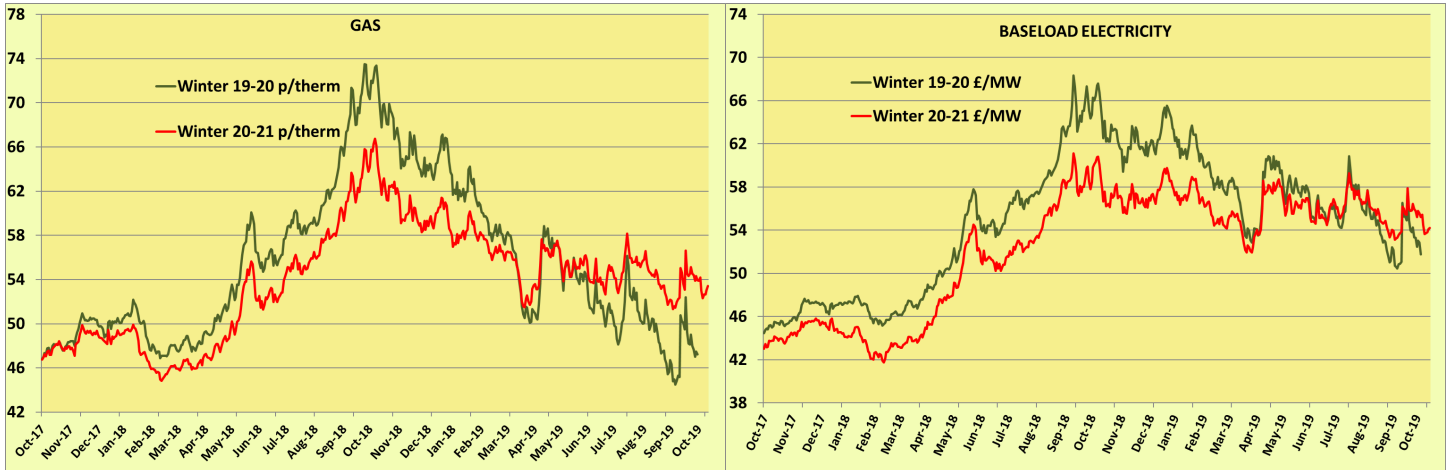


KEY BREXIT EVENTS AND THEIR IMPACT ON EUAs

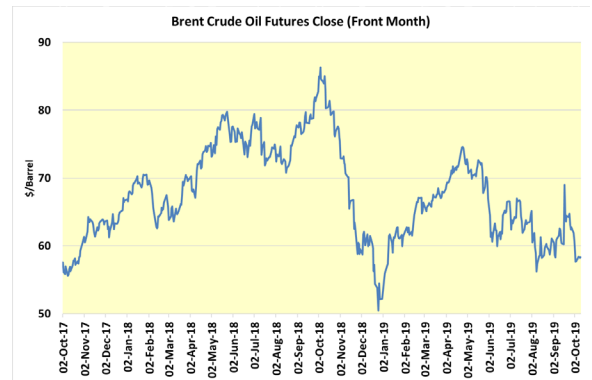


Source: ICE

The series of events in September which impacted on gas and electricity prices for the forthcoming winter also had a corresponding impact on prices from Summer 2020 onwards, albeit to a lesser extent.



As discussed above, oil prices rose sharply in the aftermath of the attack on Saudi oil fields in mid-September, reaching \$72 per barrel in early trading on the 16th September. The impact of the attacks was less severe than originally feared which saw prices fall relatively quickly to previous levels. In recent days concerns regarding the global economy have resurfaced with oil prices falling back below \$60 per barrel.



Gas and electricity prices have found support this week, reversing some of the recent downward momentum. To some extent this can be attributed to concerns regarding Brexit. Although market expectations are for an extension to the deadline to leave, the possibility of a 'No Deal' appears to have risen. As a result there may be an increase in buying interest as market participants look to reduce exposure. As alluded to above, one result of a No Deal could be a fall in carbon prices which could favourably impact on UK gas and electricity prices. However, there would almost certainly be a fall in the value of the pound which would have an adverse effect on energy prices, along with market uncertainty as to the future relationship with the EU.

SUMMARY

The short term supply outlook for gas and electricity remains favourable, with relatively mild weather forecast for October, and a number of LNG shipments en route to the UK likely to maintain the recent increase in LNG flows.

This could be expected to see gas and electricity prices continue on their recent downward trend. However, the gas and electricity markets are likely to find support in the run up to any decision on Brexit, particularly if the possibility of leaving without a deal increases.

Gareth Maude, 10th October