October 2019 - Market Summary

Review of Market Trends

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Macro Economics

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<tr>
<th></th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>GBP to USD</td>
<td>1.0960</td>
<td>↓</td>
</tr>
<tr>
<td>EUR to USD</td>
<td>1.2100</td>
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GBP to USD

GBP to EUR
GBP/USD
Expectation for GBP to “trade at a lower range” was incorrect as it spiked briefly to a high 1.2896 before dropping back to end the day on a firm note at 1.2853 (+0.57%). While momentum has not improved by much, there is room for GBP to test the 1.2900 level. For today, a sustained rise beyond this level is not expected (next resistance is at 1.2930). Support is at 1.2825 followed by 1.2795”.

Outlook
One day after ‘probing’ the bottom of our expected 1.2770/1.2930 range (low of 1.2769 last Friday), GBP staged a sudden and strong rebound and cracked the ‘strong resistance’ level of 1.2865 (overnight high of 1.2896). The price action suggests that GBP is not ready to move below 1.2770 just yet (we indicated last Friday “a NY closing below 1.2770 could lead to further weakness to 1.2700”). From here, GBP is deemed to have move back into a sideway-trading phase.

Bottom Line
• GBP/USD is boosted by positive UK political developments, although it has given up a bulk of the recent gain.
• US President will speak later today in New York. A trade update is expected and a volatile reaction is likely in the markets.
• For the next couple of weeks, GBP is expected trade sideways between 1.2770 and 1.2930”.

GBP/EUR
The European cross is prolonging the sideline theme around the key 0.8600 handle for yet another session, always tracking headlines from the UK elections campaign.

On the latter, Brexit Party leader Farage favored a ‘Leave alliance’ with PM Boris Johnson at the launch of the elections campaign earlier in the day, all after President Trump suggested that both candidates could team up and become ‘an unstoppable force’.

The cross is losing 0.18% at 0.8599 and a drop below 0.8574 (monthly low Oct.17) would expose 0.8488 (monthly low May 6) and then 0.8474 (2019 low Mar.12). On the other hand, the next up barrier emerges at 0.8676 (high Oct.24) followed by 0.8810 (200-day SMA) and finally 0.8906 (50% Fibo of the May-August rally).
Oil Market: Brent $60.23/bbl, WTI $54.18/bbl

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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>60.23</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>565.50</td>
<td>↓</td>
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</table>
Dec WTI crude oil (CLZ19) on Tuesday closed down by -0.06 (-0.11%), Jan Brent crude oil (CBF20) closed down by -0.12 (-0.20%), and Dec RBOB gasoline (RBZ19) closed up by +0.045 (+0.28%).

The energy complex on Tuesday was undercut by a rally in the dollar index to a 4-week high but found support from positive trade news that pushed U.S. stock indexes to new record highs, which was positive for the economic outlook and energy demand.

U.S. stock indexes surged to new all-time highs early Tuesday on positive trade news after a Bloomberg report said the U.S. may delay a decision on whether to impose tariffs on European automakers after Volkswagen and Daimler said they will shift parts of their global production to suppliers in the U.S.

Improved European economic optimism helped to push the Euro Stoxx 50 up to a 4-1/4-year high Tuesday, which was also supportive for energy demand prospects, after Tuesday's German Nov ZEW expectations of economic growth index rose sharply by +20.7 to a 6-month high of -2.1, stronger than expectations of +9.8 to -13.0.

A bearish factor for crude oil was negative carry-over on Monday's comments from Oman Oil Minister Mohammed Al Rumhy who said that OPEC and its partners are unlikely to announce deeper crude production cuts when they meet next month in Vienna.

Also, a decline in the crack spread to a 2-month low Tuesday was bearish for crude since that discourages refiners from purchasing crude oil to refine into gasoline.

Thursday's weekly EIA crude oil inventories report is expected to climb by +1.5 million bbl. The EIA report is being delayed by a day due to Monday's Veterans Day holiday.

Last Wednesday's weekly EIA data showed that U.S. crude oil inventories as of Nov 1 were +2.9% above the seasonal 5-year average, gasoline inventories were +0.7% above the 5-year average, and distillate inventories were -9.7% below the 5-year average. U.S. crude production in the week ended Nov 1 was unchanged w/w at a record high of 12.6 million bpd.

**European Gas Market NBP Price: 0.805 pence/kWh**

<table>
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<tr>
<th></th>
<th>Day Ahead (p/therm)</th>
<th>November 2019 (p/therm)</th>
<th>Summer 2019 (p/therm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas Price</td>
<td>23.60</td>
<td>35.60</td>
<td>39.40</td>
</tr>
</tbody>
</table>

Gas prices are slightly lower in comparison to the previous report.

The UK has been weak at the prompt side the market with strong LNG flows and forecasted healthy outlook pressuring near term prices. A mild and windier period of weather has helped to dampen gas demand over the recent weeks and put further pressure on the downside. LNG imports into the UK has averaged at 53mcm, a level not seen since May-19 as the UK LNG terminals make room for a number of vessels to arrive in the UK.

Temperatures are set to climb in the coming days, turning mild from Wednesday onwards with temperatures likely to reach 4°C above seasonal average until the start of the next working week.
Outlook

- Potential Bearish Price Drivers ↓
  - Healthy storage levels of gas
  - LNG arrivals
  - Strength in GBP - Brexit
  - Weakness in wider commodities.

Potential Bullish Price Drivers ↑

- Outages and maintenance.
- Low wind generation.
- Colder weather.
UK Energy Markets Report

UK Electricity Market Average Buy Price: £37.92/MW

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<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>3.385</td>
<td></td>
</tr>
<tr>
<td>November 2019 (p/kWh)</td>
<td>4.550</td>
<td></td>
</tr>
<tr>
<td>Q1 2020 (p/kWh)</td>
<td>5.242</td>
<td></td>
</tr>
<tr>
<td>Summer 2020 (p/kWh)</td>
<td>4.650</td>
<td></td>
</tr>
<tr>
<td>Winter 2020 (p/kWh)</td>
<td>5.370</td>
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Summary
UK power prices increased in value over the 7 days, making it a bullish week. Gas – the largest element in the UK fuel mix – was the most significant driver, with additional support from continental power, oil and coal. Demand on the national grid this week was at its highest so far this winter, reaching almost 42GW. This was due to cooler weather arriving in the UK and the days getting increasingly shorter.

Seasonal Contracts
Secure and Promote* (Season +1, +2, +3, +4) baseload contracts experienced gains over the course of the week that averaged £0.92/MWh. This is the largest increase in value we’ve seen for a while. The strength of the UK’s NBP (National Balancing Point) gas market was the major driver for the bullish behavior of the front 4 contracts. In turn, the NBP’s strength resulted from a lack of LNG (Liquefied Natural Gas) injections into the UK and North Western Europe systems. Additional upward pressure on electricity prices came from the French power market and unexpected outages at Belgian nuclear plants, along with cooler weather forecast for North Western Europe. Prices peaked on Friday afternoon as gas gains, pulled higher by European coal, continued their influence over UK power.

Prompt/Day-ahead Power
The average day-ahead baseload price was up again last week, at £49.63/MWh. Day ahead prices were at their highest (£51.19/MWh) on Saturday 11th November, when wind output was at its lowest for
the week. As expected, the week’s lowest day-ahead prices were on 6th November (£47.70/MWh), when wind output was much higher. This again supports the view that the wind influences short-term power prices.

**Imbalance Prices**

Single cashout prices over the week averaged £46.61/MWh. No negative price periods occurred last week and Tuesday 7th October saw the maximum price of £117.78/MWh. This is in sharp contrast to the same week in 2016, when system prices were far more volatile and reached a maximum of £1528.72/MWh.

**Renewables and other**

Average wind output over the week was 6.74GW. Sunday 12th November saw the windiest conditions of the week, with output peaking at 11.71GW. The lowest wind generation was during Saturday 11th November, at just 2.95GW.

**Outlook**

Potential Bearish Price Drivers ↓
- Healthy storage levels of gas
- Strength in GBP - Brexit
- Weakness in wider commodities.

Potential Bullish Price Drivers ↑
- Outages and maintenance.
- Low wind generation.
- Colder weather.
Coal Buy Price: $43.55/metric tonne ✻
News

What’s the outlook?

As we move into winter, the focus on winter forecasts are becoming increasingly important – currently winter forecasts look to be unsettled; a mixture of mild and wet some months with some cold months interspersed (December mixed, January and March colder but with a milder February).

Market signals are currently rather more bearish than last month. Short-term fundamentals look weak, as are technical signals, whereas structurally the market is bearish for gas and still in limbo for electricity.

Politically, most commentators now believe the chances of a no-deal Brexit is low, which is generally supportive for GB£ and dampening on UK’s wholesale energy prices. Nevertheless, the possibility of a hung parliament after the recently announced General Election is highly probably, which will create further uncertainty, which is generally bad for the economy.

Triads can have a huge impact on your energy bill!
The Triad period commenced on the 1st of November 2019 and these peak time charges can have a significant impact on your energy bills for the next financial year. Please see below my guide on how these charges may impact you.

**What are Energy Triads?**

Triads are the three half-hour settlement periods of the highest demand on the GB electricity transmission system between November and February, inclusive, each year. Each Triad period must be separated by at least ten clear days.

National Grid uses Triads to calculate future Transmission Network Use of System (TNUoS) demand charges, which are applicable for all customers with half-hourly (HH) meters. These TNUoS charges help to maintain supply and reduce peak energy demand during the winter months but they can represent a large percentage of your HH electricity costs.

Triads are not known in advance – they are only known post-February after the winter period has concluded. This is designed to encourage HH customers to reduce their consumption during peak periods in winter, which in turn reduces the requirement to build expensive infrastructure to meet an increase in customer demand.

**How does it affect me?**

Triad electricity charges only affect customers who have HH meters; typically, medium or large industrial and commercial businesses. However, if businesses do not consume electricity during the Triad periods, they won’t need to pay TNUoS charges for the entire financial year. Equally, if your power demand during these Triad periods is very low, you can significantly reduce your TNUoS charges for the year.

Triad reports will be published on the energy page of the CIPS website as and when they occur.

**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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