

MARKET UPDATE: JANUARY 2020

OVERVIEW

- Gas and electricity prices have fallen sharply over the last month driven by ample supply and reduced demand as a result of relatively mild weather
- LNG shipments into the UK have maintained the increase in volumes that we have seen throughout the Winter with a further nine cargoes scheduled in the next two weeks
- Falls in carbon, coal and oil prices have also contributed to the falls in gas and electricity prices
- Oil prices in particular are reacting to the outbreak of the coronavirus in China as are markets in general

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
Feb-20	34.88	-12.63	40.24	47.50	34.88		Feb-20	25.34	-14.02	30.92	39.36	25.34	
Mar-20	34.55	-10.60	39.06	45.15	34.55		Mar-20	24.38	-14.02	30.20	38.40	24.38	
Apr-20	34.80	-9.20	38.82	44.00	34.80		Apr-20	23.88	-12.18	29.24	36.06	23.88	
Winter 20-21	42.98	-9.28	47.76	52.25	42.98	-24.67%	Winter 20-21	35.82	-11.41	42.04	47.23	35.82	-38.54%
Winter 21-22	44.60	-7.60	49.25	52.25	44.60	-17.18%	Winter 21-22	40.76	-8.88	46.69	50.46	40.76	-27.72%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$58.29	-\$8.25	\$64.79	\$68.91	\$58.29	-5.45%

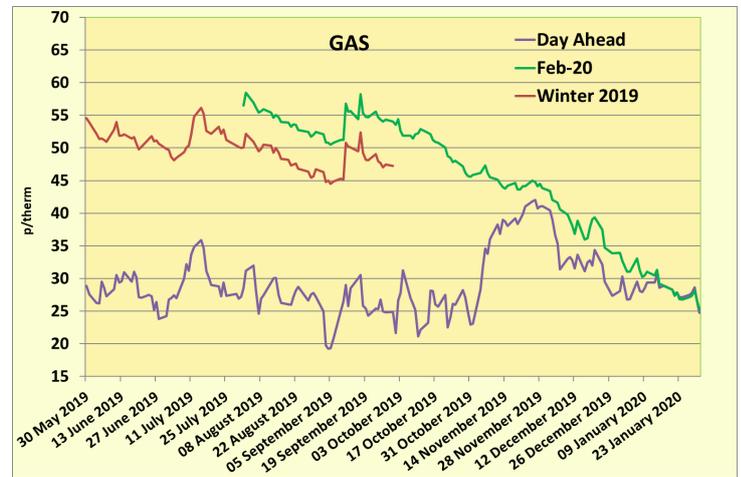
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

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

IN DETAIL

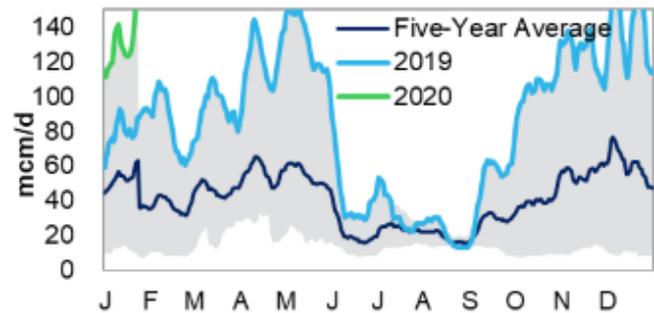
Gas and electricity prices have fallen significantly over the course of the last month.

This sharp downward move began at the end of last year on news that Russia and Ukraine had agreed a new gas transit deal. The existing deal was due to end on 31st December and without a new deal gas flows into Europe could have been compromised in the New Year. Since the start of the year prices have continued to fall, as can be seen from the graph on the right, which shows how Day Ahead gas prices have traded at levels similar to those seen during last summer, unusual for the time of year and reflective of relatively mild weather during January. The graph also illustrates the impact of ample supplies and lower demand throughout the winter - the red line shows that the winter 2019 contract closed at the end of September at 47p, which is where the markets expected winter prices to outturn. As can be seen, Day Ahead prices have traded throughout winter consistently below this level.



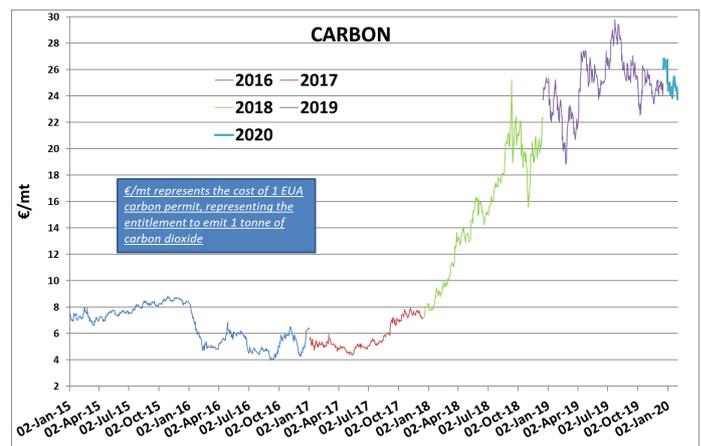
The mild weather that we have seen so far this year has resulted in lower demand for gas and electricity. This fall in demand has been exacerbated by relatively windy weather which has seen high levels of renewable energy displacing gas in electricity generation. As a result of the fall in demand for gas throughout Europe there has been a reduced need to take gas from storage with the result that European gas storage levels are currently 20% higher than last year. All of these factors have contributed to the sharp falls in gas and electricity prices.

The increase in LNG flows that we have seen in the early part of winter have continued in the last month, despite the fall in gas prices. As can be seen from the chart alongside, LNG flows so far this year are significantly higher than the same point last year, which in turn were higher than average. Asian gas prices have fallen at the same rate as European gas prices in recent days, again mainly due to mild weather, and this has ensured the continued profitability in sending LNG cargoes into Europe. In the short term there appears to be no sign of this diminishing significantly, with a further nine cargoes currently en route to the UK.

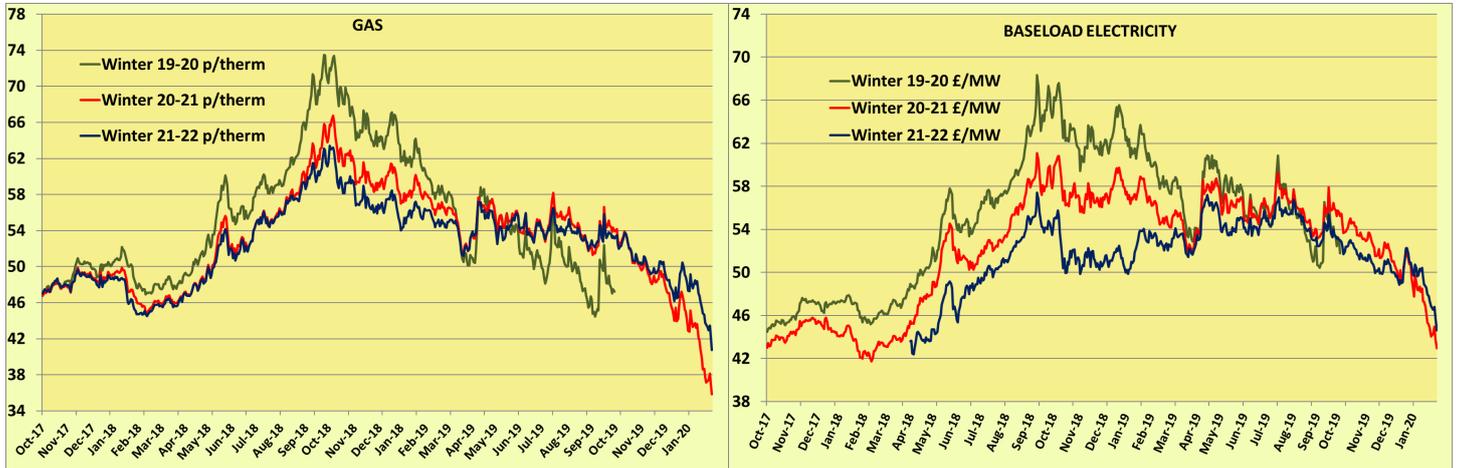


Source: Bloomberg, Schneider GR&A

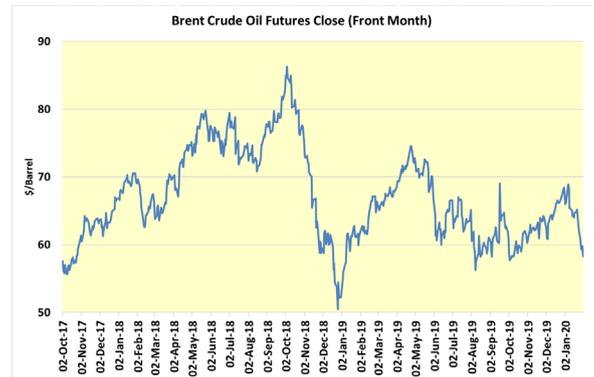
Carbon prices have also fallen over the course of the month. The 2019 carbon contract closed at the end of the year, with the 2020 contract initially commencing at a higher rate before falling in recent weeks to now trade at relatively low levels around €24. Carbon prices represent a tax on electricity generation and movements in carbon prices can be reflected in corresponding movements in electricity prices. Consequently, the fall in carbon prices has contributed to the drop in electricity prices.



The graphs below illustrate the sharp falls in prices that we have seen in recent weeks, with prices beyond the current winter also registering significant falls. Gas prices for these future periods are currently trading at historic lows, with less fundamental justification for these low prices than for prices for this winter.



Oil prices have also fallen sharply in recent days having initially risen at the beginning of January in response to reports that US airstrikes had killed an Iranian general, fanning an already volatile political situation in the key oil-producing region. Fears of reprisals and an escalation in tensions proved unfounded, resulting in oil prices falling back. The outbreak on the coronavirus in China has subsequently resulted in sharp falls in oil prices amid fears of potential demand degradation in one of the biggest oil consumers, and fears of wider Global implications.



SUMMARY

Current weather forecasts suggest that the relatively mild weather that we have experienced so far this year is likely to continue through February with no indications of any sustained cold spells. On that basis gas and electricity prices could fall further in the short term, particularly as the supply outlook remains positive, although at some point buying interest could provide support.

Gareth Maude, 31st January 2020