

MARKET UPDATE: MAY 2019

OVERVIEW

- Gas and electricity prices for the summer months have fallen over the last month with gas prices now at historic lows
- Prices of gas and electricity for winter 2019 are lower than a month ago but are currently trading in a relatively narrow range
- The volume of LNG shipments into the UK remains high and is the main driver for the lower summer gas and electricity prices
- Oil prices are higher than a month ago but are also trading in a relatively narrow range
- The lower gas and electricity prices for winter 19 and beyond can be partly attributed to lower carbon

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
Jun-19	41.40	-3.30	43.94	47.88	40.75		Jun-19	31.23	-3.66	34.57	40.69	31.23	
Jul-19	42.15	-3.38	44.34	48.40	41.25		Jul-19	31.68	-4.02	35.39	41.47	31.68	
Aug-19	42.60	-3.18	44.96	48.95	41.55		Aug-19	33.83	-4.51	37.46	43.59	33.83	
Winter 19-20	58.08	-1.72	58.70	60.85	53.60	3.98%	Winter 19-20	55.10	-1.73	55.86	58.84	50.40	-4.07%
Winter 20-21	56.43	-1.01	56.99	58.73	53.65	6.66%	Winter 20-21	55.39	-0.64	55.82	57.66	53.10	2.92%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$72.62	\$0.90	\$71.57	\$74.57	\$69.31	-8.40%

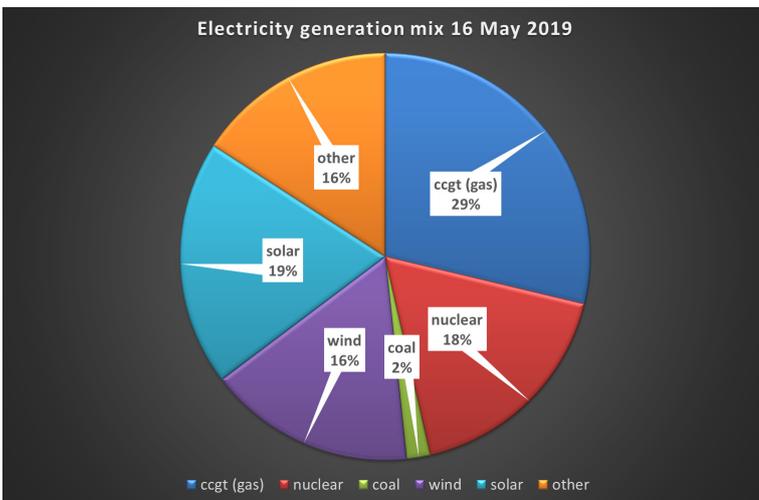
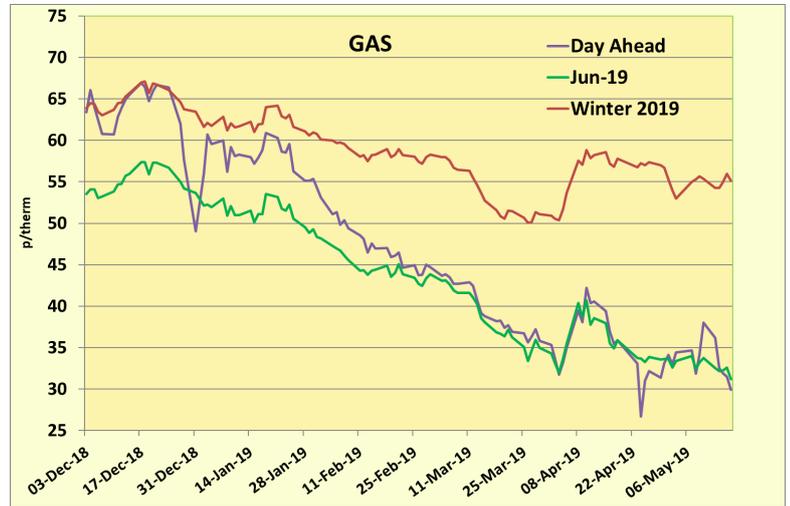
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- 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

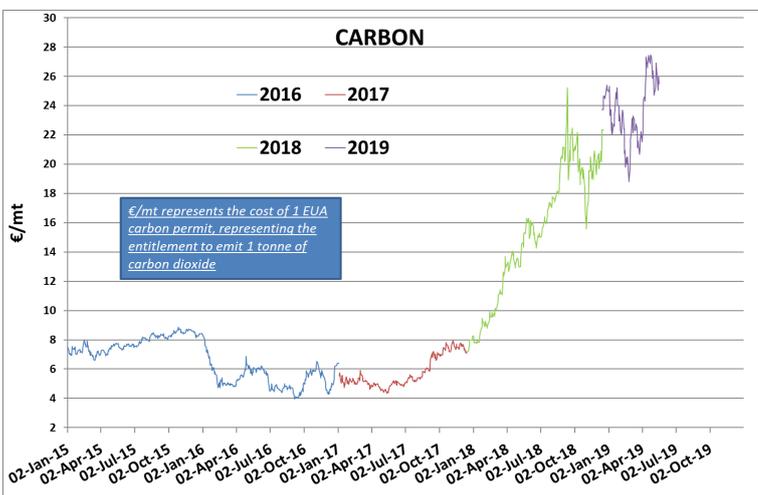
IN DETAIL

Gas and electricity prices for the summer months have fallen to historic lows over the last month whilst prices for winter 19 and beyond remain relatively rangebound.

The main driver for the falls in summer energy prices has been a continuation in the high level of LNG shipments into the UK and Europe. This has helped to offset a reduction in Norwegian imports which have fallen due to planned maintenance and outages. Currently there is no sign of any abatement to the influx of LNG with seven further cargoes potentially arriving into the UK before the end of the month. LNG continues to contribute approximately 30% of daily gas demand which, along with subdued gas demand due to warmer weather, has seen gas prices for June fall to 30p. Gas prices for winter 19 have failed to follow the falls in the summer months as demonstrated by the graph on the right and although lower than a month ago are trading in a relatively narrow range.

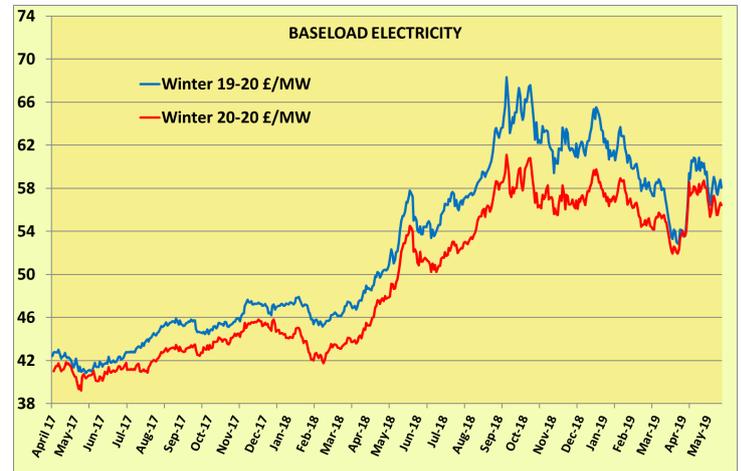


Electricity prices for the summer months have also fallen in recent weeks although remaining a touch higher than their historic lows, drawing support from carbon prices. The recent spell of warmer weather has provided downward momentum to prices due to the availability of higher volumes of cheaper renewable energy. Solar generation has been particularly high this week as illustrated by the chart on the left which shows the electricity generation mix on Thursday afternoon, with solar and wind generation accounting for 35% of generation. This also demonstrates the changing nature of electricity generation in recent years, with renewable energy replacing coal in the mix.

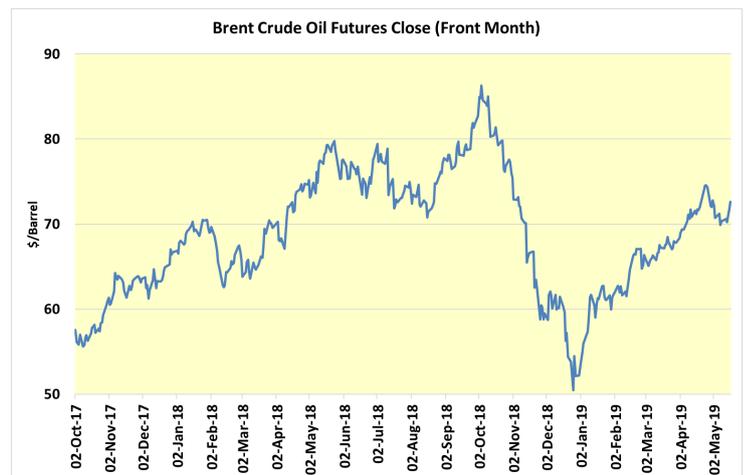


Carbon prices remain relatively high and volatile, and continue to provide support to gas and electricity prices, particularly for winter 19 and beyond. On Wednesday of this week the European Commission published the annual surplus indicator for the EU Emissions Trading System Market Stability Reserve (MSR). The Commission announced that 397m carbon allowances would be removed from auctions between September 2019 and August 2020 and placed in reserve. This was not deemed to be a significant fundamental change by the market which had anticipated the removal of approximately 420m. Carbon prices lost value yesterday as a consequence of the announcement. Carbon prices can be seen as a tax on electricity and gas generation with any increase in price impacting on gas and electricity prices.

As discussed above, gas and electricity prices beyond the summer months are down on their levels of a month ago but have been relatively rangebound, tending to react to changing fundamentals, such as carbon coal and oil prices, rather than following a particular trend. As can be seen in the graphs below, prices for 19/20 and 20/21 gas and electricity remain above the low levels seen at the end of April.



Oil prices have provided some support to gas prices in recent weeks, continuing to trade above \$70 dollars per barrel. Having come under pressure from the escalation of the trade dispute between China and the USA which is seen as potentially damaging to future global economic growth and hence oil demand, oil prices have found support in recent days from rising tensions in the Middle East which threaten to reduce oil production in the region.



SUMMARY

With the LNG outlook remaining positive and warmer weather forecast for the short term, gas and electricity prices for the summer months could potentially fall further. In addition, gas storage levels throughout Europe remain relatively high which is likely to reduce demand for gas in the coming months which would normally be required for refilling the storage sites. This could provide further downward pressure to energy prices. Beyond the summer months gas and electricity prices are likely to continue to be driven by carbon and coal prices, along with oil.



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