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Macro Economics

<table>
<thead>
<tr>
<th>GBP</th>
<th>Closing Rate</th>
<th>% Change</th>
</tr>
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<tbody>
<tr>
<td>EUR</td>
<td>1.1565</td>
<td>1.15%</td>
</tr>
<tr>
<td>USD</td>
<td>1.2954</td>
<td>1.01%</td>
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United States Dollar:

It was a positive month for the USD with both Final GDP q/q and Unemployment Claims coming in above forecast. Final GDP for the second quarter came in at 1.4% where 1.3% had been expected, showing a clear expansion for the US economy. Unemployment claims also followed suit coming in lower than forecast (260K) at 254K. The data indicates steady growth within the US economy and may help to push the case for a rate hike before the end of the year. USD made gains against major competitors following on from the data as this was enough to overshadow the weaker than expected pending home report. Despite this, Fed Chair Yellen kept it short and sweet at the Minority Bankers Forum in Kansas City, making no reference to monetary policy or what may be on the cards for the near future. Today sees the release of the latest Core PCE Price Index m/m, Personal Spending m/m and Revised UoM Consumer Sentiment for the USD. Next week marks a big week for USD with the latest Non-Farm, Unemployment Claims and Unemployment Rate figures. GBP/USD currently at 1.29540

Key data from the UK came in the form of Net Lending to Individuals m/m and Mortgage Approval figures for September. Net Lending came in at 4.5B, up from a 4.0B forecast and a previous reading in August of 3.8B. Despite the positive release for GBP, it edged lower against the greenback. This is likely to be off the back of Yellen’s comments on Wednesday about how an “overheating” of the US economy (at its current pace) could speed up the need for a rate hike. Also contributing to the weaker GBP was the mortgage approvals release, showing the biggest fall since November 2014. Despite coming in around forecast this was a big setback for GBP as it indicated a slowdown for homebuyers. For sterling Final GDP q/q figures released today for the second quarter which should give more of an
indication of the effects on the economy post Brexit vote. Due to be released at the same time are the latest figures for the UK’s current account. Unsurprisingly a deficit has been predicted however I am expecting to see an improvement on the last reading of -32.6B at the end of June.

I anticipate a range in the GBP/USD rate of 1.2915 to 1.3015

Euro:
The month saw mixed data releases from the single currency. The Spanish Flash CPI y/y figures reported a 0.3% increase where 0.0% had been forecast. As the first of two releases, flash tends to have the most impact which was reflected in the market by a EUR/GBP gain up to 0.86428. German Prelim CPI m/m also came in above forecast (0.0%) at 0.1%. Likewise to flash readings, Prelim data tends to have more of an effect on the market as it is the first of the releases. There was also negative data from the Eurozone’s largest economy in the form of German unemployment change. A change of -5K had been forecast but the actual figures came in way above at 1K, showing an increase in the number of people unemployed in Germany. This is the largest increase in unemployment that has been reported since 12 months ago when we saw a 2K increase on 30th September 2015. GBP/EUR currently at 1.15652.

I anticipate a range in the GBP/EUR rate of 1.1530 to 1.1625

Oil Market: Brent $48.63/bbl, WTI $47.05/bbl

<table>
<thead>
<tr>
<th>Description</th>
<th>Price</th>
<th>Change</th>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>48.63</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>439.00</td>
<td>↓</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>257.33</td>
<td>↓</td>
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Close to close at $49.24 bbl for Brent ICE (This morning at $ 48.63/bbl)

The rebound strengthened last week with another huge intraday jump (+$1.2/b), taking the weekly gains to 3 dollars per barrels for Brent. After a very negative July (esp. the second half), the rebound of August took Brent prices back to their early July levels at $48/b. WTI holds this morning just below $45.5. Over the past three sessions, Brent gained +14% and WTI around +10%, pushed by speculations the OPEC could agree at a meeting in Algeria next month to an oil price support pact with non-OPEC countries such as Russia.

**Main events:**

Indeed, producers from the OPEC will meet in Algeria on Sept.26-28 and markets are expecting the meeting will bear fruits after more than two years of ineffectiveness. Markets are feeling Saudi Arabia wants a deal this time especially after Energy Minister Khalid al-Falih said on Thursday the Kingdom will work with OPEC and Non-OPEC members to help stabilize oil markets. It seems a freeze deal could be reached (once again “it seems”) but the main questions remains who will participate, what level of freeze, for how long? Yesterday, the EIA drilling productivity report showed US shale oil production is expected to fall for a tenth consecutive month in September: the production figures are at odds with the trend observed on US weekly rig count that showed again some new active rigs last Friday: +15 to 396, leading to a huge +66 rigs back in action during the last 7 weeks.

**Outlook:**

The upward momentum on oil prices is still strong but markets now arrive in a strong resistance zone close to 2016 highs ($48-50/b range). We could see a technical correction today after the huge gains of last week but main market mover will be, once again, the EIA stocks report tomorrow. Until then, we could have stable to bearish trend with Brent first nearby holding around $48/b. Markets will keep an eye on OPEC as any comments about a freeze deal will be a potential major market mover until the Algerian meeting.

**European Gas Market NBP Price: 1.219 pence/kWh**

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<tr>
<td><strong>Day Ahead (p/therm)</strong></td>
<td><strong>35.75</strong></td>
<td><strong>↑</strong></td>
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<tr>
<td><strong>October 2016 (p/therm)</strong></td>
<td><strong>37.15</strong></td>
<td><strong>↑</strong></td>
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<tr>
<td><strong>Winter 2016 (p/therm)</strong></td>
<td><strong>43.00</strong></td>
<td><strong>↑</strong></td>
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Close to close at 15.64 EUR/MWh for TTF CAL 17 (This morning at 15.70 EUR /MWh)

European gas prices continued to increase ahead of the expiry of some key contracts on the back of bullish commodities markets. A spike in oil prices after an unexpected agreement between OPEC producers pushed front curve contracts sharply higher at the opening but profit taking eroded gains throughout the session. Prospects of tight nuclear supply in France due to safety reasons and strong coal prices also fuelled the bullish sentiment on the curve. A drop in Norwegian flows due to ongoing unplanned outages combined with lower Dutch production and decreasing temperature and wind output forecasts pushed spot prices higher.

For their last day of trading, NBP ICE October 2016 prices gained 0.8 p/therm at the close (+2.21%), to 37.05 p/therm. TTF ICE October 2016 prices were also higher at the close: + 5 euro cents (+0.36%), to €13.95/MWh. Further out on the curve, TTF ICE Cal 2017 prices jumped to €16.2MWh at the opening but were finally assessed 16 euro cents higher at the close (+1.04%), to €15.641/MWh.

The expected return of total Norwegian export capacity next week could pressure spot prices down although prospects of colder weather should remain supportive. In the UK, the system is long as exports to Belgium declined further while Langeled flows increased, which could weigh on NBP spot prices. Nevertheless UK LDZ demand is up and should increase further. On the continent, Russian flows reached a three-week high 363 mm cm yesterday and are nominated higher this morning close to their record daily level, which is a bearish factor for the prompt. Curve contracts could follow the trend in commodities prices with some weakness in sight for oil prices. All in all I favour a stable to bearish outlook for European gas prices today.

UK Electricity Market Average Buy Price: £5.289/MW

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<tr>
<td>Day Ahead (p/kWh)</td>
<td>5.100</td>
</tr>
<tr>
<td>October 16 (p/kWh)</td>
<td>4.870</td>
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<tr>
<td>Q4 2016 (p/kWh)</td>
<td>5.090</td>
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<tr>
<td>Winter 2016 (p/kWh)</td>
<td>5.140</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>4.010</td>
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Close to close at GBP 45.00 /MWh for UK power CAL 17 (This morning at GBP 57.00 /MWh)

The Baseload Day-Ahead is currently positioned beneath its previous assessment. A rise in lower-cost wind output forecast has resulted in weakness on the product. Wind generation is expected to climb to 3.5GW, up from around 2GW. A rise in renewable generation tends to be bearish for the UK power market as it reduces the reliance on more expensive gas fired generation as a source of power.

On the curve products have strengthened in reaction to a weakened GB Pound to Sterling rate following the announcement by the British Prime Minister, Theresa May, that Article 50 would be triggered in March 2017, leading to Britain’s exit from the European Union in 2019. The upward direction of contracts throughout the curve has been supported by strength on the Crude oil market as it reacts positively to last week’s deal between OPEC members to cut production.

**Coal Buy Price: £32.37/tonne**
News

**Ofwat to probe water market opening awareness among SMEs**
10/10/2016

*Ofwat will probe awareness amongst micro, small and medium-sized businesses of the opening of the water retail market in England.*

There are now fewer than six months to the opening of the market. The regulator has commissioned a national survey to gauge levels of awareness and understanding of this significant change in the water market.

Using almost 2000 telephone surveys and almost 100 more in-depth interviews, the survey gets underway today (10 October).

Results will be published in the autumn and will provide Ofwat with a clear picture of levels of awareness, broken down by size and type of business and geographical area.

The regulator’s senior director for communications said Claire Forbes said: “One of the factors for a successful market is customer awareness and understanding and for Ofwat to be assured that exists, we felt it was important to firstly measure it and then look to what may be required to improve it.
Ofwat wants to ensure that all eligible customers have access to reliable, impartial information about the market, free from company influence. This will build customer confidence in the market and enable informed decision-making by customers about their choice of water services retailer.”

Following due process, the bid to undertake the survey was won by Swansea-based Opinion Research Services.

Opinion’s head of research Kester Holmes said: “We are delighted to be able to undertake this important research on behalf of Ofwat. In recent years we have worked with the many large utility companies and international energy companies and we know from our experience that to have a better understanding of how aware customers in business, charities and the public sector, are of the forthcoming market is an important factor in its success. This survey comes at a pivotal time in the programme to open the water retailing market to non-household customers.”

From April next year about 1.2 million eligible business, charity and public sector customers will be able to choose their water and wastewater retailer. Retailing services include billing, metering and water efficiency measures.

The project to open the water retail market is being overseen by the Open Water programme – a partnership between Ofwat, the Department for the Environment, Food and Rural Affairs (Defra) and the market operator, Market Operator Services Limited (MOSL).

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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