April 2019 - Market Summary

Review of Market Trends

Report No. 4/2019
Martin Rawlings
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Macro Economics

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<tr>
<th>Currency</th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>GBP</td>
<td>1.1580</td>
<td>↓</td>
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<tr>
<td>EUR</td>
<td>1.2897</td>
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GBP/USD

Volume (5)

Open 1.3036 High 1.3185 Low 1.2988 Close 1.3016

GBP to USD Exchange Rate Chart
US Dollar

GBPUSD could extend its slide as UK Prime Minister Theresa May is urged to end the Brexit talks between her ruling Conservatives and the opposition Labour Party. Having already fallen below the psychologically-important 1.30 level, a drop in GBPUSD towards its February lows cannot be ruled out.

UK Prime Minister Theresa May looks to be on the verge of abandoning talks between her ruling Conservatives and the opposition Labour Party designed to reach a Brexit compromise acceptable to a majority of members of the UK Parliament.

According to reports, senior Conservatives are urging her to end the discussions, while the pressure on her to resign as Prime Minister is also intensifying. After Monday’s fall in GBPUSD below the 1.30 level in late afternoon trading in Europe, that could mean further weakness ahead.

I anticipate a range in the GBP/USD rate of 1.2897 - 1.2924

Euro:

EURGBP has enjoyed a strong rally of late, adding nearly two cents after trading at a low of 0.8490. This strong rally may find further upside difficult as it nears robust resistance levels at 0.8718 – 38.2% Fibonacci retracement – followed by 0.87233 – March 21 ‘spike’ high – and 0.87650, the 200-day moving average which has capped the pair since mid-January.

Another indicator – CCI – shows EURGBP in overbought territory but just starting to level off, and this may also weigh on any further upside momentum in the near-term. We noted on April 24 that EURGBP was in overbought territory using CCI just before the sell-off down to 0.8490.

The battle for dominance between the two currencies continues with the EUR suffering from a weak EZ economic backdrop, and a German Bond curve showing negative yields out to 10-years, while GBP has to suffer continued Brexit uncertainty. GBP does have the slight economic advantage with a tight jobs market nudging hawkish BOE policy thoughts, while recent GDP data shows the UK economy expanding faster than the Euro-Zone.

I anticipate a range in the GBP/EUR rate of 1.1580 - 1.1720
Oil Market: Brent $66.03/bbl, WTI $57.22/bbl

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Change</th>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>67.77</td>
<td>↑</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>603.50</td>
<td>↑</td>
</tr>
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</table>
Bullish factors (upward pressure)
Oil Prices Up
Coal Prices
Carbon Emissions remain strong
European Gas Maintenance - Norway

Bearish factors (downward pressure)
Warmer Weather
Lower Gas Demand
Oversupplied UK System
IUK Pipeline Maintenance (Unable to Export)

Brent Crude prices have steadily ticked up over the previous fortnight, with the US sanctions on Iran tightening. Iran had been sanctioned towards the end of 2018 with the US looking to financially restrict Iran and the exportation of Oil. Due to the ongoing price standoff, the US offered waivers to a number of countries to allow them to continue to import Iranian Oil, however from May 1st these waivers will end. Fears of further supply cuts significantly lifted the Oil market over the last week with prices lifting to $75bbl.

Over the weekend, President Trump has called on OPEC to meet the deficit to ensure global supply remains comfortable and prices have fallen back towards $71bbl. This is likely to continue for the next few weeks.

European Gas Market NBP Price: 1.214 pence/kWh

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<tbody>
<tr>
<td>Day Ahead (p/therm)</td>
<td>34.30</td>
<td>↓</td>
</tr>
<tr>
<td>May 2019 (p/therm)</td>
<td>34.60</td>
<td>↑</td>
</tr>
<tr>
<td>Winter 2019 (p/therm)</td>
<td>55.89</td>
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Gas prices on the UK market have remained relatively stable, trading in a tight range for the previous 3 weeks and since the volatility that occurred on 4/5th April 2019.

Following the significant lift in prices at the start of April, due to an unexpected fall in flow from Norway the market has remained fairly static. A combination of short term and long-term factors have fought against each other to hold the curve flat.

On the near curve, a period of warmer weather, reduced gas demand and infrastructure maintenance helped soften the prices. The DA contract fell to new lows, not seen since June 2017 as warmer weather and IUK pipeline maintenance left the UK with no export capability between 21st April – 1st May. The UK system has been massively oversupplied during the IUK maintenance as warm weather reduced demand and surplus gas unable to leave the system, being injected into storage.

The only bullish factor across the near term has been maintenance in Norway which has reduced flows, down to 14mcm on Monday. The Visund Field restricted flows by 15mcm from 21st April but
returned on Sunday 28th April, however maintenance on Troll Field continues until 10th May which is withholding 11mcm.

Temperatures are set to fall this week with the weekend expected to be 3/4°C below seasonal average. The first week into May is to be just below seasonal norm which could see prices impacted on the front of the curve.

Further out on the curve, a number of bullish drivers have contributed to price volatility with periods of losses and gains. Carbon EUA emissions prices have held firm for over a month, priced above €26 as the final auctions for 2018 compliance took place. The buying demand has helped to keep the prices firm.

**Bullish factors (upward pressure)**
- Oil Prices Up
- Coal Prices
- Carbon Emissions remain strong
- European Gas Maintenance - Norway

**Bearish factors (downward pressure)**
- Warmer Weather
- Lower Gas Demand
- Oversupplied UK System
- IUK Pipeline Maintenance (Unable to Export)
UK Electricity Market Average Buy Price: £44.59/MW

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<tr>
<th></th>
<th>Price (p/kWh)</th>
<th>Change</th>
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<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>4.610</td>
<td>↑</td>
</tr>
<tr>
<td>May 2019 (p/kWh)</td>
<td>4.375</td>
<td>↓</td>
</tr>
<tr>
<td>Q3 2019 (p/kWh)</td>
<td>4.535</td>
<td></td>
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<tr>
<td>Winter 2019 (p/kWh)</td>
<td>5.865</td>
<td>↑</td>
</tr>
<tr>
<td>Summer 2020 (p/kWh)</td>
<td>5.085</td>
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**Spot & Near Curve**
Day Ahead prices increased following milder weather and falling wind generation. Losses on the near curve were driven by lower EUA and Coal prices with API Cal 20 down $4/tonne since last week.

**Outlook**
Temperatures are forecast below seasonal averages in early May.

**Far Curve**
Power prices on the curve were down this week following lower NBP, EUA and Oil prices.

**Outlook**
The EUA compliance deadline (30th April) may have increased volatility in EUA prices in the last week – now this has passed Brexit updates may begin to influence EUA prices again.
Coal Buy Price: $63.55/metric tonne

Carbon Buy Price: €26.25/tonne
News

Renewable grows
UK renewable capacity grew by 175.3 MW (0.4 per cent) December 2018 to March 2019 to just under 40GW according to the latest government Renewable Energy Planning Database. Storage projects in England were responsible for the majority of renewables capacity growth (113.9MW), with biomass in England and Scotland the second largest area (47.6MW).

See me
Water market operator MOSL has reported that 30 Initial Performance Rectification Plans had been issued to 17 trading parties for poor performance. The plans are triggered when a trading party’s performance causes concerns over a period of three months or more, as measured against its peers and the Market Performance Standards.

Lords leap
Labour peers have called on the government to set out a clearer strategy on water resources. The call came as the House of Lords debated the National Policy Statement (NPS) for Water Resources which is being drawn up to fast-track nationally significant water infrastructure like reservoirs and transfer schemes through the planning process. Labour’s Lord Adonis said the draft NPS does not amount to a strategy, rather “a list of considerations” that need to be addressed in the development of a national strategy. He said: “On the questions of whether we will or will not be building new reservoirs, will or will not have a national water grid or will or will not have mandatory water metering—three absolutely critical issues in terms of a water infrastructure plan—the government have ducked them all so far and have simply kicked them forward.”

Fin Diesel
The National Infrastructure Commission (NIC) has urged the government to ban all sales of new petrol and diesel HGVs by 2040 as part of a wider effort to decarbonise freight by 2050. In a recent report the NIC said a new Freight Leadership Council should be created, encompassing government and industry leaders to implement clear objectives that meet UK climate goals.

Off the chart
The Crown Estate has announced “another record-breaking year” for offshore wind in a new report. According to its 2018 Offshore Wind Operational Report, offshore wind supplied 8 per cent of the UK’s total estimated electricity generation in 2018, reducing carbon emissions by 12mn tonnes. At the end of 2018 there were, according to the report, 1,931 fully operational offshore wind turbines on the UK seabed – 43 per cent of the European total with a further 992 under construction.

Permission impossible?
British Steel owner, Greybull Capital, is looking to secure a short-term government loan of £100 million to enable it to pay liabilities due by the end of this month for 2018 under the European Union’s Emissions Trading System. Greybull’s need for help arose from its selling of permits to produce carbon, instead of saving them. If no Brexit deal is agreed, 2018 carbon allowances will have to be surrendered by 30 April. There are around 1,000 installations in the UK that participate in the EU ETS system, including industries that produce iron and steel, cement and lime, paper, glass, and ceramics and chemicals.
The Carbon Trust announced the names of the five winners of its dynamic export cable competition launched to address a potential bottleneck for the commercial deployment of floating wind technology created by a lack of available high voltage transmission cables. The competition was staged as part of the Floating Wind Industry Project, which aims to accelerate and support the development of commercial-scale floating wind farms. Those farms are needed for sites where water depths and/or seabed conditions are not suitable for fixed turbine foundations. Commercial floating wind projects are anticipated to be in play within the next five to ten years. The competition winners were Aker Solutions (Norway), Furukawa Electric (Japan), Hellenic Cables (Greece), JDR Cable Systems (UK), and Zhongtian Technology (China).

**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

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