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Macro Economics

<table>
<thead>
<tr>
<th></th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>GBP</td>
<td>1.1639</td>
<td>0.09%</td>
</tr>
<tr>
<td>EUR</td>
<td>1.1639</td>
<td>0.09%</td>
</tr>
<tr>
<td>USD</td>
<td>1.2748</td>
<td>0.20%</td>
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GBP/USD 30 Day History

 GBP/EUR 30 Day History
United States Dollar:
The pound was sold off through the morning session in London. Month end re-positioning, particularly so in EUR/GBP seemed to be the main driver. A slew of US and Canadian economic data were released – it was a pretty mixed set – but the USD then continued to strengthen. Cable broke down through stops under 1.2325 and then through the 1.23 big figure. It’s on the back foot and opens at 1.2275. It should be a fairly quiet now as far as currencies are concerned, but thinning markets can sometimes lead to some strange and volatile moves, so be aware. There’s a bit of data on the way too with UK Current Account and Final GDP. New Home Sales are due from the U.S. too.

I anticipate a range in the GBP/USD rate of 1.2225 to 1.2320

Euro:
EUR/USD looked at one stage that it might break 1.05, alas it failed and quickly dropped back to trade the rest of the New York session (and through Asia) sub 1.0450. EUR/GBP continues to make good gains in what are generally illiquid markets (Japan was closed for a public holiday). This move might start to run out of steam though as the day goes on – it trades at .8520 currently.

I anticipate a range in the GBP/EUR rate of 1.1700 to 1.1800

Oil Market: Brent $57.28/bbl, WTI $53.77/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>57.28</td>
<td>↑</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>504.75</td>
<td>↑</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>325.14</td>
<td>↑</td>
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![Crude Oil Spot Price Chart](image)
Close to close at $56.82 bbl for Brent ICE (This morning at $ 57.43/bbl)

Brent and WTI prices posted +2 and +1 $/b gains respectively since closing on Dec-23rd, adding between +4 and +2 % during the break. Brent first nearby, contract for March delivery, today trades around $57/b, a level last seen in July 2015 except during the spike on Dec-12 following the OPEC/Non-OPEC deal. Main support for the crude prices came from the day one for the deal to come into force on January the 1st: indeed, the agreement between OPEC and non-OPEC members to cut production is effective since Sunday and markets will be carefully watching indications about export volumes in the coming days.

Main events:
OPEC members are supposed to cut -1.2 Mbd and Non-OPEC members -0.558 Mbd (Russia, -0.3 Mbd) during the first half of 2017 in order to erase 2% of the global supply and therefore drain the current oil glut. Some countries already gave some evidence of production cut such as Oman and Kuwait: the sultanate has notified customers that it will reduce its crude term allocation volumes by -5% in March and OPEC member Kuwait has cut output by -130 kbd to about 2.75 Mbd (according to the Al-Anba newspaper). On the contrary, Russian production in December remained unchanged at 11.21 Mbd but Moscow is expected to decrease “gradually its output by -300 kbd in the first half of 2017”… All in all it is a bit early to check the compliance but the first meeting of a committee of OPEC and non-OPEC nations responsible for monitoring compliance will take place in Vienna on 21-22 January and it should provide the first numbers.

Exempted from any constraints in the frame of the deal, together with Nigeria, Libya is ramping up production: the NOC announced the country was producing 685 kbd on January the 1st, up from around 600,000 a day in December. National output was about 1.6 Mbd before the 2011 uprising.

About North America, drillers in the US increased the rig count by two to 525 last week, the highest level since January 2016, but the total gain in December is +48 rigs, +10%.

Outlook:
Traders are back on their desks and the rise of crude prices should continue at least on the short term with the OPEC/Non-OPEC deal coming into force. The American ISM should be the main market mover today at 4 pm but oil traders should focus on news from producing countries and wait for any evidence of reduced volumes (esp. form Saudi Arabia). The EIA stocks report tomorrow will be next milestone for this first week of the year after API figures this evening. The first resistance is $57.3/b but Brent first nearby could jump higher during the US session this afternoon.
European Gas Market NBP Price: 1.8186 pence/kWh

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<tbody>
<tr>
<td>Day Ahead (p/therm)</td>
<td>48.90</td>
<td></td>
</tr>
<tr>
<td>February 2017 (p/therm)</td>
<td>49.45</td>
<td></td>
</tr>
<tr>
<td>Summer 2017 (p/therm)</td>
<td>44.20</td>
<td></td>
</tr>
</tbody>
</table>

European gas markets ended the 2016 year on a bullish note amid low traded volumes. They were supported by cold weather forecasts for January, a cut in withdrawal capacity at Rough in the UK due to new planned maintenance work between 28 December and 4 January and rising coal and oil prices. TTF ICE Cal 2017 prices expired at their highest level in 2016 at €18.296/MWh at the close on 29 December. TTF ICE month-ahead prices gained more than €2/MWh between 20 and 30 December, closing at €19.541/MWh on 30 December. NBP ICE February 2017 prices closed at 53.63 p/therm at the close on 30 December. The new outage at Rough widened NBP-TTF spreads, giving a boost to exports from the continent to the UK through the IUK pipeline. A tight LNG supply outlook continued to be supportive as well on the back of steady JKM prices, which has pushed gas prices sharply higher at the French TRS. The drawdown in stocks continued to be a supportive factor as we estimate that European storage levels were 2.5 Bcm below the 4-year average on 28 December compared to 2.5 Bcm above at the end of November.

Gas prices could come through a downward correction today after strong gains recorded over the Christmas period. Indeed, the UK system is deeply oversupplied this morning on the back strong supply from the North Sea and the continent through the Interconnector pipeline. Temperatures forecasts for next week were revised upwards over the long weekend which is likely to weigh on near-curve contracts. Nevertheless prospects of colder temperatures by the end of the week could limit losses in spot prices. Curve prices are likely to follow the bearish trend at the front as most contracts are technically overbought. Lower coal prices could add downward pressure on the far curve.
UK Electricity Market Average Buy Price: £4.942/MW

<table>
<thead>
<tr>
<th></th>
<th>Price (p/kWh)</th>
<th>Change</th>
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</thead>
<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>4.925</td>
<td>↑</td>
</tr>
<tr>
<td>January 2017 (p/kWh)</td>
<td>6.050</td>
<td>↑</td>
</tr>
<tr>
<td>Q1 2017 (p/kWh)</td>
<td>5.775</td>
<td>↑</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>4.675</td>
<td>↑</td>
</tr>
<tr>
<td>Winter 2017 (p/kWh)</td>
<td>5.055</td>
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The Baseload Day-Ahead has edged higher throughout trading this month as forecasts show wind generation falling slightly lower. Wind output, which is a cheaper source of power than gas-fired generation, is expected to be around 3.3 GW tomorrow, down from 4GW today. Contracts throughout the UK Power curve have tracked weakness on their equivalent NBP products, with a strong GB pound to Euro rate providing most of the negative direction. A bearish start to the year from the carbon benchmark product has exacerbated the downside on contracts towards the back of the curve. Contracts have ignored bullish sentiment from the Crude oil market, as the Brent benchmark reacts positively to the start of the OPEC production cut deal which began on Sunday. The 1st January marked the official start date agreed by OPEC and non-OPEC producers to cut production by 1.8 million barrels per day in order to relieve the ongoing global supply glut.
Coal Buy Price: £32.92/tonne

Carbon Buy Price: €5.81/tonne
News

Crude oil futures tumbled on Thursday after an unexpected increase in U.S. crude stockpiles reversed gains in prices that drove contracts to their highest levels since July last year.

At the Cushing, Oklahoma, delivery hub for U.S. crude futures, inventories increased by 172,000 barrels, the EIA said. WTI crude futures lost 29 cents, or 0.5 percent to settle at $53.77 a barrel, while Brent crude declined 8 cents, or 0.1 percent, to trade at $56.14 a barrel. Meanwhile, European spot electricity prices for day-ahead delivery evolved differently on Thursday as firmer demand spurred French prices, while an increase in wind power availability and slightly lower consumption weighed on the German prompt. Benchmark German spot power for Friday delivery dipped 9.58 percent to 41.99 euros per megawatt-hour (MWh). The French day-ahead contract jumped 15.60 percent to 59.74 euros/MWh. Along the forward curve, the benchmark German Cal'17 baseload contract for 2017 delivery lost 5.68 percent to 38.03 euros/MWh, while the French equivalent eased 8.94 percent to hit 31.27 euros/MWh. The European carbon emission allowances contract for year-ahead delivery rose by 0.47 percent at 6.37 euros a tonne, while the API2 2017 coal contract added 0.34 percent at $70.05/tonne. British wholesale gas prices were in a positive territory on Thursday on lower domestic supply and as cold weather continued to support demand. Gas for day-ahead delivery climbed 3.13 percent at 51.15 p/therm. Curve prices also increased, with the contract for month-ahead delivery up 1.82 percent at 51.51 p/therm and the contract for Q1 delivery up 1.84 percent at 51.63 p/therm.

Scotland’s renewable energy dominated the generation mix in the UK last year, with 42% of its energy coming from renewables.

The proportion of Scotland’s electricity supplied by wind, hydro, solar and other renewables hit an all-time high, according to figures released on December 22. Renewables produced enough power to cover 59.4% of Scotland’s electricity needs in 2015 – up from 49.7% in 2014, marking another record figure for renewables. Scotland has established an objective to deliver the equivalent of 100% of its electricity consumption from renewable sources by 2020, and the 59.4% figure is notably the progress towards that goal.

Danish energy company Dong Energy signed a deal to divest 50% of its stake in the 573MW offshore wind farm project in the UK, called Race Bank, to the Macquarie Group’s units for £1.6bn.

The 573MW offshore wind project is being built almost 17 miles off the Norfolk coast and will start injecting power into the UK grid at the end of 2018. Dong Energy and the Australian based Macquarie Group have also agreed a framework for sharing construction risk as part of the deal. As a part of the deal, Macquarie has agreed to take on half the wind farm’s remaining construction costs, including the transmission lines connecting it to the shore.

Crude oil prices boosted in a quiet trading on Thursday, buoyed by upbeat U.S. economic data and optimism that crude producers would agree to curb output. U.S. West Texas Intermediate crude rose by 46 cents, or 0.9 percent, to settle at $52.95 a barrel. Brent futures for February delivery increased by 59 cents or 1.1 percent to $55.05.

Meanwhile, European spot electricity prices for day-ahead delivery tumbled on Thursday on an expected increase in wind and nuclear power supply alongside a sharp decrease in consumption ahead of the Christmas holiday weekend. The benchmark German baseload power price for Friday delivery declined 15.61 percent at 38.17 euros/MWh. The equivalent French position fell 11.55 percent to hit 56.73 euros/MWh. Along the forward curve, the benchmark German Cal’17 baseload contract for 2017 delivery climbed 2.91 percent to $33.25 euros, while the French Cal ’17 gained 1.58 percent to 38.59 euros/MWh. European API2 2017 coal added 0.34 percent at $68.59 a tonne. European carbon emission allowances gained 4.64 percent to settle at 6.09 euros a tonne. British wholesale gas prices progressed on Thursday, as a weaker sterling against the euro spurred the market in thin holiday trade.
The day-ahead contract rose by 1.4 pence or over 3 percent, to end at 47.15 pence/therm. Sterling dipped to a two-week low against the euro after a survey of British consumers showed a gloomy perspective of the economy next year. Further along the curve, gas prices also rose, with the contract for next season delivery up 1.2 pence or 2.80 percent at 44.18 pence per therm.

**Britain's High Court ruled on Tuesday that a local government’s shale gas fracking license award to developer Third Energy was legal after it was challenged by Friends of the Earth.**

The decision opens the way to shale gas extraction in the UK. Third Energy, which is owned by former employees of the Barclays Natural Resource Investments private equity business, had been expected to produce Britain's first shale gas this year before its permit award was appealed. Britain is estimated to hold 1,300 trillion cubic feet of shale gas, trapped in its underground rocks. The government wants to explore these resources to offset slumping North Sea oil and gas output and to create about 64,000 jobs while bolstering economic growth. Since Third Energy got the green light for exploiting, shale gas developer Cuadrilla has received approval for a second permit in northwest England after the government intervened, overruling a local authority decision and boosting the country’s position as Europe's most promising shale gas exploration ground.

**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. Forex
6. ICIS

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