January 2017 - Market Summary

Review of Market Trends

Report No. 1
Martin Rawlings
2/1/2017

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Macro Economics

<table>
<thead>
<tr>
<th></th>
<th>Closing Rate</th>
<th>% Change</th>
<th></th>
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<tbody>
<tr>
<td>GBP</td>
<td>1.1639</td>
<td>0.09%</td>
<td>↓</td>
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<tr>
<td>EUR</td>
<td>1.2625</td>
<td>0.20%</td>
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USD/GBP 30 Day History

EUR/GBP 30 Day History
United States Dollar:
All eyes will be focused on the Houses of Parliament this afternoon as the parliamentary debate begins on the UKs withdrawal from the European Union. This is the start of several weeks of debate in both the House of Commons and House of Lords as the proposed bill becomes law ahead of Article 50 being triggered by the government which is expected to be completed by the end of March. With the exception of Europhile Ken Clarke all conservative MPs are expected to vote for Brexit and it will be interesting to see if all Labour MPs follow leader Jeremy Corbin’s orders to also vote for Brexit given the number of inner city Remain boroughs they represent. The SNP which has previously stated it will look to table 50 amendments will be opposing the legislation given the majority of Scots voted Remain. Scotland’s First Minister, Nicola Sturgeon has again hinted that the decision to leave the EU could force another Referendum on Scottish Independence. The debate starts at lunchtime today and goes on until midnight tonight, they start again tomorrow with a vote tomorrow evening at 7pm. Across the pond Donald Trump’s travel ban on people from seven predominantly Islamic countries continues to make headlines around the world. The latest development was the firing of acting Attorney General, Sally Yates who allegedly questioned the legality of such a ban. Sterling lost some ground throughout yesterday with GBP/USD falling from around 1.2550 to a low of 1.2475 during the London session. It’s currently hovering around the 1.25 handle. A risk of environment yesterday saw stocks sold off around the world with the Yen the main benefactor, USD/JPY fell from 114.90 to a low of 113.20 overnight. There has been little data over the past 24 hours although some the US saw some middle tier prints such as Personal Spending m/m and Household Spending y/y surprise to the upside. Tomorrow night we kick off in earnest with the FOMC statement and rate decision.

I anticipate a range in the GBP/USD rate of 1.2420 – 1.2600

Euro:
After yesterday’s solid Spanish GDP print there has been more evidence of a warming Spanish economy this morning with Spanish CPI y/y rising far further than expected to 3% far higher than the 2.4% prediction. Today sees the Flash CPI print from the Eurozone as a whole accompanied by GDP data for Q4 as well. CPI is expected to rise to 1.5% y/y with the core reading holding steady at 0.9%. Growth is expected to rise from to 0.4% from 0.3% previously. EUR/USD continues to hover around the 1.07 handle where it’s been for much of the past week and a half, GBP/EUR is a little lower today at 1.1670.

I anticipate a range in the GBP/EUR rate of 1.1630 – 1.1775
Oil Market: Brent $55.23/bbl, WTI $52.81/bbl

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<tr>
<td>Brent ICE (USD/b)</td>
<td>55.23</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>484.25</td>
<td>↓</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>307.29</td>
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Close to close at $55.23 bbl for Brent ICE (This morning at $ 55.03/bbl)

Oil prices once again rebounded on their lower Bollinger band yesterday and didn’t break their support. Brent first nearby tested the $55/b level and trades only 20 cents above it this morning. WTI is priced $52.51/b at the moment, down 70 cents from Friday’s settlement. Not much on markets yesterday but the general sentiment driving the market remains that efforts led by the OPEC to cut output could be not big enough to offset rising US drilling in giant shale plays.

Main events:
Most of traders fear a US shale oil flooding in a few weeks and numbers from EIA are reinforcing this sentiment on a weekly basis. The number of rigs is rising fast and it is just a question of week before we see the US production curve steepening: the question is to know whether the rise will be strong and fast enough to completely offset OPEC cuts.

On the other side of the boarder, in Canada, drilling is also in a very positive cycle and output should therefore be boosted this year. The Petroleum Services Association of Canada increased its 2017 oil and gas well drilling forecast by +23%. They now estimate 5150 wells will be drilled in Canada this year, up from its previous 2017 forecast, made last November, of 4175 wells. The new forecast puts
Alberta as the top drilling province for 2017 with 2706 new wells, followed by Saskatchewan with 1985 and 367 in British Columbia.

Regarding the nuclear deal reached with Iran in late 2015, President Trump loudly claimed its opposition to it (“the worst deal ever negotiated”) during all the campaign and markets feared he would undo it. After a call with King Salman on Saudi Arabia yesterday, the president of US reassured the markets the deal will survive and agreed with the king on ‘rigorously’ enforcing it.

**Outlook:**
Despite a very busy economic agenda today, I don’t see major market moves for oil and this could remain the same for days to come. Currently priced in the lower part of its trading range, Brent first nearby prices could move upward today and reach back the $55.5/b level. Next milestone will be the weekly EIA stocks report tomorrow at 4:30 pm.

**European Gas Market NBP Price:** 1.8862 pence/kWh

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<thead>
<tr>
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<th>Price</th>
<th>Change</th>
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<tr>
<td>Day Ahead (p/therm)</td>
<td>55.28</td>
<td>↓</td>
</tr>
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<td>March 2017 (p/therm)</td>
<td>55.19</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2017 (p/therm)</td>
<td>45.73</td>
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Close to close at 17.79 EUR/MWh for TTF CAL 18 (This morning at 17.95 EUR/MWh)

European gas prices rose significantly yesterday (if we except TRS prices, already at relatively high levels), supported by concerns on low stock levels and technical rebound.

At the close, NBP ICE February 2017 prices increased by 2.71 p/therm (+5.27%), to 54.090 p/therm. TTF ICE February 2017 prices increased by 90 euro cents (+4.62%) at the close, to €20.400/MWh. The
rise was smaller for far curve prices; TTF Cal 2018 prices increased by 8 euro cents (+0.45%) at the close, to €17.791/MWh.

Spot prices could continue to rebound today. However, I believe the upside potential is now limited as lower demand should help alleviate concerns on stock levels.

On the far curve, I expect TTF Cal 2018 prices to increase too as oil prices could lend additional support.

**UK Electricity Market Average Buy Price: £53.40/MW**

<table>
<thead>
<tr>
<th>Date</th>
<th>Price (p/kWh)</th>
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<tbody>
<tr>
<td>Day Ahead</td>
<td>5.175</td>
</tr>
<tr>
<td>February 2017</td>
<td>5.450</td>
</tr>
<tr>
<td>Q2 2017</td>
<td>4.675</td>
</tr>
<tr>
<td>Summer 2017</td>
<td>4.545</td>
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<tr>
<td>Winter 2017</td>
<td>4.865</td>
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The Baseload Day-Ahead has strengthened throughout the session so far amid a drop in wind generation and strong trade on the countries natural gas hub. Wind generation in the UK is expected to drop to 3.1GW tomorrow, down from 4.1GW today. This places a stronger reliance on gas-fired generation, which is a more expensive alternative source of power. A bullish NBP market has provided further bullish impetus following the extension of an outage at the Rough storage site. The curve has followed the NBP into positive territory in reaction to a softer Sterling to Euro exchange rate. Weather forecasts for February and March have been revised down, adding further bullish sentiment to the front of the curve.
Coal Buy Price: £32.20/tonne

Carbon Buy Price: €5.29/tonne
News

**EDF Energy Renewables sign a deal for battery storage project in the UK**

Energy Renewables has inked an agreement with Nidec ASI to construct a 49MW battery storage project for the UK’s National Grid.

The project, which will be built at EDF Energy’s West Burton site in Nottinghamshire, is part of a new 200MW higher frequency reply system that will be deployed across the UK to balance the grid.

Nidec ASI will provide the battery storage system and integrate it with a power management system provided by EDF Store & Forecast, a division of EDF Energies Nouvelles.

**The Scottish government has launched a consultation on whether unconventional oil and gas extraction should be allowed in the country.**

A moratorium on unconventional oil and gas development in Scotland remains in place since January 2015 - banning all forms of it until the outcome of the consultation.

The Scottish Parliament had previously voted in favour of a ban - which saw Labour, the Scottish Greens and Liberal Democrats supporting a ban, while the Conservatives opposed it and the SNP abstained.

Scotland is likely to hold substantial amounts of shale gas which are trapped in underground rocks. The British government wants to exploit these resources to help offset declining North Sea oil and gas output.

The consultation will run until 31 May and is open to members of the public as well as industry.

Annual gas consumption in Scotland is around 150 billion cubic feet/year, with some 78 percent of homes using gas as their primary heating fuel.

Fracking is a risky technique which involves drilling rigs and other heavy machinery, underground explosions, and pumping a mix of fresh water, sand and hundreds of tonnes of chemicals into the ground.

**A new supplier has entered into UK energy market. Fischer Energy delivers electricity acquired from Danish wind giant DONG Energy. The supplier hopes to sign up 40,000 single variable tariff customers this year.**

Fischer Energy is a family-owned business based in Leicester, and has around 25 employees. It arrives only two months after the collapse of a small energy supplier, GB Energy UK. The company is going up against several long-standing clean energy suppliers such as Good Energy and Ecotricity, with the promise to provide 100% renewable electricity.

Keith Bastian, Fischer’s Chief Executive, said he had been encouraged to start the company because of multiple tariffs inequality, adding that proposing a single tariff would reduce misperception.

Fischer should publish details of its tariff on Monday. According to Ofgem, there are presently 44 active suppliers in the retail market.

**British nuclear regulators are likely to take five years to finalize the approval process for the construction of China’s third-generation "Hualong One" reactor in Britain, the China General Nuclear Corporation (CGN) declared on Friday.**

The British government requested to regulators to begin the approval process this week for the suggested nuclear station at the Bradwell site in Essex, likely to be one of the first new UK plants in decades. CGN, along with its associate France’s EDF, is looking for permission from London to use its homegrown Hualong One advanced reactor technology for the project, also known as HPR-1000. The plant’s "generic design assessment" will be based on unit three of CGN’s Fangchenggang nuclear
project in southwest China, which is presently under construction, as announced by CGN in a statement posted on the website of China's state asset regulator. EDF is currently constructing the $24 billion Hinkley Point C nuclear reactor in southwest England after the project was authorized by Britain last September. CGN decided to offer a third of the investment in the Hinkley Point C project on the understanding that the move would aid it obtain future projects in Britain. China's first Hualong One unit is likely to be accomplished by 2020 at the Fuqing nuclear project in Fujian province on the southeast coast and is being built by CGN's competitor, the China National Nuclear Corporation (CNNC). China is now in the middle of a huge reactor-building expansion that will see the total domestic capacity increase to 58 gigawatts by the end of 2020. It also targets to turn into a leading global actor in the nuclear sector and has already inked accords to build reactors abroad, including in Argentina and Romania.

**French utility EDF has advanced the relaunch date of three nuclear reactors involved in a safety investigation, signaling it may have obtained the authorization from safety regulator ASN to restart production.**

An update on EDF and French grid operator RTE's website made known on Saturday that the restart date for the 900 megawatt-each Gravelines 2, Dampierre 3 and Tricastin 3 nuclear reactors was brought forward to December 20 from December 31 as initially scheduled. The three nuclear reactors are among 12 involved in a safety examination started by ASN. ASN declared on Monday it was ready to give green light to the restart of seven of those reactors planned to relaunch production on December 31, after EDF handed more test results on their operational safety. Nevertheless, the regulator requested EDF to accomplish extra tests on the some of the reactors, and declared the restart of the reactors would be subject to individual authorization, and that it would notify EDF of new potential restart dates. ASN started the investigation after increasing concerns that certain steam generator channel heads in the reactors might have a zone with a high carbon concentration, which could weaken the flexibility of the steel and its ability to resist the spreading of cracks. The probe has postponed the relaunch of the reactors, obliging EDF to extend their outage periods and increasing fears that France, which relies on its 58 nuclear reactors for 75 percent of its power needs, could deal with a tight supply this winter.

**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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