May/June 2017 - Market Summary

Review of Market Trends

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United States Dollar:

Tuesday’s construction data failed to support Sterling. The main reasons for this was that the June data showed weaker growth momentum in business activity, new work and employment with all expanding at slower rates. However, despite the release coming just under the expected 55.0 with 54.8 it still shows decent growth in comparison to May’s 53.1 and I would have thought Cable would have moved a little higher than the 1.2940 seen on the release. This was the main release for the currency pair yesterday with the US celebrating the 4th July. The movement has been fairly subdued overnight,
with only a small spike in GBP/USD very early this morning as USD weakness was seen during the Asian session. GBP/USD 1.2917 – 9:00 am.

I anticipate a range in the GBP/USD rate of 1.2840 – 1.2980

**Euro:**
Sterling has also dipped against the single currency. UK Construction data a contributing factor to the movement as it failed to meet market expectations. There has been little European data to comment on this week so far with only a number of low impact data releases to monitor. Early this morning we have had a number of services PMI releases across Europe, notably the Spanish that has come in greater than expected, accelerating to a 22-month high on the back of a substantial rise in new orders. This pulled GBP/EUR lower, stopping at 1.1353. EUR/USD has had a subdued 24 hours also due to lack of data. GBP/EUR 1.1367 – 9:00 am.

Services data is still being released across Europe as I type. They are all highlighted as low impact data releases, apart from the UK services that are due at 9:30 am. European retail sales are also expected today at 10:00 am, but this will just be a prelim to the US FOMC meeting minutes this evening. Recent ranges could be broken for the Euro depending on the outcomes.

I anticipate a range in the GBP/EUR rate of 1.1280 – 1.1410

**Oil Market: Brent $47.42/bbl, WTI $46.04/bbl**

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<tr>
<td>Brent ICE (USD/b)</td>
<td>47.42</td>
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<td>Gasoil ICE (USD/t)</td>
<td>435.50</td>
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<td>Fuel 1% Fob cg (USD/t)</td>
<td>283.54</td>
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Close to close at $47.42 bbl for Brent ICE (This morning at $ 47.80/bbl)
Yesterday’s session was finally neutral around $47.4/b for Brent first nearby but the rising trend resumed overnight and Brent now trades at $47.7/b. Crude prices are now back around Mid-June levels and both benchmarks already posted 8% and 12% since new 9-month lows touched on June-21 after five weeks of steep losses. The optimism seems to be back on markets and bulls are slowly coming out of hibernation, pushed by the latest weekly figures of US output and a weaker greenback and despite global oil supplies remaining ample…

Main events:
OPEC efforts continue to be undermined by Nigerian and Libyan production: this morning, Reuter’s reports that Libyan oil production is fluctuating between 950 kbd and 1 Mbd (rising from around 935 kbd earlier this week). In Nigeria, Shell has lifted the force majeure declared on exports of Bonny Light, Nigeria’s reference crude oil grade, and production could soon rise by +226 kbd, taking the total crude production close to 1.8 Mbd.
Iran is also a wild card for OPEC production but exports are due to fall in July according to Reuters this morning: the agency reports that Iran’s crude oil exports in July are set to fall -7% from this month’s three-month high, mainly due to a decline in exports to Europe.
In Iraq, Iraqi forces are about to enter the last part of Mosul still under ISIS control and the US-led coalition says the liberation of the town is imminent, just three years after Abu Bakr al-Baghdadi declared the ISIS caliphate in 2014 (June-29 2014).

Outlook:
Markets are positive, still in the wake of the bullish output figures released Wednesday but the disappointment could be strong next week if production rebounds (especially because last week’s decline was likely driven by field maintenance in Alaska and the impact of Tropical Storm Cindy in gulf of Mexico). Markets will now focus on the weekly Bakker Hughes rig count as usual. The positive streak could end up slowing or, at least, take a break. Today, we see prices stable to slightly bearish with Brent first nearby prices holding between $47.8/b and $47.3/b, the 20-days average

European Gas Market NBP Price: 1.2062 pence/kWh

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<tr>
<td>Day Ahead (p/therm)</td>
<td>35.35</td>
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<td>July 2017 (p/therm)</td>
<td>35.70</td>
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<td>Winter 2017 (p/therm)</td>
<td>44.65</td>
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Close to close at 15.87 EUR /MWh for TTF CAL 18 (This morning at 15.88 EUR /MWh)

Bears came back to the fore on Thursday despite a strong opening, dragging European gas prices down. The restart of British exports through the Interconnector pipeline improved continental gas supply which weighed on prompt contracts although Dutch and British systems remained marginally short throughout the session. A downward correction in coal prices after most contracts hit new 2017 highs on Wednesday provided additional downward pressure. NBP day-ahead prices were volatile, trading above 39 p/therm in the morning but closing below 37 p/therm. Losses were more limited on the curve as Brent prices continued to increase and to provide some support, hitting the $48/bbl mark towards the close.

NBP ICE July 2017 prices lost 1.15 p/therm at the close (-3%), to 36.60 p/therm. TTF ICE July 2017 prices lost 15 cents at the close (-1%), to €14.98/MWh. On the far curve, TTF Cal 2018 prices were assessed 11 euro cents lower (-0.7%) at the close, to €15.87/MWh.

European gas prices could remain under bearish pressure today as the UK system is oversupplied this morning in contrast to recent trading sessions. Indeed, Norwegian gas supply jumped above 300 mm cm/day this morning for the first time since the beginning of the month with Langeled flows up 20 mm cm/day compared to yesterday. Prospects of a flurry of LNG deliveries to the UK next week may also fuel the bearish sentiment. Coal and oil prices should not be particularly supportive. First technical support for TTF Cal 2018 prices is at €15.80/MWh.

**UK Electricity Market Average Buy Price: £39.60/MW**

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<tr>
<td>Day Ahead (p/kWh)</td>
<td>4.350</td>
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<tr>
<td>July 2017 (p/kWh)</td>
<td>4.130</td>
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<tr>
<td>Q3 2017 (p/kWh)</td>
<td>4.155</td>
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<tr>
<td>Winter 2017 (p/kWh)</td>
<td>4.641</td>
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<td>Summer 2018 (p/kWh)</td>
<td>3.952</td>
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Close to close at £39.60/MWh CAL 18 (This morning at £40.85/MWh)

Spot market prices inched down ahead of the weekend on better supplies and lower demand. French peak demand fell to its lowest level of demand recorded for this date in the past seven years on falling temperatures. Wind power is set to reach between 15 and 20 GW today across the Rhine with at the same time more hydro and more nuclear power production in France. Will these conditions improving continue next week? Nuclear availability could further improve but repeated delays in the return of French reactors make this less sure. Hydro power has some upside potential as well with better water and weather conditions. In Germany however, wind production should gradually fall below 5 GW in the middle of the week with a little more solar power expected in compensation. All in all, we have a cautiously bearish outlook for next week. Note that French Epex spot prices only decreased by 1.8€ this week versus last while demand levels were significantly lower.

On the far curve, different bullish factors were at play yesterday. Higher EUA prices followed higher coal prices but in the energy complex did not hold high prices and forward power prices only increased by a small margin: 0.6% for the German Cal 18 at €30.9/MWh, 0.4% for the Dutch Cal 18 at €34.0/MWh and flat for the French Cal 18 at €36.7/MWh where downward pressure came from the ASN decision to authorize the EPR of Flamanville to start in 2018. Cal 19 and Cal 20 contracts recorded new losses. Today, EUA prices are not likely to go up significantly as we approach key resistance levels and they already stopped the progression yesterday. Fossil fuel prices could be relatively stable and as a consequence, we have a stable to slightly bearish outlook for forward power prices today.

**Coal Buy Price: £30.98/tonne**
Carbon Buy Price: €4.95/tonne

News

What does a hung parliament mean for the UK energy industry?

While we’ve had a few unanticipated results to elections in recent times, the outcome of the 2017 General Election will still have come as a shock to many. We now have a hung parliament, with the Conservatives winning the most seats but failing to secure the overall majority they need to form a government.

With even more uncertainty added to a political environment that was already turbulent, there will be concerns about how this result will affect UK businesses. Here we take a look at what it could mean for our energy industry.

What will happen next?
Both the Conservatives and the Labour Party, which finished second, were given the opportunity to put together a new government. One of the ways that they could achieve this was by forming a coalition with another party (or other parties) to take them over the threshold needed to gain a majority. The other option for the two parties was to run a minority government and rely on smaller parties for support to get their laws passed.

The Conservatives have announced their plans to form a minority government, with support from Northern Ireland’s Democratic Unionist Party (DUP). However, the government won’t be confirmed until MPs hold a vote of confidence on 19th June. In the meantime, the Labour party has indicated that they will be working to form their own minority government.
How will the result affect the energy industry in the UK?

Whether it’s the Conservatives’ or Labour’s government that receives the vote of confidence, it’s likely that the winning party will need to compromise on some of their policies in order to appease and gain the backing they need from other parties. So how could a minority government affect the UK’s energy policies?

Energy prices
The price of energy is one area that is likely to see similar action regardless of which party holds the power. Both the Conservatives and Labour have plans to lower energy bills, with Labour proposing an emergency price cap and the Conservatives looking to commission an independent review into energy costs.

They should receive support from the other parties, as the DUP, Liberal Democrats, SNP and the Green Party have all stated their intentions to reduce energy costs as well – so while the method of doing so will vary according to the winning party, businesses can expect to see the cost of energy addressed by the next government.

Renewables
If the Conservatives want the support of the DUP, they may find that they need a greater focus on renewable energy. In their manifesto, the Conservatives say that they’re more interested in the ends – reliable and affordable energy – than the way it’s generated, and they only plan to back more wind farms on remote Scottish islands. While renewables aren’t at the forefront of the DUP’s manifesto, they do have plans for a new energy strategy, including a review to find the most affordable way to develop the renewable sector.

A Labour government, on the other hand, won’t find it hard to garner support for their ambitious renewable targets, such as ensuring that 60% of the UK’s energy comes from zero-carbon or renewable sources by 2030. The Liberal Democrats have their own goal of 60% of electricity to come from renewables by 2030, and renewable energy is a key priority for the Green Party, which plans to move the coal phase out date forward to 2023. The SNP also support renewables – they exceeded their target of reducing energy consumption by 12% by 2020 seven years early.

Brexit
The Brexit deal will have a significant impact on the UK’s energy industry, particularly when it comes to remaining in the internal energy market and continuing the environmental commitments we’ve made as members of the EU.

Theresa May has been pursuing a ‘hard Brexit’ and she has been clear in her plans to leave the single market if necessary, although the Conservatives do plan to convert all current EU environmental legislation into British law. The DUP may be ambivalent about the environmental laws – their manifesto doesn’t mention the environment at all – but they’re unlikely to support a hard Brexit as they’re opposed to any hardening of the border between Northern Ireland and the Republic of Ireland.

Labour, the Lib Dems, the Green Party and the SNP are all also in favour of a soft Brexit. They have all pledged to uphold the current EU environmental protections, although Labour and the SNP are the only parties that have stated plans to remain in the internal energy market.
Community energy

One of the key features of Labour’s energy policy is to take back control of the UK’s energy and water infrastructure, and they plan to do this by creating and supporting publicly-owned energy companies. Whether other parties will support them in the re-nationalisation of the energy industry is uncertain, but the Liberal Democrats and the Green Party are likely to support their proposal for community energy schemes as they have similar plans of their own.

There’s no mention of community energy schemes or renationalisation in any of the manifestos from the Conservatives, the SNP and the DUP.

Looking ahead…

As it stands, it seems most likely that the Conservatives will remain in government with a minority. Without the security of a majority win, the UK’s political climate is set to remain volatile—there have been calls for Theresa May to resign, and it’s possible that we could see another general election called within the next few months. Unfortunately, this means that businesses are unlikely to get the certainty they need when it comes to the future of the UK’s energy industry.

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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