June & July 2016 - Market Summary

Review of Market Trends

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Macro Economics

<table>
<thead>
<tr>
<th>Currency</th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>GBP</td>
<td>1.1850</td>
<td>1.15%</td>
</tr>
<tr>
<td>EUR</td>
<td>1.1850</td>
<td>1.15%</td>
</tr>
<tr>
<td>USD</td>
<td>1.3140</td>
<td>1.01%</td>
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[Graph showing currency rate fluctuations]
United States Dollar:

The FED hangover continued after they decided to leave rates on hold keeping the Dollar at a 2 week low. We saw the release of unemployment claims and it was a disappointing reading, it increased by 14,000 to 266,000 from the previous week’s total of 252,000, which was revised from the initial read of 253,000. Analysts had expected jobless claims to rise by 7,000 to 260,000 last week. The big release today for the Greenback this being advance GDP q/q, an increase has been forecast and given the FEDS hawkish tone in the rate statement do they too believe numbers will be strong?

Sterling’s day yesterday wasn’t looking any better from the previous and with a light calendar we were left to the mercy of speculation. With the BOE decision waiting in the wings next week it’s looking highly likely we will get a rate cut from 0.5% to 0.25%. Markets certainly seem to be pricing this in already with cable dropping to a day’s low of 1.3118 and gbp/eur dropping the most in 2 weeks to a low of 1.1835. From a data perspective we have did have the release of nationwide house prices, this showing house prices increased by 0.5% in July. This is first months data following the EU referendum but it’s worth mentioning they use data at the mortgage offer stage – this means any impact from the vote may not be fully evident in July’s figures, as there is a short lag between a buyer making the decision to purchase a property and applying for a mortgage. In other news that will place pressure on Sterling was the announcement of Lloyds bank axing 200 branches and axing 3,000 jobs. Moody’s also highlighted a severe recession in the UK would deplete capital of UK banks. Today sees a few low level releases but markets will certainly have one eye already on next week.

I anticipate a range in the GBP/USD rate of 1.3140 to 1.3240

Euro:

The Euro was the big winner from yesterday. We kicked off the month with the Spanish unemployment rate dropping 0.5% to 20%, German pre-lim CPI also surprised by showing a 0.1% uptick to 0.3%, the big market mover though was the German unemployment change, this showing the number of people out of work falling by another 7k, a 4k drop was to be expected. Germany’s unemployment rate remained unchanged at 6.1% this month, in line with expectations. Big event for July will be the Banks stress results due out later. We have already heard from ECB’s Villeroy who has said he is not worried about the stress test results and believes the French bank system is extremely solid, he went on to add he was not worried that the problems of Italy’s banks would spill over to France but that he hoped for a quick resolution and in cooperation with the ECB. This morning the Euro data hasn’t impressed, German retail sales posting -0.1% against a forecast of 0.0%, French GDP in at 0.0%, 0.2% was forecast and Spanish CPI -0.6%, -0.5% was expected. At time of writing the Euro value is dwindling albeit very minor and GBP/EUR currently sits at 1.1902.

I anticipate a range in the GBP/EUR rate of 1.1850 to 1.1950
Oil Market: Brent $49.48/bbl, WTI $48.89/bbl

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<tr>
<td>Brent ICE (USD/b)</td>
<td>42.32</td>
<td></td>
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<tr>
<td>Gasoil ICE (USD/t)</td>
<td>369.00</td>
<td></td>
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<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>212.64</td>
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Close to close at $42.70 bbl for Brent ICE (This morning at $42.32/bbl)

Oil prices fell further yesterday. Yet there was no real reason for that, but the technical configuration is really bearish and it seems everyone is looking at the key level of $40/b as the new target. Brent 1st-nearby prices are trading around $42.4/b, very close to a technical support at $42.2, probably the last one before a plunge towards $40/b. WTI prices are closer to this key level, already below $41/b.

**Main events:**
Brent has lost $10/b or about 20% of its value since early June. The mood has completely changed on markets. The expected rebalancing between supply and demand has been postponed to a distant future, as stocks of crude and products have rebounded, especially in the US. Signs of possible rebound in shale output are also weighing negatively on markets. So far, US crude output is only edging up marginally, but it has stopped falling. The news that Libyan ports are reopening is not very significant so far, as hopes of a comeback in Libyan oil on markets have been quickly dashed many times before, but it contributes to bearish pressures.

**Outlook:**
In the short-term, crude prices are driven by technical factors and $42.2/b could be a support for Bent prices before the change of Benchmark contract. Tensions are increasing again in Venezuela, with street protests resuming in order to oust President Maduro. This is the main upward risk for prices in the short term.
There are key macroeconomic indicators that can have an impact on the USD today and global sentiment (see the Daily Eco), but we do not expect big moves overall. As usual, the Baker Hughes Oil rig counts will be released this evening. This may potentially reinforce negative pressures on oil prices.
European Gas Market NBP Price: 1.134 pence/kWh

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<tr>
<td>Day Ahead (p/therm)</td>
<td>35.00</td>
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<tr>
<td>August 2016 (p/therm)</td>
<td>36.16</td>
</tr>
<tr>
<td>Winter 2016 (p/therm)</td>
<td>44.40</td>
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Close to close at 16.40 EUR/MWh for TTF CAL 17 (This morning at 16.35 EUR/MWh)

European prices dropped on Thursday on the back of a further weakening in oil prices and a surge in Norwegian exports to the UK. Langeled flows jumped to 35 mm cm/day at the close from 11 mm cm/day in the morning following the end of unplanned maintenance work at Troll and Kvitebjorn fields, dragging the UK system into oversupply and exerting strong bearish pressure on NBP spot prices. An increase in storage injection into British medium-range sites reduced the oversupply in the afternoon. On the continent, steady Dutch production combined with lower injection demand fuelled the bearish sentiment on short-term prices. Brent prices dropped below $43/bbl for the first time since April, sending a bearish signal to far-curve contracts. A sharp drop of the pound against the euro limited losses on the NBP curve whereas if exerted further bearish pressure on euro-traded contracts.

The NBP ICE August 2016 contract expired yesterday and lost 0.21 p/therm (-0.58%), to 36.16 p/th. TTF ICE August 2016 prices were also down at the close: - 30 euro cents (-2.06%), to €14.152/MWh. Further out on the curve, TTF ICE Cal 2017 prices were assessed 22 euro cents lower at the close (-1.32%), to €16.398/MWh.

The UK system is oversupplied this morning as Norwegian supply is healthy compared to previous weeks, close to 300 mm cm/day this morning while gas demand is expected to drop by 6 mm cm compared to yesterday in both residential and power generation sectors. UKCS production is also higher due to an increase in deliveries to the St-Fergus Mobil terminal. A further increase in storage injections should reduce the oversupply but UK MRS sites are already 80% full (see above graph), which will limit injection demand in the remainder of Q3 16 and should weigh on the September contract today. Moreover, Brent prices could weaken further in the short-term, fuelling the bearish sentiment on the curve. First technical support for TTF Cal 2017 prices is at €16.2/MWh.
UK Electricity Market Average Buy Price: £3.836/MW

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<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>3.940</td>
<td>↓</td>
</tr>
<tr>
<td>August 16 (p/kWh)</td>
<td>3.820</td>
<td>↓</td>
</tr>
<tr>
<td>Q4 2016 (p/kWh)</td>
<td>4.530</td>
<td>↓</td>
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<tr>
<td>Winter 2016 (p/kWh)</td>
<td>4.650</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>3.965</td>
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Close to close at EUR 27.70 /MWh for German power CAL 17 (This morning at EUR 27.57 /MWh)

German power curve prices remained stable on Thursday despite a further increase in coal prices as weakness in both oil and CO2 prices exerted bearish pressure. The German baseload year-ahead contract gained only 7 euro cents at the close, to €27.77/MWh whereas the API 2 year-ahead contract traded as high as $62/ton yesterday. On the prompt, higher wind generation forecasts for Friday dragged spot prices down. French and Dutch prices weakened from spot to calendar contracts on the back of a drop in gas prices and higher nuclear availability in the coming weeks. French baseload year-ahead prices lost 15 euro cents at the close to €33.15/MWh.

In terms of outlook, weak gas and oil prices could continue to weigh on year-ahead contracts today. Spot prices could be more resilient as a drop in temperatures below seasonal norms at the beginning of next week could exert some bearish pressure which could be offset by a drop in wind power forecasts.
Coal Buy Price: £33.54/tonne

Carbon Buy Price: €4.41/tonne
News

Nineteen out of 21 water companies now offer a social tariff to help vulnerable customers, according to the Consumer Council for Water.

In its annual review for 2015/16, the consumer group said these have the potential over time to reduce water bills for more than 400,000 customers who are struggling to pay.

CCWater helped three water companies – South Staffordshire Water, Cambridge Water and Dee Valley Water – develop and launch social tariffs from April 2016. Portsmouth Water also launched a scheme in July 2016, bringing the number of companies with social tariffs to 19.

The only companies which have yet to offer such tariffs are Bournemouth Water and Hartlepool Water. Both aim to have schemes in place by the next financial year.

The group said affordability remained a “pressing priority” in the last financial year, with one in eight water customers – and one in seven in Wales – saying their water charges were not affordable.

“We continued to work closely with water companies in England and Wales to increase the range of support for customers struggling to pay their bills and raise awareness of these schemes,” it said.

The social tariff schemes are designed to help ease the pressure on low-income households by reducing their water charges, in some cases by more than 50 per cent.

Each of the new tariffs is customer-funded. CCWater said it “worked closely” with the companies to ensure customers were consulted on who the schemes should help, and how much they were willing to pay to subsidise them.

A full list of the social tariffs offered by water companies can be found here

CCWater also said in its report that it had dealt with more than 18,000 complaints from water customers in 2015/16, bringing the total number to more than 350,000 since it was formed in 2005.

Note:

Due to the non-availability of daily price data for baseload power and carbon there is currently a blank on the graphs. We hope to rectify this problem as soon as possible. In the meantime please accept our apology for any inconvenience this may cause.

The Market Review report will undergo an improvement in its next month. So please bear with me if it is a little late in publication.

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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