November 2016 - Market Summary

Review of Market Trends

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## Macro Economics

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<thead>
<tr>
<th>Currency</th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>GBP</td>
<td>1.1755</td>
<td>0.09%</td>
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<tr>
<td>EUR</td>
<td>1.2507</td>
<td>0.20%</td>
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United States Dollar:
Investors this month heard the views from two FOMC members on the US economy. Both Dudley and Powell were in agreement that the USA economy is performing well and that interest hikes are now a welcomed move by the US Federal Reserve. Governor Powell however was more expansive on his view stating that the economy had clearly strengthened since the soft patch during the first half of the year. Key indicators such as the US labor market and inflation nearing the ideal target of 2% since July, has provided confidence that the FED can now raise interest rates without any concerns. Investors for the last few weeks have been pricing in a guaranteed rate hike in FED’s December meeting and now are questioning if we will see another rate hike during the first half of 2017. Both USA’s economic releases came in higher than forecast. The gross domestic product growth climbed to 3.2% against a forecast of only 3.0%. This is the fastest pace in more than two years. The consumer confidence data showed that it reached its highest level since July 2007 and currently sits at 107.1. Economists had expected an improvement to 101.3 but the move was quite a jump from the previous 100.8 posted in October. The US Dollar during yesterday’s European session wasn’t able to take advantage of the good economic data, dropped to 1.0646 against the EUR and GBP/USD rose from 1.2457 to 1.2520. The economic calendar for the US Dollar this afternoon will have a series of releases but today’s “all day” OPEC meetings will be grabbing most of the market’s attention.

As stated above, cable reversed its fortunes yesterday as UK’s mortgage approvals reached a 7 month high. The mortgage approvals beat market expectations once again with an improvement from October’s figure of 64 thousand to 68 thousand. Economists had only forecast approvals to improve to only 66 thousand. The Bank of England also released the latest NET lending to individuals figures which came in at £4.9 billion against a previous £4.7B. Economic data continues to demonstrate that the UK economy is still growing despite the Brexit dark cloud in the sky. Yes the doom and gloom about GBP drop in value is stamped in everyone’s mind, but it is making a comeback. This can be confirmed by checking the GBP/EUR rate since the start of this month for proof. More Brexit news circulated yesterday evening as a secret memo in the hands of a Whitehall official was photographed. The hand written memo stated Britain will not be offered single market membership. Downing street has already commented that the memo is not a government document and does not represent the UK’s position in relation to Brexit negotiations.

I anticipate a range in the GBP/USD rate of 1.2450 to 1.2507

Euro:
Yesterday we had French consumer spending figures post an increase, 0.9% from a previous -0.4% and we also had Spanish CPI data remain the same at 0.7%. Germany’s consumer price index figure dropped from a previous 0.2% to 0.1%, bad news for the European “powerhouse”. The main focus still remains on what will happen on up and coming Italian referendum. News surfaced that the Italian Prime Minister Matteo Renzi is considering his position even if he wins the referendum. Officials have dismissed the news as pure speculation. One guarantee is that Matteo Renzi himself has confirmed that he promises to resign if the referendum is lost. Renzi stated the “decrepit system” and the aftermath would be taken care of by someone else. Since Brexit took place this is will be the second time Italian issues have caused alarms bells to ring and threaten the euro zones financial system. The first time was during the summer when Italian banks were thrown into the spotlight due to huge non-performing loans and because they are holding nearly a third of the euro zones bad loans.

I anticipate a range in the GBP/EUR rate of 1.1660 to 1.1755
Oil Market: Brent $50.47/bbl, WTI $49.44/bbl

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<tr>
<td>Brent ICE (USD/b)</td>
<td>50.47</td>
<td>↑</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>439.25</td>
<td>↑</td>
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<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>266.52</td>
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Close to close at $49.38 bbl for Brent ICE (This morning at $ 50.47/bbl)

Oil markets have plunged 2 dollars yesterday before spiking 80 cents this morning one hour before the OPEC meeting begins in Vienna. All in all, Brent first nearby trades slightly above $47/b at the moment while WTI is holding a few cents below $46/b, more or less their levels at closing on Monday. Traders are nervous as they have been waiting for this meeting for two months (after Algiers) or let’s say two years (after oil prices crash): according to latest news and feeling, we can assess a 50/50 probability for a deal and the two Shiite powers, especially Iran, will be the deal makers today.

Main events:
- The meeting has been put forward at 9am instead of 10 am and ministers are therefore currently negotiating with a special focus on Iranians confronting the Saudis. Before entering the meeting, last statements from Iraqi and Iranian delegates were optimistic saying that a form of agreement will be reached today despite the confirmation yesterday by Zaganeh that Tehran will not curb its output. It came after Saudis yesterday said they were ready to reject deal if Iran-Iraq don't participate but they would accept Iran-Iraq make smaller oil cut than others… In conclusion, Saudis are still ready to make an effort but Iran and Iraq stand firm on their position so far: it is the situation we had in Algiers two months ago and it looks like they have been no progress at all since then.
The scenarios are the following:
* A real binding deal with clear quotas, real cuts and few exemptions (Libya, Nigeria). Such a deal would trigger a participation of Russia - *Probability: 5%*
* A “minimum” deal, a sort of “freeze deal”, with almost stable total output, unclear quotas and many exemptions - *Probability: 45%*
* No deal with new meetings scheduled for the next 6 coming months - *Probability: 50%*

**Outlook:**
An output at 32.5/33 Mbd for the 14 OPEC members remains the target set out in Algiers, that would mean a 0.6 to 1.1 Mbd cut compared to current level. The meeting has begun one hour earlier than planned and that is not reassuring for markets. The "tentative" schedule shows a press conference at 4pm but it is very likely to be delayed. In any case, trading will be nervous all day long and high volatility is expected until 4pm. After the press conference, whatever the conclusion, a sharp reaction of the markets is awaited. In case of no deal, oil prices could drop towards $40/b. If a deal is struck, it could, of course, boost prices but the effect could be short lived if the agreement has no real impact on the oil glut (“compromise deal”).

**European Gas Market NBP Price:** 1.6514 pence/kWh

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<th>Day Ahead (p/therm)</th>
<th>48.40</th>
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<tbody>
<tr>
<td>December 2016 (p/therm)</td>
<td>48.05</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2017 (p/therm)</td>
<td>41.30</td>
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Close to close at 48.40 p/Therm for TTF CAL 17 (This morning at 50.23 p/Therm)

European gas prices were mixed yesterday, higher on the NBP on the back of cold weather and sustained strong demand, stable to slightly bearish on the continent. At the close, NBP ICE December 2016 prices increased by 0.35 p/th (+0.72%), to 48.710 p/th. TTF ICE December 2016 prices increased very slightly by 1 euro cents (+0.06%) at the close, to €17.971/MWh. The drop in oil prices pushed curve prices lower; TTF Cal 2017 prices dropped by 8 euro cents (-0.45%) at the close, to €16.897/MWh.

Although the UK system is short this morning, demand tends to fall from its recent highs. Moreover, the January 2017 contract, the new 1st nearby, is technically overbought. Therefore, we favour a bearish outlook for spot and near curve prices today.

On the far curve, the trend in TTF Cal 2017 prices will of course depend mainly on the outcome of the OPEC meeting.

**UK Electricity Market Average Buy Price: £6.810/MW**

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<th></th>
<th>p/kWh</th>
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<tr>
<td>Day Ahead</td>
<td>6.031</td>
<td>↑</td>
</tr>
<tr>
<td>December 16</td>
<td>6.310</td>
<td>↓</td>
</tr>
<tr>
<td>Q1 2017</td>
<td>5.890</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2017</td>
<td>4.265</td>
<td>↓</td>
</tr>
<tr>
<td>Winter 2017</td>
<td>4.710</td>
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The Baseload Day-Ahead is currently sitting in positive territory in relation to its previous close price. This strength has come on the back of continued below average temperatures across the UK and low wind generation expected tomorrow.

The near curve has edged lower following the bearish movement of the corresponding NBP products. The weakness on the NBP has stemmed from news that withdrawals will be available from the Rough Storage site by the 9th December.

Further along the curve contracts have trended upwards in line with strong gains by the Brent benchmark ahead of this afternoon’s OPEC production cut talks. The price per barrel of Crude has surged higher today following reports that OPEC are debating a larger cut to production than previously expected.

**Coal Buy Price: £31.73/tonne**
News

French winter electricity supply concerns could alleviate after nuclear safety regulator ASN allowed EDF to restart some nuclear reactors involved in a safety investigation.

EDF said on Monday it will work quickly to carry out extra tests on some of its nuclear reactors involved in a safety probe and provide the additional information to regulator ASN. EDF is allowed to restart some of the nuclear reactors whose steam generators have high carbon concentrations, although the utility would have to perform some extra tests. France’s nuclear watchdog may permit the restart of 10 of the 12 reactors, while the remaining two reactors are still under the scrutiny of the country’s utility EDF. ASN is checking 12 of the state-controlled utility's reactors after raising concerns that certain steam generator channel heads could contain a zone with a high carbon concentration, which could weaken the resilience of the steel and its ability to resist the spreading of cracks. The investigation forced EDF to extend the outage period and raise fears that France, which relies on its 58 nuclear reactors for 75 percent of its electricity needs, could face a tight supply this winter.

EU gas demand likely to increase by 6% in 2016

Investment in renewables in the UK is likely to decrease by 96% by 2020/21.

Total investment in domestic energy efficiency reduced from £1.5 billion to £0.7 billion in 2015 and the number of energy efficiency measures installed in homes dropped by 80% in the same period. That’s because of existing energy policies, according to ecological groups. In a report, six groups comprising Green Alliance, RSPB, WWF and Greenpeace are requesting new investment in low carbon projects in the government’s next Autumn Statement. The organisations also inform that plans to construct a third runway at Heathrow Airport will lock the UK into high carbon development. The groups suggest that the government should assign an additional £2 billion funding to back low carbon electricity post 2020 and funding to scale up low carbon heat technologies. They also recommend to
continue to sustain people in acquiring ultra-low emission vehicles beyond 2018 and expand a national network of publicly accessible low carbon charging points. They believe if the government backs clean technologies, the renewables industry might attract £47 billion in new investment from 2021 to 2026 and retrofitting the UK’s housing stock to increase its energy efficiency could unlock £73 billion and sustain 86,000 jobs a year. Moreover, new investment in skills and infrastructure for EV and independent vehicles could benefit the nation with £51 billion a year and 320,000 new jobs by 2030. According to the IEA, countries across the globe require to make an investment of an extra $23 trillion (£19.8tn) in energy efficiency.

**Britain seeks to reduce health damaging air pollution with emissions standards for small-scale power plants employed to produce reserve electricity at short notice and to stop the increasing use of diesel generators.**

The Department for Environment, Food and Rural Affairs (DEFRA) proposes that plants generating 1-50 megawatts (MW) of power should be subject to new regulations to reduce emissions of dangerous pollutants such as nitrogen dioxide. The controls will apply to new plants from December 2018, while existing plants should comply with necessities from 2024 or 2029, depending largely on size, according to DEFRA. Britain started capacity auctions in 2014 seeking to prevent future winter power shortages since coal plants shut down and reduced electricity prices discourage investors from building new ones. Approximately 4 gigawatts of diesel capacity had qualified to take part in the approaching capacity auction, to be held in December, which analysts at green lobby group Sandbag predict might be estimated at almost 800 million pounds over the 15-year life duration of the agreements. The consultation will be open until February 8, as stated by DEFRA.

**SSE Plc, Britain’s second largest energy provider, declared it had settled to sell a 16.7 percent stake in regional gas distribution business Scotia Gas Networks Ltd (SGN) to Abu Dhabi Investment Authority for 621 million pounds ($772.21 million).**

SSE, which anticipates the agreement to close by the end of this month, mentioned it expected to return the profits of the sale to shareholders and would offer an update on November 9, along with its half-year results. Like its major competitor, Centrica, SSE has lost numerous clients in its retail business, principally to smaller and often cheaper suppliers who now operate 15.4 percent of the dual gas-electricity fuel market, or an increase from just 1 percent four years ago. The sale of its interest in SGN by SSE follows a similar move by National Grid, which is trying to vend a majority stake in its own 8.5-billion-pound ($12.3 billion) UK gas networks business. SSE declared on Monday it would preserve a 33.3 percent stake in the business. The firm had mentioned in May it was thinking about selling up to a third of its 50 percent stake in SGN, which it had acquired in 2005 for 505 million pounds. SGN, which has 5.9 million links, is co-possessed by Canadian pension fund investors Ontario Teachers’ Pension Plan and Borealis. Upon achievement of the sale, SSE announced it would continue to own an interest in five economically-regulated energy networks with a projected regulated asset value of more than 7 billion pounds.

**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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