March 2019 - Market Summary

Review of Market Trends

Report No. 3/2019
Martin Rawlings
4/8/2019

Contents

Macro Economics........................................................................................................................................... 2
Oil Market: Brent $66.03/bbl, WTI $57.22/bbl ................................................................................................. 4
European Gas Market NBP Price: 1.214 pence/kWh .................................................................................. 5
UK Electricity Market Average Buy Price: £43.10/MW ............................................................................. 7
Coal Buy Price: $67.05/metric tonne ............................................................................................................. 8
Carbon Buy Price: €21.50/tonne ................................................................................................................... 9
News ................................................................................................................................................................ 9
US Dollar
Fundamental data for the US was a bit of mixed bag yesterday. We kicked off with the quarterly GDP number. Economic growth slowed in the final quarter of the year with GDP posting 2.2 percent, missing forecast and down from the previous quarter. This does leave full year growth at 2.9% putting 2018 as the best year since 2015 and well above the 2.2% increase seen in 2017. However,
given the recent slowdown in global economies pressure now mounts for 1st quarter GDP where slow growth is expected, and some are even looking for the 1st signs of a recession. Our estimate is for 1st quarter GDP to be below 2%.

The Dollar found some support after the downward revision of GDP through the unemployment claim numbers. The data highlighted claims fell to their lowest level in 2 months posting 211K where 222k was to be expected. 3 Fed members all spoke yesterday. They all sounded cautiously optimistic about the outlook, with St. Louis Fed President James Bullard, saying ‘it’s premature to consider a rate cut’, adding that he expects growth to pick up in the second quarter. China Trade talk was few and far between with Trump tweeting, "doing well in trade talks with China". In the past these comments have sparked a flurry, but markets seem to become immune to these now. Finance minister Mnuchin and trade representative Lighthizer had a ‘productive’ dinner with the Chinese delegation ahead of a full day of talks today between the two sides. Meanwhile, Larry Kudlow, Trump’s economic advisor, tempered expectations, saying the US is willing to extend the process for weeks or months to get the right deal for the US, therefore this could trickle along a lot longer than most would have hoped.

I anticipate a range in the GBP/USD rate of 1.2950 – 1.3150

**Euro:**

In Europe, financial markets yesterday digested the indications from the ECB that a tiered deposit system is under consideration. Long term inflation expectations dipped to its lowest level since September 2016 and this is keeping pressure on the Euro for now.

I anticipate a range in the GBP/EUR rate of 1.1520– 1.1700
Oil Market: Brent $66.03/bbl, WTI $57.22/bbl

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>67.77</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>603.50</td>
</tr>
</tbody>
</table>

Crude Oil Spot Price 2019

Crude Oil Spot Price

Brent - Red
WTI - Blue
Linear - Black
Main events:

Bullish Themes
- Maduro clamps down on the opposition.
- Venezuela’s decline of oil production, too small to impact oil price.
- Saudis may be limiting oil exports to the US.
- Fallout and loopholes around US sanctions against Iran.
- Oil removed from the global supply chain due to Iran sanction.
- Trump’s pressure on Iran.
- US domestic demand for crude products continuing to rise.
- OPEC’s oil output fell to a one-year low.
- Any indication of destabilisation within Saudi Arabia dealing with a threat of Yemeni rebels should send oil prices higher.
- Rising consumer spending as well as cold weather in Europe and the U.S. helped boost demand.
- Fears that Trump will reimpose sanctions on Iran when the nuclear deal is reviewed.
- The price acceleration at the start of the year worked in tandem with the decline in inventories.

Bearish Themes
- A successful transition of power in Venezuela.
- Surge in U.S crude output is undermining most of OPEC’s efforts
- Production cuts are viewed as the best of many worst-case scenarios.
- Slower growth in demand for oil and rising supply.
- Supply considerations may threaten oil’s price.
- OPEC opens the way for other countries to increase production.
- The technical damage inflicted in long-term-charts is very bearish.
- A steep rise in prices would add further pressure on global economy, and that could put a ceiling on oil prices.
- The US government has already opened up drilling rights on and offshore adding to supply to the market.
- Economic data misses from Japan and China.
- The shale output is set to rise at a faster rate in 2018.
- Many gold investors have turned to crypto.

European Gas Market NBP Price: 1.214 pence/kWh

<table>
<thead>
<tr>
<th></th>
<th>Price (p/therm)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day Ahead</td>
<td>35.58</td>
<td>↓</td>
</tr>
<tr>
<td>May 2019</td>
<td>33.80</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2019</td>
<td>35.60</td>
<td>↓</td>
</tr>
</tbody>
</table>

Spot & Near Curve
Price on the far curve this week increased despite losses on the prompt mainly due to Bullish oil prices with Brent ICE hitting a 5-month high at $69.5/bbl.

NBP spot prices fell sharply this week following an oversupplied system due to comfortable gas flows from Norway along with a busy LNG delivery schedule.
Outlook
Sustained LNG deliveries to the UK could continue to weigh on spot prices as we move into the warmer months of the year.

Far Curve
Price on the far curve this week increased despite losses on the prompt mainly due to Bullish oil prices with Brent ICE hitting a 5-month high at $69.5/bbl.

Outlook
The House of Commons rejected all indicative votes for the second time on Monday. Further uncertainty around a no-deal Brexit could continue to impact EUA prices while unrest in Venezuela and Iran continue to influence Oil prices.
UK Electricity Market Average Buy Price: £43.10/MW

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>4.310</td>
<td>↑</td>
</tr>
<tr>
<td>May 2019 (p/kWh)</td>
<td>4.195</td>
<td>↑</td>
</tr>
<tr>
<td>Q3 2019 (p/kWh)</td>
<td>4.320</td>
<td>↓</td>
</tr>
<tr>
<td>Winter 2019 (p/kWh)</td>
<td>5.489</td>
<td>↑</td>
</tr>
<tr>
<td>Summer 2020 (p/kWh)</td>
<td>4.580</td>
<td>↓</td>
</tr>
</tbody>
</table>

Spot & Near Curve
Power prices followed NBP prices downwards this week also under pressure from lower Coal prices with the API Cal 20 contract dropping to $71.35/t.

Outlook
Comfortable gas supply may continue to put pressure power prices while further uncertainty on Brexit could impact EUA prices as the Brexit deadline approaches.

Far Curve
Power prices on the curve increased this week following gains in Oil and NBP.

Outlook
NBP, Oil and EUA prices could be best indicators on Power contracts this week.
Coal Buy Price: $67.05/metric tonne
**News**

**Capacity probe**
BEIS has announced that the European Commission (EC) is to undertake a full investigation of the Capacity Market (CM) that will focus on whether the market is sufficiently open to all relevant capacity providers, particularly demand-side response (DSR) providers. The EC said it would focus on whether the CM treats DSR operators and conventional generators differently concerning the contract lengths offered, as well as whether the cost recovery method sufficiently incentivise consumers to reduce their consumption during demand peaks.

**Evident lack**
Ofwat, Ofgem, Ofcom and the Financial Conduct Authority are currently unable to prove they offer value for money, according to the public spending watchdog, the National Audit Office. In a report on its assessment of the regulators’ measurement of their protection of consumer interests – their shared statutory responsibility – the NAO said: “Regulators are all taking steps to improve how they define, measure and report their performance in protecting consumers, but all have further to go to do so in a meaningful way.” It went on: "Until they achieve this, they will not be able to give consumers confidence that they are providing value for money, or adequate overall levels of protection for those who need it.”

**Great White hope**
Environment Agency chief executive Sir James Bevan has described the risk to water supplies in around 25 years as the “jaws of death” – the point at which rising demand and falling supply curves...
cross in water company business plans. In a speech at the annual conference held by water efficiency advisors, Waterwise, Sir James warned: “Climate change plus growth equals existential threat”. He advised that the way to avoid the jaws was to follow a twin-track strategy of boosting supply while reducing demand. Sir James backed Waterwise’s ambition to cut per capita consumption to 100 litres a day in the next couple of decades, from the current average of 140 litres. On the supply side, he said new reservoirs, more transfers and desalination would be needed.

**Seal deals**
Thames Water has signed eight-year contracts with suppliers worth a total of £200 million in a programme to reduce leakage by 15 per cent by 2025. Thames said the agreements have enabled it to target opportunities to reduce leaks by 430ML/day – a 16 per cent hike on its easier target for the year. The suppliers are Hydrosave, PN Daly, RPS, Morrison Utility Services, Crowder Consulting and Teccura.

**Less is not more**
Shadow Energy Secretary, Rebecca Long-Bailey, has warned that the cancellation of several major energy infrastructure projects could risk a capacity shortage. She highlighted the cancellation nuclear power plant projects in Cumbria, Anglesey and Gloucester as well the scrapped plan for a tidal lagoon in Swansea Bay last year and the ban on onshore wind since 2015.

**Blow out**
The UK Energy Research Centre has calculated that wind now generates twice as much electricity as coal does in Britain. The figures show that wind provided 15 per cent of Britain’s electricity demand last year while coal fueled 7 per cent, compared to 40 per cent in 2013.

**Darker for coal**
SSE has decided to close a 485MW unit at its Fiddler’s Ferry coal-fired power station in Cheshire reducing the plant’s capacity to 1,510 MW. The plant’s remaining three units will continue to operate as under Capacity Market contracts in place until September 2019.

**Knowingly under**
Retailer, The John Lewis Partnership, has unveiled a strategy to produce net zero carbon emissions by 2050, without purchasing offsets. The strategy includes plans to make its 3,200-vehicle transport fleet zero carbon by 2045. John Lewis said it has already begun to roll out biomethane-powered trucks that emit 80 per cent less carbon than conventional vehicles.

**Battery bottom**
EDF Energy has partnered with Upside Energy in a deal with renewable energy company, Anesco, to trade energy from Anesco’s 16MW Clayhill solar and storage farm. The deal will provide Anesco with a guaranteed price for power EDF Energy said it plans to work with Anesco and Upside to secure contracts with grid operators and generate revenue through direct access to wholesale markets.

**Patchy outlook**
The National Drought Group has reported significant variation in water resources in most parts of England. Rainfall in January was 46% of average; the February rainfall was only 84% of average with February temperatures at record highs. The group reported groundwater levels still in recovery and refill mode following the heat wave in 2018, making this winter refill season important.
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. MEUC
2. GdF Suez
3. Haven Power
4. EIA
5. Forex
6. ICIS

Disclaimer

This material is intended for information purposes only. It does not constitute an independent investment research, a personal recommendation or other general recommendation relating to transactions in financial instruments or an investment advice.

This material is intended for general distribution, it does not take into account any specific investment objectives, financial situation or particular needs of any recipient. It cannot be transmitted to any other person without the prior written consent of Martin Rawlings.

The information contained herein, including any expression of opinion, is not intended to constitute an offer or a solicitation to buy or sell any financial instruments, products or services, an investment research or an investment recommendation or other financial, investment, legal, tax or accounting advice or any other advice.

Further, all information contained herein has been obtained from and/or is based upon sources believed to be reliable is deemed to be clear, fair and not misleading but cannot be guaranteed as to accuracy or completeness. The views and opinions, forecasts, assumptions, estimates and target prices reflected in this material are as of the date indicated and are subject to change at any time without prior notice. The figures that may refer to past performance herein are in no instance an indication of future valuations or future performance. Martin Rawlings is under no obligation to disclose or to take account of this document when advising or dealing with or for its customers. Martin Rawlings nor any other person accept any liability to anyone for any direct, indirect, special, incidental, consequential, punitive or exemplary damages (including, but not limited to, lost profits) arising from the use and dissemination of this material or the information contained herein.
Contact me:

T: 01638 780974
E: rawlmrtn@aol.com