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Macro Economics

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<tr>
<th></th>
<th>GBP</th>
<th>EUR</th>
<th>USD</th>
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<tbody>
<tr>
<td>Closing Rate</td>
<td>1.3520</td>
<td>1.3520</td>
<td>1.1335</td>
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<tr>
<td>% Change</td>
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United States Dollar:

The pound generally struggled and ended the month the second-weakest of the major currencies after the euro. In Asia it is bottom of the pile; down against all the currencies tracked and within 20 pips of its New Year low against the US Dollar.

After the poorly-received Government reshuffle, it is now time for those Ministers who kept their jobs to do some work. Two of them with the highest profiles – the Chancellor of the Exchequer and the Minister for Exiting the EU are in Germany today to make a direct appeal to business leaders to help
secure the future of Britain’s financial services within a Brexit deal. They said they were seeking a bespoke deal with the EU described as “the most ambitious in the world that should cover the length and breadth of our economies including the service industries — and financial services”.

In a joint article for the German newspaper Frankfurter Allgemeine, Philip Hammond and David Davis argue that Britain and Germany should use “imagination and ingenuity” to craft a “bespoke solution” to maximise economic co-operation. The EU’s Brexit negotiator Michel Barnier warned the UK last month, however, that “There is no place for financial services. There is not a single trade agreement that is open to financial services. It doesn’t exist.” Yesterday he said that, “Britain’s financial services cannot benefit from a passport in the single market nor from a system of generalised equivalence of standards”. This issue is not just a debating point, it is key to whether the UK can make a success of its post-Brexit status. The Pound’s fortunes should closely track the progress that either side makes in the negotiations around the inclusion of financial services in a new free trade agreement.

There is plenty of UK economic data to look forward to today with manufacturing and industrial production figures, the November trade balance and the NIESR’s estimate of GDP over the previous three months. Ahead of all that, the pound opens in London this morning at USD1.3520.

I anticipate a range in the GBP/USD rate of 1.345 – 1.358

**Euro:**

The EUR had a poor month, slumping to the bottom of the performance table despite further upbeat survey indicators. It also shrugged off a very solid set of German industrial numbers as markets continue to fret about the political situation in Germany. EUR/USD slipped to a new low of USD1.1919; and has only recovered around 10 pips of its losses in the session in Asia. Aside from the political concerns which we’ve been flagging up over the past few days, the interest rate differential between core European bonds and their US equivalents is now beginning to weigh on the Single European Currency. As mentioned above, 10-year US Treasuries hit a 10-month high of 2.54% yesterday but their German equivalents were up only 2.5bp to 0.45%. For sure this is still well above the December lows of 0.30% but the differential with the United States is back over 200bp at the 10-year maturity.

For the moment, annual CPI inflation in the euro zone remains stubbornly low at 1.4%, or just 1.1% when volatile food and energy prices are stripped out. This is well below the ECB’s target of an inflation rate of close to but just under 2 percent. Though ECB Council member Ewald Nowotny said in an interview published on January 2nd that QE could end in 2018 if the euro zone economy continues to grow strongly and on Sunday, the Bundesbank’s Jens Weidmann said the ECB should set a date to end QE, the market is still not fully pricing a rate hike until early 2019. Strong economic data are certainly helping the EUR but the yield differential is now creating quite a headwind for the exchange rate against the US Dollar.

The EUR opens in Europe this morning at USD1.1930 and GBP/EUR1.1335.

I anticipate a range in the GBP/EUR rate of 1.1280 – 1.1410
Oil Market: Brent $67.43/bbl, WTI $59.97/bbl

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<tr>
<th>Market Type</th>
<th>Price</th>
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<tr>
<td>Brent ICE (USD/b)</td>
<td>67.43</td>
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<tr>
<td>Gasoil ICE (USD/t)</td>
<td>603.75</td>
<td>↓</td>
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<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>371.31</td>
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Close to close at $68.07/bbl for Brent ICE (This morning at $67.43/bbl)

Supportive US stocks propel Brent prices back above $68/b despite another rise of domestic production

Crude prices resist at the moment despite concerns over recent prices levels ‘strength. Many investors are raising doubts about the recent rally and much now expect a correction in the short term after a +10% gain compared to December’s lows. Nevertheless, prices found some very short term support in yesterday’s EIA stocks report that showed a huge drop in commercial crude stocks amid other bullish news feeding a positive context (weather, dollar, Iran, economic momentum). Prices were dropping away from new 32-month highs yesterday, $68.27/b for Brent and $62.21/b for WTI, before the EIA report gave a boost and maintained prices

Main events:
As expected, the first EIA report of the year (providing figures for week ending 29 December 2017) showed a mixed report with a very bullish move in crude stocks but it is offset by a jump of products inventories and a new rise of domestic production.

US commercial crude stocks dropped -7.4 Mb in the week to Dec-29, far much than market’s expectations and API numbers, with -2.2 Mb in Cushing and -2.1 Mb in Gulf Coast region. The total commercial crude stocks in US are now below 425 Mb, almost their 5 years average and 60 Mb below end of 2015 and 2016 levels. Refinery run rate is on a 5-year maximum above 96.5% with stable imports at 8 Mbd but high exports around 1.5 Mbd. Demand is on usual levels for the end of December but refineries running full steam lead to huge jump in products stocks: +4.8 Mb for gasoline and +8.9 Mb for distillates. Domestic production added +28 kbd to 9.78 Mbd, anew 40-year maximum, just a few barrels below the historical high of the 70s.
In Iran, situation seems to be under control this morning and the evolution of the protests is unclear for the short term. The deployment of thousands of security forces appeared to have largely restored order in most places but it is difficult to get solid information of what is really happening in the country. Today and the weekend will be crucial to assess if Iranian government really managed to have beaten down protests.

The Trump administration yesterday said it will open to oil drilling almost 90% of the outer continental shelf’s total acreage from 2019 to 2024. The announcement comes less than 8 years after the BP Deepwater Horizon accident in the Gulf of Mexico that caused billions of dollars in economic damage and led former President Barack Obama’s to increase regulation of the industry.

**Outlook:**
The market could end up the week in this bullish market mood but there are strong downward correction risks and a correction could occur as soon as next week. Today, main market mover will be the US job report before the Bakker Hughes rig count this evening. The $70/b mark is in sight for Brent and it is tempting for markets to test it: but will they find the strength to go that high, $2/b from current levels, before the correction? Today, Brent should be holding close to $68/b.

**European Gas Market NBP Price: 1.8988 pence/kWh**

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<tr>
<td><strong>Day Ahead (p/therm)</strong></td>
<td>55.65</td>
<td>➔</td>
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<tr>
<td><strong>February 2018 (p/therm)</strong></td>
<td>56.05</td>
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<tr>
<td><strong>Summer 2018 (p/therm)</strong></td>
<td>44.75</td>
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**NBP Gas Prices**

Close to close at 17.74 EUR/MWh for TTF CAL 18 (This morning at 17.83 EUR/MWh)

Spot prices rebound on higher demand forecasts, curve range bound
Prospects of higher gas demand in December pushed European spot prices slightly higher while the risk premium on the month-ahead contract eroded further on the back of relatively mild temperature forecasts for January and relaxed supply conditions after a set of major outages in December. Far-curve contracts were little changed overall as Brent prices traded above the $68/bbl mark while coal prices remained at high levels on the back of a tight supply/demand balance in the Pacific Basin. The benchmark API 2 Cal 2019 contract remained close to its recent highs at $85.70/t at the close.

At the close, NBP ICE January 2018 prices lost 0.45 p/therm (-0.8%), to 54.24 p/th. TTF ICE January 2018 prices were down as well: -11 euro cents at the close (-0.6%), to €19.20/MWh. On the far curve, TTF ICE Cal 2019 prices were stable at the close at €17.74/MWh.

The latest release of the EC-45 day temperature forecast was revised higher overnight, pointing to above-average temperatures across Europe for January and for the first half of February. This is likely to drag the month-ahead contract further down. In addition, the UK system is deeply oversupplied, which should weigh on NBP prompt contracts although prospects of a 16 mm cm increase in UK gas demand could be supportive for the day-ahead contract. Continental day-ahead prices could also be resilient due to rising gas demand at the start of January. Far-curve contracts could follow the bearish move on the front-month contract but once again steady oil and coal prices should continue to limit losses compared to prompt contracts. First technical support for the TTF Cal 2019 contract is its 20-day moving average at €17.60/MWh.

**UK Electricity Market Average Buy Price: £46.67/MW**

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<tr>
<td><strong>Day Ahead (p/kWh)</strong></td>
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<tr>
<td><strong>November 2017 (p/kWh)</strong></td>
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<tr>
<td><strong>Q1 2018 (p/kWh)</strong></td>
<td>5.225</td>
<td>↓</td>
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<tr>
<td><strong>Summer 2018 (p/kWh)</strong></td>
<td>4.302</td>
<td>↓</td>
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<tr>
<td><strong>Winter 2018 (p/kWh)</strong></td>
<td>4.843</td>
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**Baseload Spot Prices**
Close to close at 36.40 EUR/MWh for German power CAL 18 (This morning at 36.48 EUR/MWh)

A new wind power production record in Germany due to the stormy weather

The mild weather and wind records continue to weigh on spot and front curve prices. In the latest forecasts, temperatures were revised upwards to above seasonal averages for the coming weeks. New wind records were established in Europe. Hydro power production also rebounded significantly likely due to heavy rainfalls recently. At the same time, nuclear capacities available remain pegged at 50 GW, without having too much of an impact on spot prices. On the far curve, forward power prices corrected slightly downwards, with likely a small impact from bearish spot fundamentals. Fossil fuel and emissions prices were however more stable. Month-ahead coal prices for the Newcastle port reached a new 3-year high, likely driven by Chinese demand. This will remain a supportive element for European coal prices and therefore power forwards.

NWE day-ahead contracts ranged between €31.51/MWh and €36.59/MWh. On the far curve, the German Cal 19 contract closed at €36.6/MWh and the French Cal 19 closed at €41.4/MWh. Coal API2 Cal 19 contracts ended at $85.70t and the EUA Dec’18 closed at €7.77/t.

Outlook:
With temperatures being revised upwards compared to previous forecasts, spot prices should remain on a downward to stable trend for next week. Wind power should however reach lower levels and power consumption should increase week on week, the downward adjustment will therefore be limited. EUA auctions are due to resume next week which should weigh down on EUA prices and therefore forward power prices. We expect a limited downside potential due to strong coal prices.

Coal Buy Price: £75.73/tonne
Carbon Buy Price: €8.15/tonne

News

What to look out for in 2018

A lot can happen in a year – particularly in the fast-moving world of energy. Just by looking back at all of the changes we saw in 2017, we can see just how much the energy landscape can shift in 12 months.

In recent years, energy managers have faced a number of unforeseen events, from the Brexit vote in 2016 to the snap general election in 2017. As we don’t have a crystal ball, it’s likely that 2018 will hold further surprises – but there are some key energy events that we know will happen this year and should be preparing for now.

So, what’s coming up in the energy world in 2018? Let’s take a look…

Potential cost rises

For some energy intensive industries (EII) it will be a good year due to exemptions of up to 85% of the costs of the RO and CfD schemes being removed from their bills. Exemptions for the CfD Levy have already started and the discount on the RO levy will begin on 1st April 2018. This may be followed later in the year with an exemption on the FiT Levy, but this is still awaiting EU State Aid approval. While qualifying businesses will be looking forward to the exemption scheme kicking in, businesses that aren’t eligible for exemption will be forced to absorb the extra costs.

When DCP 228 is introduced in April, many businesses could see their energy costs increase further as it will change the way that Distribution Use of System (DUoS) costs are calculated. Red band (peak period) charges will be reduced, but amber and green band rates will increase. Those
organisations with high consumption during peak hours may see a slight reduction in their energy bills; however the majority of large businesses will see their costs rise as a result of these changes. As we head into winter 2018/19, businesses will certainly notice the impact of the Capacity Market levy. In the current winter (Nov 17 to Feb 18), this charge is just over £30/MWh for all electricity used between 4pm and 7pm on weekdays. However, next winter this cost will be nearly three times higher and will also be compounded by Triad increases of over 10%.

While the above changes will increase energy costs for many organisations, businesses that optimise their energy strategy will be in the best position to mitigate these rising costs.

New rules

This year, we’ll see the introduction of new legislation that eligible businesses will need to be ready to comply with or face sanctions. Ofgem is introducing DCP 161 on 1st April, a measure that is being established to ensure that businesses on half hourly (HH) meters are given penalty charges if they exceed their assigned capacity. This penalty could be as much as three times the standard rate, so it’s vital that businesses with HH meters monitor their usage and ensure that they do not exceed their capacity.

Minimum Energy Efficiency Standards (MEES) will also come into force for all non-domestic landlords in England and Wales in April. Businesses should act now to ensure that all of their properties have an EPC rating of at least E by 1st April, as it will be unlawful to rent out any F and G graded EPC buildings from this point. Those that don’t comply risk financial penalties or being prohibited from renting out properties.

ESOS

Just when you thought that ESOS had gone away, you will need to start preparing for the sequel – ESOS Phase 2. This will be based on energy consumption for a 12 month period including 31st December 2018 with submissions to the EA being mandatory by the 5th December 2019. This may seem like a long way in the future, but collating data can be slow and businesses should be starting the process this year.

Preparations for the future

As we move towards a low carbon future, we’re likely to take some important steps in 2018 in order to meet our goal of reducing the UK’s greenhouse gas emissions by at least 80% (from the 1990 baseline) by 2050. The Government will announce our 2020 greenhouse gas (GHG) emission reduction targets this year, and these targets (alongside the Clean Growth Strategy) should encourage all businesses to work to lower their carbon footprints as much as possible. We’ll also see the second stage of planned changes to the Renewable Heat Incentive (RHI), which helps organisations with the cost of installing renewable heat technologies, so businesses that want to benefit from the RHI scheme or continue to receive payments will need to keep up to date with any changes to the rules.

It’s not too late to get started

Many of these changes aren’t far away, but that doesn’t mean it’s too late for organisations to prepare for them.

A very merry Christmas & a happy New Year to all my readers.
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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