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Macro Economics

<table>
<thead>
<tr>
<th>Currency</th>
<th>Closing Rate</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP</td>
<td>0.88685</td>
<td>↓</td>
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<tr>
<td>EUR</td>
<td>0.88685</td>
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</tr>
<tr>
<td>USD</td>
<td>1.37290</td>
<td>↓</td>
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The USD index hit 90 for the first time in 2-weeks in New York and it extended these gains, both as a result of independent concerns about the GBP and EUR and another sharp fall in US equity markets which has tended recently to offer the USD some support. The DJIA closed down 382 points whilst the S+P500 index has just suffered its worst monthly drop since at least January 2016. Overnight in Asia, the USD index has further extended its gains to 90.25 and is back to where it was before US
Treasury Secretary Mnuchin’s remarks in Davos in late January. It has now rallied more than two full points from its recent low of 87.95.

US economic data generally came in shy of consensus expectations. Against a median estimate of a small drop to 64.1, Chicago PMI this month dropped from 65.7 to 61.9; lower than any of the 30 economists in a Bloomberg poll had been looking for. None of the seven sub-indices (prices paid, new orders, employment etc.) rose on the month and the headline was the lowest since August 2017. Elsewhere, pending home sales fell by 4.7% m/m in January and though this might be simply weather-related, there’s some talk, too, that sharply rising mortgage rates on the back of higher US bond yields might be feeding through more quickly than usual into lower housing market activity.

Whatever the case, there’s no doubt that the US economic data have been running somewhat slower than expected over the past few weeks. Citibank produce a very well-regarded “economic surprise index” (scaled from -100 to +100) and this is down from a high over 80 in late-December to just 33.5 today. The Atlanta Fed’s GDP Now model which back in late January was suggesting 5.4% for Q1 GDP has been revised notably lower and after Tuesday’s durable goods numbers, the latest estimate is just 2.6%. This will be updated later today after the release of Personal income and expenditure, the ISM Manufacturing Index, and construction spending. The USD index opens this morning in Europe around 90.00

I anticipate a range in the GBP/USD rate of 1.13700 – 1.13850

**Euro:**

The euro’s poor month continues. EUR/USD is down more than 2 ½ cents from the high of 1.2350 and fell on to a 1.12 ‘big figure’ for the first time since January 18th. Overnight in Asia, the pair has been stuck in a very tight trading range but has remained on 1.21 ever since the close of business in New York yesterday evening. Mr. Draghi comments might well be actively trying to push the EUR lower ahead of the ECB meeting.” If he is, he’d certainly be happy with the price action over the last couple of days!

German inflation slowed more than expected to hit a 15-month low this month. Harmonised CPI rose by just 1.2% year-on-year after an increase of 1.4% in the previous month, the data showed. That was weaker than the 1.3 percent consensus estimate, the lowest reading since November 2016 and marked the third consecutive fall in the headline figure. Although the German numbers raised fears of a weaker than consensus outturn for the Eurozone CPI, they were no softer than expected. The rate of price growth slowed to 1.2% this month from 1.3%, dropping to its weakest since 2016. A fall in energy inflation and a big fall in fresh food inflation were the main drivers of the headline dip this month. The core measure was unchanged at 1.0%.

The softness of inflation both in Germany and the Eurozone overall help take some of the pressure off ECB President ahead of next Thursday’s Council Meeting. He said to the European Parliament this week that an expansionary policy is still warranted even as the economic situation is “improving constantly” and there’s no sense of urgency around communicating a withdrawal of monetary stimulus. Bundesbank president Jens Weidmann said in a Bloomberg Television interview that guidance on interest rates is “rather vague” and should be strengthened. “This could probably be one part of our discussion - whether to complement any decision on the asset-purchase program and on communication regarding the asset-purchase program with a bit more specificity with respect to the interest-rate guidance. ‘Well past’ is a rather vague time dimension.” The EUR opens in London this morning in the high USD1.21’s with GBP/EUR just less than 1.13.

I anticipate a range in the GBP/EUR rate of 1.1220– 1.1320
Oil Market: Brent $66.44/bbl, WTI $63.01/bbl

<table>
<thead>
<tr>
<th>Product</th>
<th>Price</th>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>66.44</td>
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<tr>
<td>Gasoil ICE (USD/t)</td>
<td>589.00</td>
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<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>354.58</td>
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Close to close at $66.4 bbl for Brent ICE

Correction on crude prices due to a set of bearish figures combined, Brent below $66.5/b after a -$1/b intraday fall
Strong correction yesterday after the three-week highs touched on Monday ($67.9/b for Brent and $64.24/b for WTI) and both benchmarks lost one dollar intraday. Combined with technical correction, a set of negative economic data (China, Japan, hawkish Fed chairman) and bearish figures from API pulled prices down. Brent is holding around $66.4/b this morning while WTI is back a few cents below $63/b.

Main events:
Disappointing figures from Asia overnight (see daily eco) fuelled the negative trend for crude prices as it could mean weaker demand in the short and medium term. With US output strongly rising leading to serious doubts over a tightening of fundamentals this year, a robust demand is key to support prices and keep sentiment positive among traders and analysts. First, Growth in China's manufacturing sector in February slowed more than expected (to its lowest since July 2016) after the Lunar New Year holiday disrupted business activity last month (PMI fell to 50.3 from 51.3 in January), knowing that China is the number one oil importer. In Japan, January's production data and a trade figures suggest that Japanese economy will expand more slowly this year while retail sales rose less than expected in January… Although the world’s third largest economy is not a crucial contributor to oil demand growth, it remains a strong net oil importer.
API figures released yesterday were not really supportive as they showed crude inventories, +0.93 Mbd, and gasoline, +1.9 Mb, on the rise. The official EIA figures are due this afternoon at 4:30 pm as usual.

Yesterday in Tokyo, IEA Executive Director Fatih Birol claimed the United States will overtake Russia as the world’s biggest oil producer "definitely next year", if not this year. At the same time, according to Bloomberg, the head of OPEC plans to dine with US shale company executives on Monday in Houston for the second consecutive year: Barkindo plans to meet US producers on the side lines of CERA week.

**Outlook:**
Markets are still in the upward tunnel that started on Feb-14 but the sentiment is not that clear for the short term. Today the correction could continue down to $66.1/b for Brent (support of the current tunnel) but a rebound is possible in case of more than expected supportive report this afternoon (4:30 pm). The first nearby contract for Brent is expiring this evening and the second nearby is already 10 cents lower.

**European Gas Market NBP Price:** 2.5420 pence/kWh

<table>
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<tr>
<th>Day Ahead (p/therm)</th>
<th>74.5</th>
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<tbody>
<tr>
<td>March 2018 (p/therm)</td>
<td>54.30</td>
<td>↑</td>
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<tr>
<td>Summer 2018 (p/therm)</td>
<td>42.00</td>
<td>↑</td>
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Close to close at 16.791 EUR/MWh for TTF CAL 19

Main Event:
Cold weather pushed European spot prices significantly higher. European spot gas prices increased sharply yesterday, driven by soaring demand due to cold temperatures. The rise spread to near curve prices, but expectations of warmer weather by the end of the week helped limit gains.
At the close, NBP ICE March 2018 prices were up by 1.47 p/therm (+2.87%), to 52.670 p/therm. TTF ICE March 2018 prices increased by 58 euro cents (+3.13%) at the close, to €19.185/MWh. On the far curve, TTF Cal 2019 prices increased by 3 euro cents (+0.15%) at the close, to €16.791/MWh.

Outlook:
Cold weather should continue to support European spot prices today. By contrast, the expected rise in temperatures by the end of the week could exert a bearish pressure on near curve prices. Additional bearish impact could come from a more comfortable LNG supply outlook with one LNG vessel expected to deliver into the UK Dragon terminal next week.
On the far curve, we favour a bearish outlook for TTF Cal 2019 as well, but oil prices could lend them support in case of a bullish US stock report.

UK Electricity Market Average Buy Price: £83.50/MW

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<tr>
<th></th>
<th>Day Ahead (p/kWh)</th>
<th>March 2018 (p/kWh)</th>
<th>Q2 2018 (p/kWh)</th>
<th>Summer 2018 (p/kWh)</th>
<th>Winter 2018 (p/kWh)</th>
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<tr>
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<td>5.261</td>
<td>4.403</td>
<td>4.337</td>
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<td>March 2018</td>
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<td>Q2 2018</td>
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<tr>
<td>Summer 2018</td>
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<td>Winter 2018</td>
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UK Power Price Movements
Close to close at 47.00 £/MWh for UK power CAL 18

HISTORIC FACTORS

- 13th February 2018 - The weather continues to drive the market with colder weather resulting in significant gains on NBP prompt.

- 7th February 2018 - A feed control valve at the Kinneil gas terminal led to another shut down of the Forties Pipeline System (FPS) in the North Sea. However, the shutdown was short lived on the system was fully operational the following day.

- 1st February 2018 - The Dutch mining regulator (SSM) recommended Groningen output be cut from 21 bcm to 12 bcm to ensure the safety of the people of Groningen.

- 29th January 2018 - The NBP prompt continues its trend downwards off the back of a very healthy UK system as a result of strong supply from Europe and the UK continental shelf.

OUTLOOK

Potential Bearish Price Drivers ↓

- Continued healthy supply into UK via European imports and UKCS.
- Warm weather forecasts.
- LNG arrivals.
- High wind generation.

Potential Bullish Price Drivers ↑

- Strong oil as a result of OPEC and Russia cuts.
- Colder weather forecasts.
- Unplanned outages.

Coal Buy Price: £45.98/tonne

NYMEX coal futures near-month contract final settlement price
Carbon Buy Price: €10.10/tonne

News

What are the benefits of putting your energy in a basket?

22nd February 2018

When it comes to buying energy, the benefits of buying fixed versus flexible contracts are well known. However, whenever you choose a solely fixed or flexible contract there will inevitably be an opportunity cost involved.

Choose a fixed contract and you’ll have budget certainty, but you could miss out if the market price falls. Opt for a flexible contract and you’ll benefit from downward trends in the market, but you also risk your energy bills rising if prices increase.

Businesses don’t have to choose between a fixed or flexible approach to energy procurement – they can get the best of both worlds.

How does this work?
The Supplier or broker will work with you to determine your attitude to risk management and create a bespoke strategy for your organisation. If you both agree that an Options approach is the optimum strategy for your business, they’ll spread your volume across up to four different purchasing strategies.

They’ll then group your organisation’s volume together with that of clients with similar profiles, trading your volume as one portfolio, so you can benefit from flexible purchasing access no matter the
size of your volume. Their, FCA-accredited, trading desk will use their expertise to secure you the best possible price within your pre-agreed risk parameters.

**How could it benefit your business?**

*A tailored approach*

You can decide exactly how much of your volume is apportioned to up to four different purchasing strategies, including their capped, fixed, trend and prompt strategies.

By choosing to put some of your volume in a capped basket you can set a maximum commodity price so that you’ll have price certainty, while still being able to take advantage of any downward market movement. If you choose to put part of your volume into a fixed strategy, you can take a more co-ordinated approach, while still gaining the benefits of securing a fixed price tender when prices are low.

To benefit from a more flexible approach to energy procurement, you can also spread some of your volume across their trend and prompt strategies. If you opt for trend, they’ll make the best use of market volatility by making purchases close to market movements, allowing you to take advantage of a falling market while protecting an upper budget in a rising market. Finally, their prompt strategy buys volume on either the month or day ahead markets, so you can benefit from the most favourable prices around.

**Low risk**

With four purchasing strategies available to you, you can ensure that your procurement is perfectly matched to your business’s attitude to risk. Such options is a good choice for businesses with a low-risk approach to energy buying, as it enables you to stay firmly in control of your budget while still benefiting from flexible strategies.

Traders have access to a range of market intelligence sources, from commodity markets to long range weather forecasting, which enables them to make well-informed purchasing decisions. A mix of fixed and flexible approaches to energy procurement, combined with our ability to accurately forecast costs, has often uncovered commodity savings.

**Total peace of mind**

Taking four different strategic approaches to procurement may sound complicated, but traders make it look easy – they will handle it all for you, so you can concentrate on your core business operations. While experts are watching the energy markets for you, you can still retain complete control of your energy. You can choose whether you want to put all of your volume in one or all four strategies, and you can shift volume out of one strategy and into another if your budget or the level of risk you’re willing to take changes.

**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. EIA
5. Forex
6. ICIS

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