# September 2014 - Market Summary

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## Review of Market Trends

**Report No. 07**

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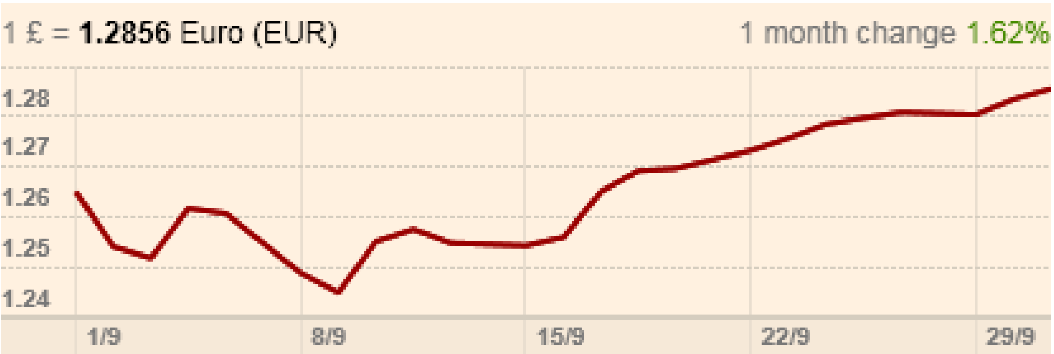
## Contents

# Macro Economics

| GBP | Closing Rate | % Change | |
|---|---|---|---|
| EUR | 1.2856 | 1.62% | ↑ |
| USD | 1.6208 | 2.41% | ↓ |





## United States Dollar

The pound was steady throughout most of month's trading session. The US dollar firmed and GBP/USD slipped to a low of 1.6216. Investors were fairly unresponsive to UK Chancellor George Osborn's speech at the Conservative party conference as the crux of his speech centered on further austerity measures and tax credits. There was a bit of data yesterday; US personal spending and income printed in line with market expectations whilst Pending Home Sales were weaker than expected in August, falling 1% to 104.7. The tight range may well ensue unless data surprises the market. First up is UK current account numbers. At the same time we are due the final q/q GDP reading.

Blizzard anticipates a range of 1.6215 to 1.6295

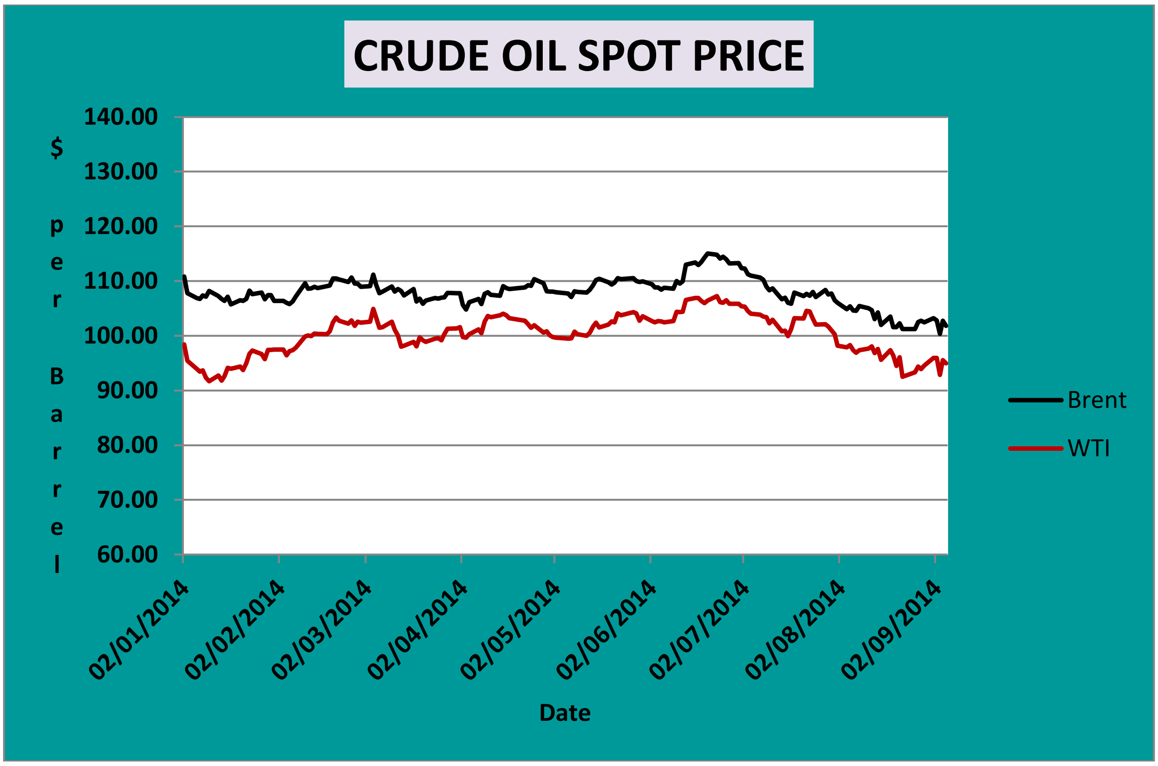
## *Euro*

EUR/USD has also been confined to a tight range over the last 24 hours. It's traded between 1.2669 and 1.2715. German inflation data was mildly stronger than expected which gave the single currency a slight boost whilst the weak US housing number combined to see EUR/USD trade to its day high. German unemployment data has just been released and was slightly disappointing – it means the euro is back off and trades at 1.2680 currently. European CPI Flash Estimate is due later but it will take a big surprise for EUR/USD to snap out of its recent range, especially as we approach the main event of the month being the ECB monetary policy decision and accompanying press conference.

Blizzard anticipates a range of 1.2790 to 1.2865

# Oil Market: Brent $102.49/bbl, WTI $94.55/bbl

| | | |
|---|---|---|
| **Brent ICE (USD/b)** | **97.46** | ↑ |
| **Gasoil ICE (USD/t)** | **818.50** | ↑ |
| **Fuel 1% Fob cg (USD/t)** | **551.76** | ↑ |




**Close to close: UP at $ 102.79/bbl for Brent ICE SEP 14**

***Why?***

Despite an uptick, Brent prices are set for a third monthly drop in September. After a high hit at $97.41/b, Brent is slipping back towards $97/b. WTI posted some +$1/b gains to near $94.5/b. Mixed economic indicators and troubles in Libya gave a little support to crude prices during the session but overall context remains mostly bearish.

***Main events:***

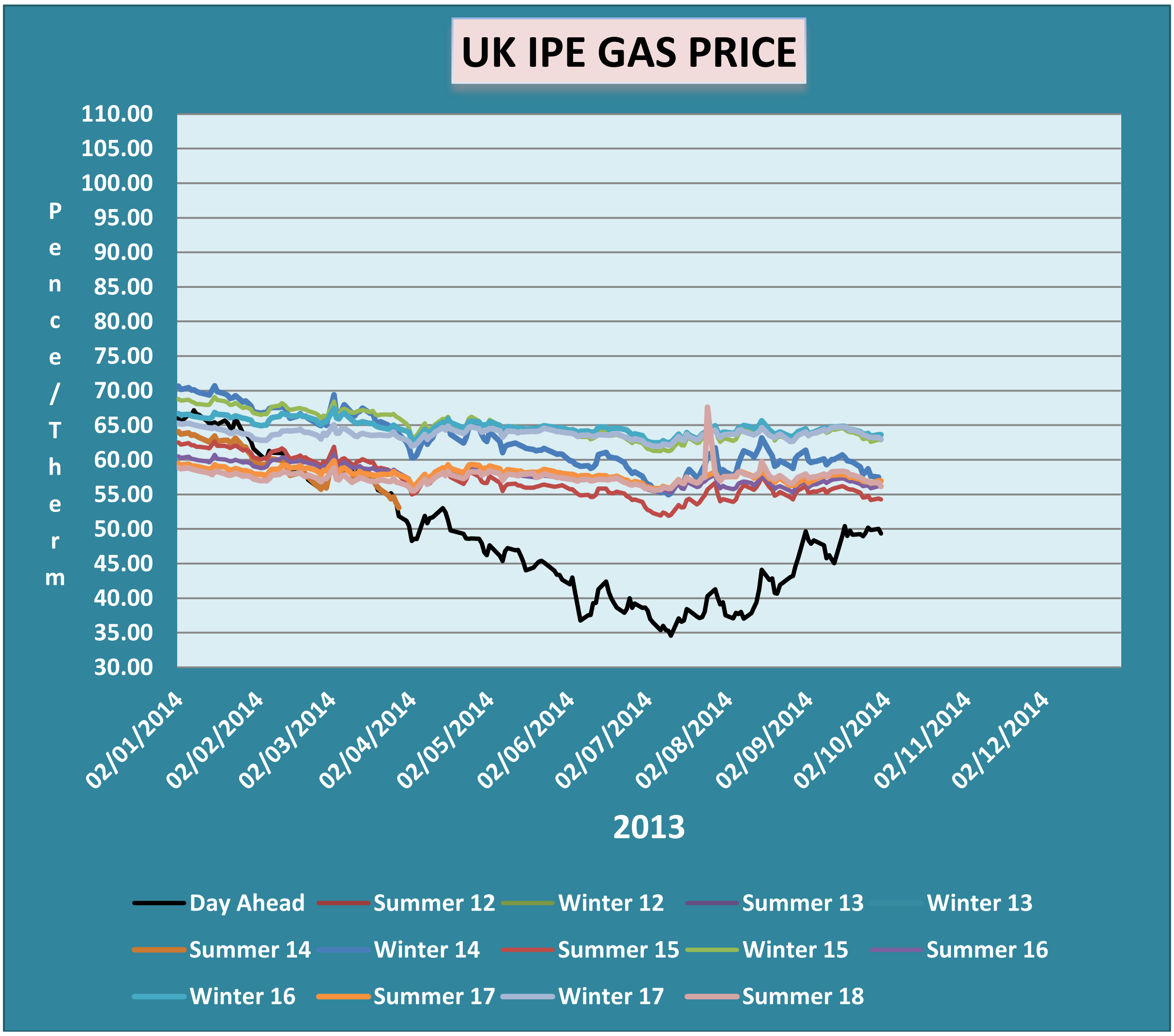
Fears of a hard landing in China slightly went away with figures showing steady factory activity in September although the Chinese situation remains a key issue for 2015 oil demand. Japanese and European data are also a concern as their recovery is mandatory to boost crude markets next year. A strike has trimmed Libya's oil output by 25 kbd down to 900 kbd, according to a spokesman for the National Oil Corp (NOC), but production is still well up from a low of 200 kbd earlier in the year and no real support can be awaited from this news at the moment: it only highlights once again the really unstable situation there. The Brent/WTI spread narrowed to -$2.52/b yesterday, a 13-month high, and we are getting close to the situation last summer when Brent's premium over WTI became negative.

***Outlook:***

For its third week below $100/b, we don't see any reason for Brent to reverse the trend and it seems the target remains $95/b on the short term before winter consumption uptick. With a shining dollar and weak overall economic context, risks are still on the downside. API data before EIA report could give a little support as maintenance season is ready to begin in US.

# European Gas Market NBP Price: 1.706 pence/kWh

| | | |
|---|---|---|
| Day Ahead (p/therm) | 50.00 | ➔ |
| October 2014 (p/therm) | 55.44 | ↓ |
| Winter 2014 (p/therm) | 57.50 | ↓ |




**Natural Gas: DOWN at 24.61 EUR /MWh for TTF CAL 15**

Why?

After a soft start, most European prices ended the session in positive territory, supported by continuous uncertainty surrounding talks between the EU, Russia and Ukraine on the gas dispute. Despite some significant progress during trilateral talks in Berlin on Friday, no agreement has been reached yet and a next round of talks is scheduled for October, keeping market players cautious about Russian gas transit through Ukraine this winter. The bullish sentiment could also have been fed by reports of clashes between Ukrainian forces and pro-Russian separatists near Donestk airport despite the current truce in the area and statements of a Czech energy official saying that it would be "foolish" to expect Russian gas to flow as usual through Ukraine to Europe this winter. Despite bearish fundamentals, spot prices edged higher yesterday. In the UK, gas demand jumped by 30 mm cm from Friday but was in line with seasonal norms.

On the supply side, following the end of the Troll maintenance, Norwegian exports jumped above 300 mm cm/day for the first time since April, but in the UK an unexpected outage caused flows into Bacton Seal to drop from 9 mm cm/day to zero, tightening the British system. On the fundamental side, the supply picture could ease as UKCS production is expected to rise today and Norwegian flows remain close to 290 mm cm/day. Temperatures are still expected to remain above average over the next few days, which could limit residential demand. All in all, we favor a stable outlook for European prices today.

# UK Electricity Market Buy Price: £44.70/MW

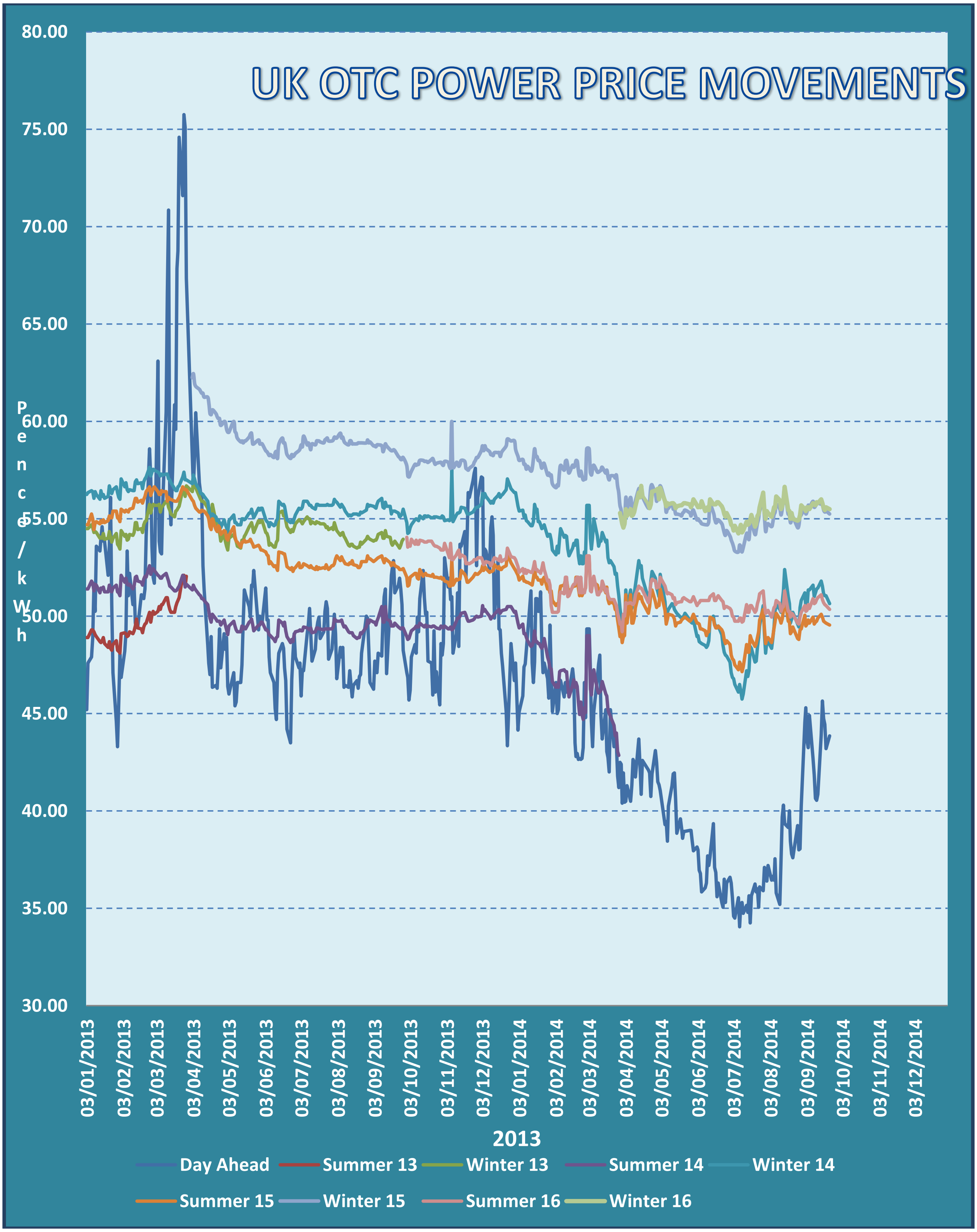
| | | |
|---|---|---|
| Day Ahead (p/kWh) | 4.470 | ↓ |
| Week-ahead (p/kWh) | 4.450 | ↓ |
| November 14 (p/kWh) | 5.009 | ↓ |
| December14 (p/kWh) | 5.088 | ↓ |
| Q1 2015 (p/kWh) | 5.172 | ↓ |
| Winter 2014 (p/kWh) | 5.080 | ↓ |
| Summer 2015 (p/kWh) | 4.922 | ↓ |
| Winter 2015 (p/kWh) | 5.460 | ↓ |
| Summer 2016 (p/kWh) | 4.989 | ↓ |
| Winter 2016 (p/kWh) | 5.499 | ↓ |

**DOWN at EUR 43.45/MWh**

Why?
If we try to assess the current situation, we may say two things: 1) spot prices are quite supported due to the almost absence of wind generation, lower solar output day-on-day (which brought spot levels to be traded close to French equivalents); 2) November prices were traded down over recent weeks due to forecasts of mild weather ahead of us and the recent decline in fuels prices.

In terms of outlook and in the light of the fundamental situation, we would be rather bullish on the front-month price. Indeed, until delivery, we might bet on a downward revision in temperatures which would be supportive for consumption and therefore for November contracts. This outlook would be particularly true if incidents on nuclear facilities continue as was the case over recent weeks. Considering carbon, prices opened the week also in a bearish fashion: the decline in neighboring energy markets was probably the major trigger. Also, the market is losing ground from its earlier support level of €6/ton on the EUA dec14 contract.

The outlook on the far curve is probably rather neutral, the downside potential being limited by a potential rebound in coal and gas prices.



# Coal Buy Price: £35.72/tonne


| | Bid | Ask | Trend | Last Day |
|---|---|---|---|---|
| Month Ahead | 71.90 | 72.25 | ↓ | 72.45 |
| Cal 2015 | 73.90 | 74.05 | ↓ | 74.10 |

**CIF ARA USD/tonne**

# Carbon Buy Price:  €5.81/tonne

# News

**UK's first floating solar field produces 200kw of power**
Britain's first floating solar panel project has been constructed in Berkshire, as part of a scheme its architect hopes will offer a blueprint for the technology that could be built at hundreds of selected sites across the country.

**Tories dismiss Labour's energy policies as 'silly headlines'**
Conservatives figures this week criticised Labour's efforts to place the cost of energy at the heart of its election strategy as "silly headlines", stressing that the coalition government was making progress in tackling the causes of the UK energy crisis.

**Thousand more wind turbines than UK needs**
At least 1,000 more onshore wind turbines will be built than are needed under the Government's own green energy targets, official estimates disclose.

**Energy firms 'too slow' to resolve complaints**
Customers with complaints about their gas or electricity service typically have to contact their supplier six times before their issue is resolved. Regulator Ofgem said this was too many and has written to energy company bosses telling them they must improve.

**Why Middle East conflict is a bigger threat to UK energy security than Putin**
With much of the media focus over recent weeks on the political crisis in Ukraine and EU and US sanctions against Russia, Europe's future energy security seems further adrift than ever. But Europe's biggest problem isn't this winter's gas supplies; it is our economy's continued reliance on imported fossil fuels – oil in particular. Some of the most important dynamics affecting oil markets today are happening in the Middle East.

**Bills soar by up to £193: how to beat the rise**
Energy bills are about to soar for thousands of customers who have fixed their bills. Seven fixed deals are ending this month, with new tariffs costing up to £198 more per year, according to recent research - unless customers switch now.

**Nuclear outage heightens UK energy supply fears**
Concerns over Britain's energy capacity shortage deepened on Thursday when EDF Energy warned that the impact of shutting four nuclear reactors for safety reasons would be greater than expected. National Grid said on Tuesday it was seeking emergency electricity supplies because of shortages triggered partly by the shutdown of the nuclear plants.

*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. *APX UK*
2. *Total Gas & Power*
3. *GdF Suez*
4. *European Energy Exchange (EEX)*
5. *Coal spot.com*
6. *European Carbon Futures*
7. *FT*
8. *Energymarketprice*

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