

MARKET UPDATE: AUGUST 2019

OVERVIEW

- Gas and electricity prices have fallen in the last month
- These falls can be attributed to a number of factors including lower carbon and oil prices, high levels of renewable energy and concerns regarding the global economy
- LNG flows remain low in contrast to the levels seen throughout most of the year but the longer term outlook for LNG remains favourable
- European gas storage levels are at relative high levels reducing demand for further injections and are likely to be close to 100% by the start of winter

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
Sep-19	40.95	-2.00	42.26	45.38	39.53		Sep-19	30.07	-1.58	30.82	33.99	28.27	
Oct-19	42.83	-4.58	44.87	47.75	40.30		Oct-19	33.60	-5.10	35.42	39.17	30.25	
Nov-19	50.50	-6.00	54.31	60.20	49.50		Nov-19	43.50	-5.56	46.37	50.16	42.34	
Winter 19-20	52.43	-4.81	54.88	58.25	51.00	-17.57%	Winter 19-20	46.71	-5.44	49.50	53.23	45.43	-29.26%
Winter 20-21	54.05	-2.85	55.79	57.68	53.35	-7.88%	Winter 20-21	52.17	-3.33	54.42	56.57	51.72	-13.81%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$61.08	-\$0.85	\$60.73	\$65.17	\$56.23	-20.82%

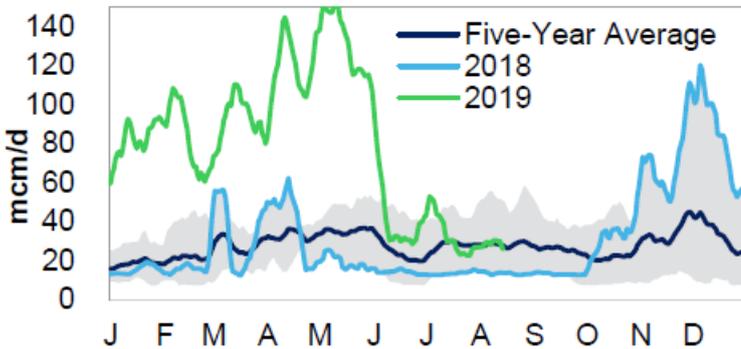
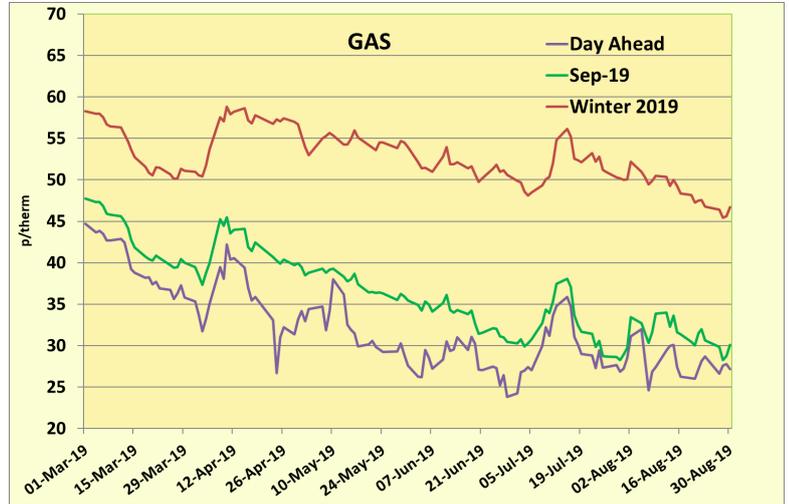
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Day Ahead gas prices
- Brexit
- Gas storage levels
- Planned outages to gas and electricity supplies due to summer maintenance
- 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

Gas and electricity prices have fallen over the course of the last month, despite lower LNG supplies and the prospect of maintenance curtailing Norwegian imports at the end of August and throughout September.

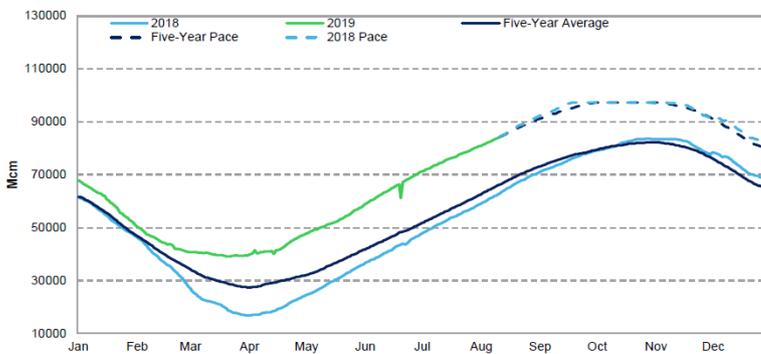
Day Ahead gas has continued to trade below 30p during August and this has seen winter gas prices fall to relative low levels, as can be seen from the graph on the right, as the gap between Day Ahead and winter gas prices begins to close. Gas demand has remained low during August, partly as a result of high levels of wind generation, and this has helped to suppress Day Ahead gas prices.



UK LNG Sendout

Source: Bloomberg, Schneider GR&A

The fall in LNG flows through August represents a continuation in the trend that we have seen from June onwards and is in marked contrast to the very high levels from the early part of the year, as demonstrated by the graph on the left. LNG flows in recent weeks have been more in line with the five year average with only one shipment arriving into the UK during August. The longer term outlook remains favourable however and this has helped to cap any increases in short term gas prices which has in turn impacted on longer term prices as discussed above.

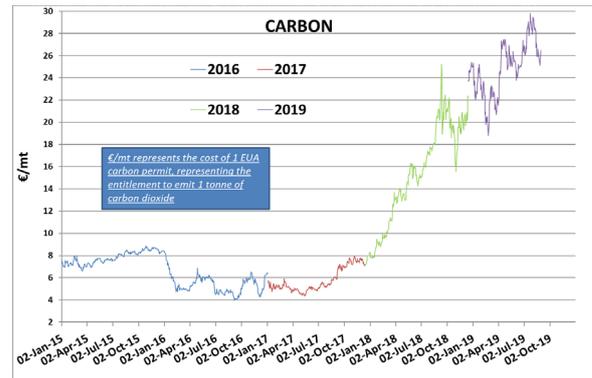


Total European Storage Levels
Source: AGSI, Schneider GR&A

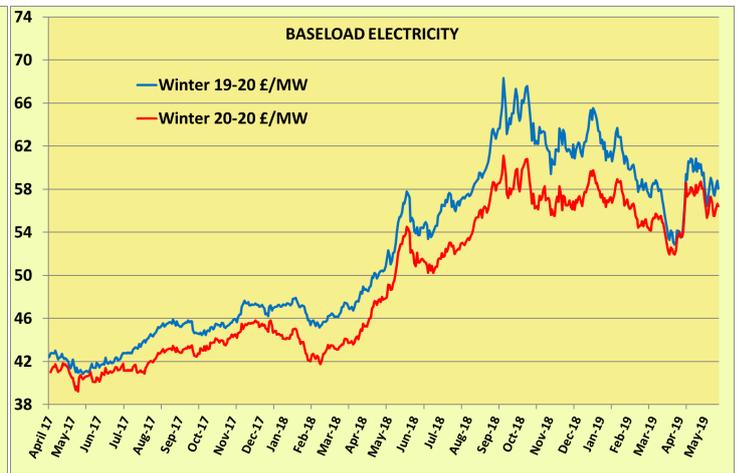
Another factor in the falls in gas prices has been the relatively high levels of storage capacity throughout Europe. As a result of a mild winter stocks were less depleted than in previous years at the start of the summer, requiring less volume to refill storage sites. Typically the UK exports gas to Europe throughout the summer period but this year demand has been lower. In addition to the impact of lower demand, storage levels are likely to be close to 100% by the start of winter increasing market confidence in the ability of supplies to meet demand for the winter months and eroding risk premiums.



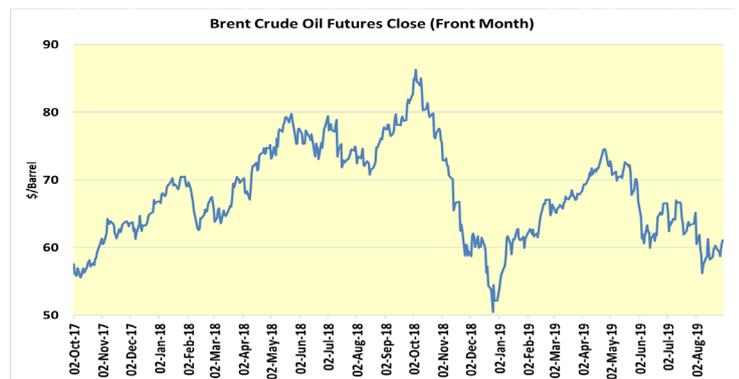
Falls in carbon prices in recent weeks have contributed further to the falls in electricity prices. Having threatened to break through the €30 per tonne barrier at the end of July the price of carbon permits has lost value, falling to €25 at the end of last week, a fall of approximately 15%, before rallying in recent days. These falls can be partly attributed to concerns regarding the European economy and partly to the threat of a 'No Deal' Brexit. Carbon prices represent a tax on the generation of electricity and any increase or decrease has a direct impact on prices.



As can be seen from the graphs below, the fall in prices over the last month has been more pronounced for winter 19 gas, but gas prices for winter 20 and electricity prices for winter 19 and winter 20 have also fallen relatively sharply. This is as a result of a combination of the factors discussed above and prices are now approaching 18 month lows. Winter 19 gas prices have fallen to their lowest levels since winter 2015.



Oil prices have traded around \$60 per barrel for much of August having fallen sharply at the end of July. Concerns regarding the global economy and the impact of US/China trade disputes continue to cap price increases whilst potential further cuts to OPEC production provides support to prices. Given the relative lack of volatility oil prices have had minimal impact on gas and electricity prices in recent weeks.



SUMMARY

As a result of recent market falls, gas and electricity prices have reached relative low points which may result in an increase in buying interest as market participants look to lock in value which could provide support to prices in the short term.

The gap between Day Ahead and winter gas prices remains high and will narrow as we approach winter. The longer that Day Ahead prices remain around current levels, the greater the potential for falls in winter gas prices, although the more likely scenario is that Day Ahead prices rise as demand increases in line with colder weather. Events surrounding Brexit could also impact on the market in the short term.