

MARKET UPDATE: APRIL 2019

OVERVIEW

- Gas prices for the summer months are lower than a month ago but have recovered in value from historic lows of early April
- Summer electricity prices are relatively unchanged from their positions of a month ago
- Gas and electricity prices for winter 2019 and beyond have risen significantly since the beginning of April
- One of the main drivers for these increases has been rising carbon prices which have reached new 10 year highs
- Oil prices have also risen over the last month, providing further support to gas and electricity 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
May-19	43.85	0.40	43.96	47.20	39.78		May-19	35.68	-1.44	37.49	41.93	32.15	
Jun-19	44.70	0.60	44.73	47.88	40.75		Jun-19	34.89	-1.98	37.12	41.90	32.02	
Jul-19	45.53	0.88	44.53	48.40	41.25		Jul-19	35.70	-1.84	37.93	42.30	32.94	
Winter 19-20	59.80	5.45	56.13	60.85	52.88	19.30%	Winter 19-20	56.83	5.26	53.83	58.84	50.10	12.16%
Winter 20-21	57.43	4.65	54.76	58.60	51.93	20.77%	Winter 20-21	56.03	4.03	54.32	57.66	51.50	16.95%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$71.72	\$4.56	\$68.57	\$71.73	\$65.74	0.42%

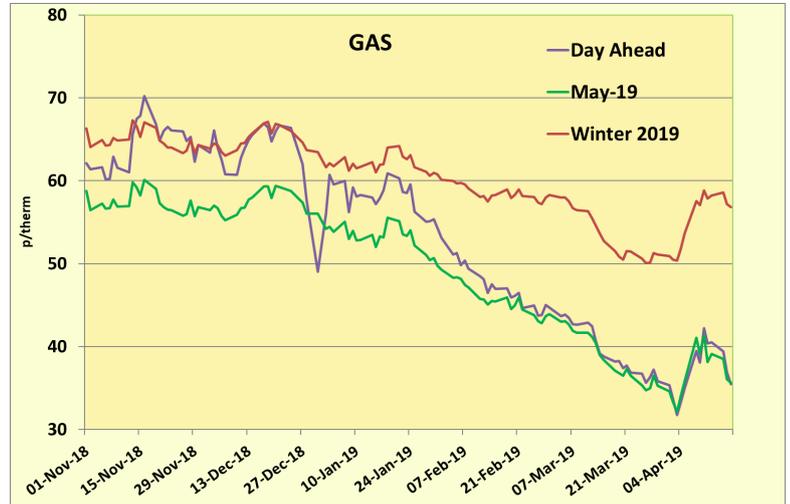
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Day Ahead gas prices
- Brexit
- Gas storage levels
- The level of gas imports from Norway, Belgium and Holland
- LNG shipments into the UK
- Market sentiment
- Currency exchange rates
- Coal prices
- Oil prices
- Domestic and global economic indicators
- Carbon Prices
- European and Asian gas prices

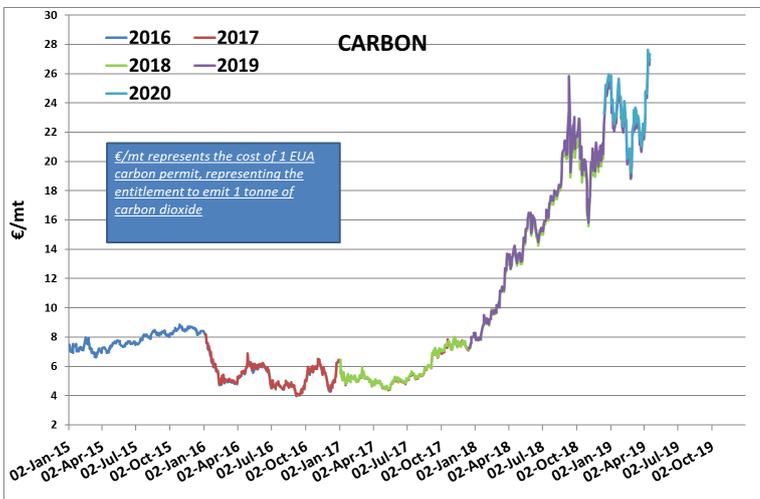
IN DETAIL

Having continued on their downward trend throughout March, gas and electricity prices rose significantly during the first week of April before losing some value in recent days.

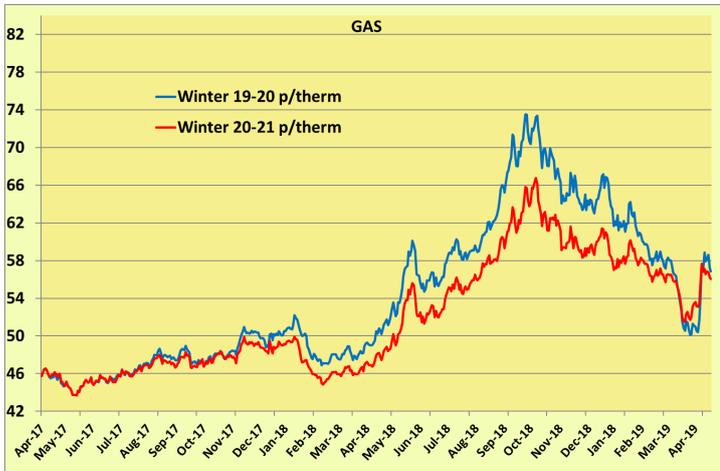
The dramatic nature of the increases at the beginning of April can be seen in the graph on the right. Gas prices for May rose by 28% in 3 days from 3rd April with gas prices for winter 19 rising by 14% over the same period. These increases were all the more dramatic for having no particular cause. Up to this point gas and electricity prices had been on a steady downward trend, mainly as a result of the increase in LNG shipments into the UK and Europe over the winter months, a situation which has continued throughout April, with the supply outlook remaining favourable. To some extent the increases could be seen as a market correction after prices fell too far sparking significant buying interest, with increases in carbon prices also a driver.



The increase in EU carbon permit prices can be seen in the graph on the left which represents a continuation in the trend we have seen since January 2018. 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. Carbon prices have been directly influenced by Brexit negotiations - in a no deal scenario the UK would have left the EU carbon trading scheme and returned their permit allocation potentially leading to a significant over-supply of permits which could have resulted in a sharp fall in permit prices. With this risk removed carbon prices have increased to new 10 year highs, rising by 25% since the beginning of April.

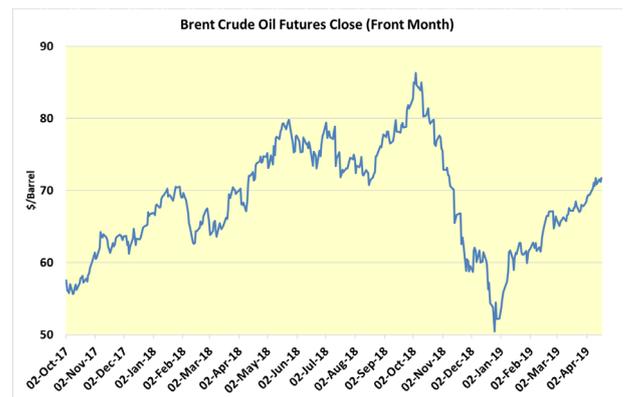


The dramatic increase in gas and electricity prices for winter 19 and beyond can be seen in the graphs below which also demonstrate how prices have found support at these levels, more so than prices for the summer months which have taken some direction from the continuation in price which have taken some direction from the continuation in the increase in LNG shipments into the UK and Europe which is likely to continue in the short term, particularly in light of the recent increase in UK gas prices.



In addition to the increase in carbon prices in recent weeks, we have also seen a recovery in coal prices which 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.

Oil prices have also risen over the course of the last month, providing additional support to gas prices. US sanctions on Iran and Venezuela have reduced oil exports from these countries which, along with OPEC production cuts, have reduced supply in recent months. In addition, oil prices have found additional support from concerns regarding unrest in Libya and potential disruption to oil supplies. Taken as a whole, these supply concerns have countered market noise over a possible increase in OPEC production from June and doubts over Russia's willingness to extend their own production cuts in order to fight for market share with the US.



SUMMARY

Short term market fundamentals remain strong with a further seven LNG shipments due into the UK before the end of April. Weather forecasts suggest that temperatures will be above average over the Easter period which, along with the Easter holidays should suppress gas and electricity demand. In addition, the gas interconnector between the UK and Belgium will be off-line for two weeks from 21st April, which will restrict gas exports from UK. Despite this the markets are continuing to find support from carbon, coal and oil prices and this is likely to continue in the short term along with the high levels of market volatility that we have seen recently.



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