April 2017 - Market Summary

Review of Market Trends

Report No. 4
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5/13/2017

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United States Dollar:

Sterling took hit yesterday as the latest interest rate decision from the Bank of England showed no more policy makers voted in favour of a rate hike. There was speculation either Michael Saunders or Ian McCafferty would join Kristen Forbes in voting for a rise to 0.5% from its current all-time low of 0.25% however they opted to keep to the status quo. The pound was already retreating from under-par manufacturing data earlier in the month and dropped further as the vote was announced, moving from 1.2920 to 1.2855. The accompanying Inflation Report saw a downgrade for 2017 estimated growth from 2% to 1.9% with inflation expectations being revised up to 2.9% by year end. BoE Governor,
Mark Carney did little to lift the mood in his press conference shortly after, warning of the spending squeeze we are set to endure throughout this year as wage growth is outpaced by CPI. From the States, there was a jump in input prices as PPI m/m jumped from -0.1% to 0.5%; at the same time Unemployment Claims posted a very healthy 236k. Cable trades at 1.2865 ahead of a plethora of US data this afternoon, including CPI, Core CPI, Retail Sales and UoM Consumer Sentiment.

I anticipate a range in the GBP/USD rate of 1.2805 – 1.2950

**Euro:**

This morning has seen a healthy uptick in German GDP with Q1 figures rising from 0.4% to 0.6% compared to the previous three months. The report stated: “Capital formation increased substantially. Due to the mild weather, fixed capital formation especially in construction, but also in machinery and equipment was markedly up compared with the fourth quarter of 2016.” EUR/USD has continued its slide since Emmanuel Macrons victory in the second round of the French election. After briefly getting its head above 1.10 last Sunday night, we now sit at 1.0850. GBP/EUR trades at 1.1845.

I anticipate a range in the GBP/EUR rate of 1.1795 – 1.1915

**Oil Market: Brent $51.66/bbl, WTI $49.33/bbl**

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<table>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>51.66</td>
<td>↓</td>
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<tr>
<td>Gasoil ICE (USD/t)</td>
<td>457.75</td>
<td>↓</td>
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<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>291.87</td>
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Close to close at $51.44 bbl for Brent ICE (This morning at $ 51.66/bbl)

Oil prices reached new monthly lows at the end of April, $50.45/b for Brent and $48.2/b for WTI, before rebounding and even recover: Brent first nearby is back around $51.89/b. The collapse was fueled by some Libyan fields restarts but is mostly illustrates the great nervousness of markets and the general negative sentiment about oversupply. There was a rebound afterwards but it appears more technical than based on fundamentals as prices were far from reference levels and touched their lower Bollinger band. To push prices, there were some “supportive” statements from OPEC officials about deal extension but the markets will not buy them for long, they want action now.

Main events:

Libyan NOC chairman yesterday announced Sharara oilfield (~300 kbd) has restarted after the end of protests by an armed group that had blocked some pipelines. Some sources also reported the restart of El Feel oilfield (~90 kbd). NOC chairman Sanalla said during an event in Paris that Libyan oil production was about 491 kbd on Thursday and NOC hoped to reach 800 kbd soon.

In Paris also where many OPEC officials are currently gathered, the organization is trying to show unity and claims the deal is likely to be done : OPEC Secretary-General Mohammad Barkindo confirmed efforts were under way (led by Saudi Energy Minister Khalid al-Falih) to get a consensus before ministers meet next month in Vienna. Iraqi Oil Minister Jabar al-Luaibi said Baghdad would go with the consensus reached by OPEC and Angola's oil minister said he believed the deal would be extended beyond June… Saudi Energy minister even announced this morning that OPEC compliance with the deal was 100% while Non-OPEC was 85% in April. However, Iran and Russia are notably absent from those discussions so far…

Outlook:

Crude prices could hold around current level and remain in the middle of the Mid-March range around $52/b for Brent first nearby. At the start of May Brent contract for June delivery expiration and second nearby is already trading 40 cents above the first nearby. Markets could end up the week quietly ahead of a long weekend before a crucial week with a Fed meeting and the second round of French elections.
European Gas Market NBP Price: 1.3298 pence/kWh

<table>
<thead>
<tr>
<th>Day</th>
<th>Price (p/therm)</th>
<th>Change</th>
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<tbody>
<tr>
<td>Day Ahead</td>
<td>39.50</td>
<td>↓</td>
</tr>
<tr>
<td>May 2017</td>
<td>39.70</td>
<td>↑</td>
</tr>
<tr>
<td>Winter 2017</td>
<td>45.70</td>
<td>↑</td>
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Close to close at 16.49 EUR/MWh for TTF CAL 18 (This morning at 16.63 EUR/MWh)

European gas prices ended the session in negative territory despite a strong start as a further drop in oil prices fueled the bearish sentiment in the afternoon. Brent prices hit a new 1-month low at $50.45/bbl yesterday (see Eco & Oil Price Analysis for further details). Unseasonably high gas demand continued to support prompt contracts as it tightened gas systems and kept storage sites in net withdrawal mode across Europe, which is rather unusual for this time of year (see graph of the day). Moreover, temperature forecasts for next week have been gradually revised lower throughout the week, which acted as a supportive factor near-curve contracts over the last trading session. In the meantime, a further increase in coal prices remained supportive for the curve. API 2 Cal 2018 prices gained $0.77/t at the close (+1.2%), to $66.65/t.

For their last day of trading, NBP ICE May 2017 prices lost 0.11 p/therm at the close (-0.3%), to 39.29 p/therm. TTF ICE May 2017 prices were almost unchanged at the close: -1 euro cents (-0.1%), to €16.049/MWh. Further out on the curve, TTF ICE Cal 2018 prices were assessed 11 euro cents lower at the close (-0.7%) to €16.49/MWh.

A rebound in Brent prices after yesterday’s close could filter through European gas prices at the opening this morning. Far-curve contracts could be the most impacted as prospects of lower gas demand next week could limit gains on the prompt. Indeed, British gas demand is expected to drop by 13% on the next working day (Tuesday as Monday is a bank holiday) compared to today’s
expectations, which is likely to drag day-ahead prices lower today. The supply side looks unlikely to provide strong support with high imports from Norway and Russia, higher nominations for UKCS production and steady LNG send outs. Range bound oil and coal prices could send a neutral signal to the curve. All in all, we favour a stable outlook for European gas prices today.

**UK Electricity Market Average Buy Price: £40.50/MW**

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<tr>
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<th>Price (p/kWh)</th>
<th>Change</th>
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<tr>
<td>Day Ahead p/kWh</td>
<td>4.050</td>
<td>↓</td>
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<tr>
<td>April 2017 p/kWh</td>
<td>4.195</td>
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<tr>
<td>Q2 2017 p/kWh</td>
<td>4.115</td>
<td>↓</td>
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<tr>
<td>Summer 2017 p/kWh</td>
<td>4.120</td>
<td>↓</td>
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<tr>
<td>Winter 2017 p/kWh</td>
<td>4.620</td>
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**UK Power**

As usual, UK Power prices are following the trend of NBP Gas and moving upwards across the curve. Very low wind levels are limiting Wind Power Generation and forcing other methods to be used, increasing prices.

Summer nuclear maintenance schedules have been announced, as plants plan to go offline throughout the period.

Oil and Coal prices are also rising. Oil as OPEC becomes firmer on whether they will issue another production cut, and Coal on the renewed Queensland supply disruptions.

**Continental Power**

Both Dutch and German prices have hardly moved this morning, similar to movements for European gas prices.

Coal prices post gains, and as we see a weaker Euro against the Dollar, this inflates the cost for European buyers.

For the continent there is a below average temperature outlook and lower wind levels, adding bearish sentiment.
Coal Buy Price: £11.64/tonne

**BHP Billiton (LSE:BLT) Share Price**
- 11.54 GBP
- 12 May '17

Carbon Buy Price: €4.58/tonne
News

The open water market: one month in

We heard all about the potential benefits of the new water market in the build-up to the April 1st opening date – businesses were told to expect lower costs, help with water efficiency and innovation alongside other improved services from retailers. So after a month of open water, have these benefits materialised?

One of the most positive aspects of the new market has been the amount of businesses that have engaged with the market already – before the market opened, there were concerns that switching rates would be low, but we have already seen a great deal of activity. It’s been a really encouraging start for the new market.

However, as with any industry change there have been some notable teething troubles. The central operating system used by suppliers isn’t yet fully up-to-date, with many instances of incorrect or missing data leaving suppliers unable to provide accurate quotes to customers looking to switch. These issues are causing delays in the switching process, with suppliers struggling to respond to customers within four or five weeks.

Many businesses will be expecting the same standard of service as they get from their current gas and electricity suppliers, so I’d expect to see some frustration as businesses wait for the water market to catch up.

*So are all businesses that have switched suppliers seeing benefits?*

Big businesses that have made the switch are likely to see the rewards as soon as the first bill arrives, particularly if they have multiple sites in different locations. If a business with sites in 20 different regions, for example, switched to a single supplier then they should only receive one bill rather than 20 separate bills, which should significantly reduce the time needed to manage their water supply and admin costs, it will also improve their visibility of their water consumption.

Smaller businesses may also benefit from consolidated billing, as some water suppliers are partnering with utility companies to provide a triple offering, with one single bill for water, gas and electricity. Businesses of all sizes should be benefiting from reduced water costs if they have switched, although we expect discounts to remain at around 2-4% until the next pricing round.

*Does the future look bright for the water market?*

Once the initial issues suppliers are experiencing have been resolved, there’s no reason why the new water market won’t be successful. We’re already seeing a greater buzz around water, with businesses that weren’t previously concerned about their water supply now thinking about their procurement strategy and ensuring that they’re on the right tariffs and getting the best service from their supplier. It’s great that open water has prompted so many businesses to engage with the market.
We’ve also seen businesses applying for licences to self-supply. As self-suppliers, they will pay wholesale prices and they will have the ability to directly influence the market as members of MOSL, a private company that works on behalf of water company members. These benefits have led to other businesses considering the self-supply option, so we may see more choose to take this route. Self-supply is just one way that the changes to the market could bring new energy into the water industry, and we hope to see more innovation in the future.”

**Terminology**
- All oil prices: in US dollar
- Oil product: Brent crude or West Texas Intermediary (WTI)
- Mbd – 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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