October 2016 - Market Summary

Review of Market Trends

Report No. 10
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United States Dollar:
GBP/USD recovered following Sterling’s dip in reaction to weaker than expected manufacturing PMI for October. While the reading of 54.3 showed the sector remained on a firm footing, the fall in the pound has also had a marked impact on importing costs. Price inflation for goods bought by manufacturers hits its highest rate for more than five years and was at its fourth-highest since the survey began in 1992. The rising costs and its impact on inflation has also been highlighted in a recent forecast by the National Institute for Economic and social Research (NIESR). Simon Kirby, head of macroeconomic modelling and forecasting at NIESR, said the fall in sterling had been the most striking feature of the economic landscape since the EU referendum. “This will pass through into consumer prices over the coming months and quarters,” While this is expected to be a temporary phenomenon, it has lead the NIESR to revise their 3% forecast in August to 4% for second half of next year. Subsequently, rising price pressures sees the chances of a further rate cut by the bank of England decrease significantly.

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<thead>
<tr>
<th>Currency</th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>GBP</td>
<td>1.1200</td>
<td>0.09%</td>
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<tr>
<td>EUR</td>
<td>1.2425</td>
<td>0.20%</td>
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GBP/Closing Rate

GBP/EUR 30 Day History

GBP/USD 30 Day History
Looking ahead, we look to another round of UK Construction data along with the US Federal Reserve meeting where it is expected that Governor Janet Yellen will continue to keep rates on hold leading into the US Presidential election on November 8th. We open today with GBP/USD at 1.2255.

I anticipate a range in the GBP/USD rate of 1.2180 and 1.23

**Euro:**
The Euro was one of the best performers as external factors supported the single currency. As mentioned above, weaker than expected UK manufacturing PMI for October saw GBP/EUR fall from an opening price of 1.1150 to a low of 1.1054. The U.S Dollar sell off continued through trade touching near three week lows against the Euro as uncertainty surrounding the race for the White House escalates. Polling suggests Clinton’s lead has all but evaporated as the democratic candidate and her aides fight to extricate themselves from FBI probes into newly found emails sent from Clinton’s private server.

This morning the Euro has found further support as figures for October's Eurozone Manufacturing PMI post a read of 53.5 vs 53.3 exp. Attention now turns to the FOMC and Federal Funds rate announcement as a critical marker ahead of next months presumed rate hike. Analysts will be seeking a clear and concise guide from the FOMC as expectations supporting a December rate adjustment wane in the face of wider political uncertainty. We open today with GBP/EUR at 1.1070 and EUR/USD at 1.1080.

I anticipate a range in the GBP/EUR rate of 1.1035 and 1.1125
Oil Market: Brent $49.56/bbl, WTI $48.50/bbl

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<tr>
<td>Brent ICE (USD/b)</td>
<td>49.56</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>457.50</td>
<td>↓</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>268.83</td>
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Close to close at $49.71 bbl for Brent ICE (This morning at $ 49.56/bbl)

Brent prices fell further over the month as tension among negotiators of the freeze deal are getting more and more apparent: one month ahead of the deadline for a deal, Non-OPEC producers are sending bearish messages to the market, showing a deal is far from being found yet. With tightening of the US presidential race after news of a renewed FBI probe of Hilary Clinton also affecting sentiment, oil prices extended losses this morning and both benchmarks are now trading on monthly minimums: just below $49.5/b for Brent and around $48.5/b for WTI.

**Main events:**
- OPEC and non-OPEC countries including Azerbaijan, Brazil, Kazakhstan, Mexico, Oman and Russia met for consultations in Vienna on Saturday in the frame of the “high level committees” that intend to discuss the details of the Algiers’s meeting. OPEC members have met on Friday but they were unable to agree on the implementation of the deal, sources saying there were much confusion and Iran was reluctant to freeze output. Furthermore, OPEC members have not agreed on a single set of production figures from which to make the agreed cutbacks… As a consequence, Non-OPEC countries yesterday sent the message that they are waiting for OPEC members to make real decision before any discussion. The only decision on Sunday was to meet again in November before a scheduled regular OPEC meeting. The position of Russia remains the same as before, in line with the general sentiment: Moscow is still willing to freeze its output levels if OPEC agreed to cap its production.
- In its draft federal budget, Russia showed it expects to increase its oil output by +0.7% next year and a further +0.9% in 2018. Crude production is seen at 548 mt in 2017 and 553 mt in both 2018 and 2019 (all record highs), up from an estimated 544 mt this year. Another bearish message both for markets and for ongoing negotiations with OPEC…

- In US, the weekly Bakker Hughes report showed American oil drillers cut rigs this week for the first time since June: Drillers cut 2 oil rigs in the week to Oct. 28, bringing the total down to 441 and ending a 17-week recovery in the rig count.

**Outlook:**
Non-OPEC nations finished talks with the cartel yesterday without any supply commitment and the markets trend has clearly flipped since mid-October. The sentiment is negative and this could last until the next OPEC meeting with high volatility ahead of US presidential election. All in all, we see more downward risks on the short term for crude markets today and there is a first support at $49/b for Brent first nearby.
Close to close at 1.5985 p/kWh for TTF CAL 17 (This morning at 2.0728 p/kWh)

Bulls came back to the fore, pushing gas curve prices higher after a downward correction. Strong power prices on the back of lingering nuclear issues in France and higher oil prices fuelled the bullish sentiment. Gassco extended the ongoing field outage that cut Norwegian flows while Dutch production was adjusted 10% down, but a drop in demand due to milder weather and a higher wind output kept a lid on spot prices yesterday. Prospects of colder weather from next week remained supportive for near-curve prices despite no major change in temperature forecasts over the last few days.

NBP ICE November 2016 prices jumped by 0.93 p/therm at the close (+1.95%), to 48.73 p/therm

According to Reuters, the EU commission is to announce today that it will lift the cap on OPAL available capacity to Gazprom which is currently fixed at 50% of pipeline capacity (36 Bcm/year). Gazprom will retain access to 50% of pipeline capacity but could bid at auction on 30-40% of additional capacity while 10-20% of OPAL capacity will be available to other suppliers. This could lead to an increase in Russian gas imports to north western Europe through the Nordstream pipeline in the future (limited at 30 mm cm/day compared to current flows), which is overall a bearish factor for European gas curve prices. An oversupplied UK system could weigh on prompt contracts although the arrival of colder weather could limit downside. All in all I favour a slightly bearish outlook for gas prices as the technical configuration remains bullish with strong support from 5-day averages...
UK Electricity Market Average Buy Price: £5.289/MW

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<tr>
<td>Day Ahead (p/kWh)</td>
<td>5.100</td>
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<tr>
<td>October 16 (p/kWh)</td>
<td>4.870</td>
<td>↑</td>
</tr>
<tr>
<td>Q4 2016 (p/kWh)</td>
<td>5.090</td>
<td>↓</td>
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<tr>
<td>Winter 2016 (p/kWh)</td>
<td>5.140</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>4.010</td>
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The Day-Ahead softened as the month began in response to widening supply margins and received further pressure from forecasts showing improved renewable generation as wind output climbed from 1GW to 3GW. Above seasonal average temperatures ensured the negative movement of the Day-Ahead continued around the mid-point of the month. As the month came to a close lower wind generation and tightening supply margins predicted for the beginning of the next month caused the Day-Ahead to make steep gains.

On the curve strength from the coal benchmark lifted products at the beginning of the month, although gains were tempered by a weak Crude oil market. Near curve products experienced mixed movements as supply concerns shifted from November to December and January, causing these contracts to gain value. The near curve then reversed its losses following changes to the French nuclear maintenance schedule, while contracts further out were weighed down by Crude. As the month came to an end the majority of the near curve weakened under bearish influence from the NBP, while later dated contracts edged higher tracking gains by the carbon and coal benchmarks.
Coal Buy Price: £32.15/tonne

Carbon Buy Price: €5.81/tonne
News

Oil ends up on Russia-OPEC hopes

24/10/2016

Crude oil ended up on hopes that Russia and OPEC will reach a deal aimed to keep crude above $50 a barrel, although traders worried about pressure from a double-digit increase in the U.S. oil rig number. Brent rose 40 cents, or 0.8 percent, to settle at $51.78. For the week, it ended flat. U.S. West Texas Intermediate crude climbed 22 cents, or 0.4 percent, to end at $50.85 a barrel. WTI reached a July 2015 high of $51.93 on Wednesday and ended the week 1 percent higher.

European spot power prices for day ahead delivery decreased as traders looked for refuge in short-term positions due to supply uncertainties. The German spot power contract for Monday delivery stood at 37.66 euros per megawatt hour (MWh), down 4.60 percent day-on-day, while the French equivalent contract lost 23.62 percent to trade at 55.72 euros per MWh. Along the forward power curve, prices boosted on Friday alongside other fuels and after EDF unveiled outage plans for five other nuclear reactors involved in the safety checks. German year-ahead delivery gained 1 percent to 31.56 euros/MWh. The less liquid French year-ahead contract also added 1 percent to 42.40 euros/MWh, having hit a two-year high of 43.5 euros on Wednesday. Delivered North-West Europe coal gained 3 percent to $69 a tonne. Front-year EU carbon allowances advanced 5.54 percent to 5.91 euros a tonne. British prompt gas prices fell on Friday as robust imports from Norway contributed to a slightly oversupplied gas system. The day-ahead contract lost 0.55 p or 1.19 percent at 45.60 p/therm. Further along the curve, gas prices also tumbled. The November contract shed 0.66 p or 1.39 percent to 46.91 p/therm. The summer 2017 contract slipped 0.29 p or 0.66 percent to 43.04 p/therm.

EU gas demand likely to increase by 6% in 2016

24/10/2016

Natural gas demand across the European Union is likely to rise by 6 percent in 2016, aided by increasing industrial production and more use in electricity generation and transport, as stated by the Eurogas business association on Friday.

It estimates that gas demand by EU’s 28 member states and Switzerland will attain 4,866 terawatt-hours or 450 billion cubic metres this year. Gas demand for electricity generation doubled in the first semester of the year in France compared with the same period in 2015, while several gas-fired plants started to run in Germany, according to Eurogas. Colder weather and stronger industrial production in several European countries also increased demand, as it declared. Gas has been embraced as a more ecologically friendly fuel for transport and power, as mentioned by Eurogas. Gas-fired electricity production releases half the quantity of carbon dioxide as coal-fired power generation. EU gas demand rose last year after a few years of drop.

Terminology

- All oil prices: in US dollar
- Oil product: Brent crude or West Texas Intermediary (WTI)
- Mb/d – Million Barrels per day.
- Freight rates: US dollar per tonne.
- Natural gas prices quoted as pence per therm.
- Power prices quoted as Pounds Sterling per MWh.
- CO2 market: EURO
Information & Data Sources

1. Total Gas & Power
2. GdF Suez
3. Haven Power
4. Coal spot.com
5. FT
6. ICIS
7. BBC
8. Guardian

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