February 2019 - Market Summary

Review of Market Trends

Report No. 2/2019
Martin Rawlings
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Macro Economics

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<tr>
<th>Currency</th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>GBP</td>
<td>1.1595</td>
<td>↓</td>
</tr>
<tr>
<td>EUR</td>
<td>1.3100</td>
<td>↓</td>
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Published on TradingView.com, March 07, 2019 11:02:32 EST
FX_IDC:EURGBP, 1M 0.85681 ↓ -0.0054 (-0.63%) O:0.85724 H:0.85851 L:0.85551 C:0.85681

US Dollar
There was bad news for President Donald Trump yesterday as official data showed that the US trade deficit with the rest of the world soared to a 10 year high of $621b despite Trump’s trade offensive to try and reduce the imbalance. It’s likely that a strong dollar helped aid the rise with overseas being cheaper due to the advantageous exchange rate however this can’t account for everything and this will be a major blow to the President. Yesterday’s data saw the ADP Non-Farm Employment Change just fall short of estimates showing 183k instead of 190k for the month of Feb. Official data is due tomorrow with a similar figure predicted. The dollar remains well bid as the trade dispute rumbles on with EUR/USD at 1.1310 and USD/JPY at 111.71.

I anticipate a range in the GBP/USD rate of 1.3100 – 1.3255
Euro:

Today sees the latest interest rate decision from the European Central Bank offering a welcome distraction from Brexit and Trade related news. No change in policy is expected to be confirmed by bank chief Mario Draghi however the key question is whether he will offer any extra liquidity in an effort to stimulate an economy that has slowed over the past six months. No further QE is expected however cheap bank loans may be offered similar to previous measures implemented by the bank. Positive outcomes over Brexit and US/China/Trade could be seen by month end so he may decide to sit on his hands for the time being. GBP/EUR trades at 1.1645.

I anticipate a range in the GBP/EUR rate of 1.1595– 1.1700

**Oil Market: Brent $66.03/bbl, WTI $57.22/bbl**

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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>66.03</td>
<td>♦</td>
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<tr>
<td>Gasoil ICE (USD/t)</td>
<td>575.21</td>
<td>♦</td>
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<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>389.25</td>
<td>♦</td>
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**Crude prices down 1%, correction ongoing**

Oil prices suffered a slight correction amid concerns about global economic slowdown for 2019 with a specific focus on Asia. Recent numbers showing slowdown becomes concrete darken 2019 outlook but the real reason for a correction was mostly the strong gains accumulated for the last five sessions. So, crude retreated from 1% and Brent first nearby contract is now back to $62.3/b while the American reference is now holding around $53.4/b. Regarding fundamentals, markets are now watching towards the end of the month to see production volumes in order to assess compliance to the OPEC+ group deal, especially for Russia.

**Main events:**

Although the output reduction deal seems to have set a floor for prices, there are still great uncertainties about supply for 2019: within OPEC+, the only certainty is the very strong commitment of Saudi Arabia that has already cut production beyond its pledge, being the de-facto leader of the OPEC pack. In the OPEC, Iran remains a great unknown and recent statements from the Trump administration (extending exemptions for major Asian buyers while terminating some others in May) does not help to generate forecasts. But the real mystery is Russia: after having pushed hard in back end of 2018 for the deal to be in line with their strategy, many think they are not fully committed and their main ally, KSA, even criticized Russian position last week: Saudi Energy Minister Khalid al-Falih said Russia was cutting its oil production more slowly than expected. Russian Energy Minister Novak answered “Russia is committed to its pledges on oil output cuts” without giving any detailed figures and adding he will meet his Saudi counterpart in Davos.

As far as demand is concerned, worries are focused on mid-term demand linked to ongoing slowdown: this month is crucial as the Chinese pointed to its lowest annual economic growth since 1990 while South Korea also posted alarming official data overnight: South Korea's export-oriented economy slowed to a six-year low growth rate of 2.7% in 2018. This came just after the IMF on Monday revised downward its 2019 global growth forecast to 3.5%.
According to Reuters, Oil exports from southern Iraq are holding close to a record high so far in 2019 close to 3.6 Mbd in January so far. The figures suggest there is little sign yet of lower supplies from Iraq despite the strong official commitment of Baghdad to the OPEC+ output reduction deal.

**Outlook:**
Crude prices could continue to decrease today as prices are still on rather high levels and the sentiment could turn slightly negative with US traders back on their desks as the federal shutdown has lasted for a month now… Today, Brent could fall to $61.5/b as a first support but $60/b is the MT floor.

Potential Bearish Price Drivers ↓

- Warmer weather forecasts.
- Oversupplied system.
- Reduced demand.
- LNG arrivals.
- Strength in GBP - Brexit.

Potential Bullish Price Drivers ↑

- Outages and maintenance.
- Strength in wider commodities: oil, coal and carbon EUA’s.
- Poor wind generation.
European Gas Market NBP Price: 1.832 pence/kWh

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<tr>
<td>Day Ahead (p/therm)</td>
<td>44.85</td>
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<tr>
<td>April 2019 (p/therm)</td>
<td>43.8</td>
</tr>
<tr>
<td>Summer 2019 (p/therm)</td>
<td>47.25</td>
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A milder weather outlook weighs on European gas prices

An upward revision in temperature forecasts for this week dragged European spot and near-curve prices down. Gas demand was significantly revised downwards in the UK compared to previous expectations, leading to an oversupplied UK system at the opening which weighed heavily on NBP prompt contracts. A comfortable LNG supply outlook in north western Europe continued to weigh on market sentiment as well. Finally, a downward correction in coal prices on a milder weather outlook and strong Chinese production figures (China coal output reached its highest level since June 15 in December) after recent gains also played into the bearish sentiment. The benchmark API 2 Cal 2020 contract lost $1.40 at the close to $85.55/t.

Main Events
At the close, NBP ICE February 2019 prices dropped by 2.50 p/th (-4.0%), to 59.29 p/th. TTF ICE February 2019 prices were sharply down at the close as well: -83 cents (-3.67%) at €21.774/MWh. On the far curve, TTF Cal 2020 prices were assessed 28-euro cents lower (-1.32%) at the close, to €21.283/MWh.

Outlook
European gas prices could remain steady after strong losses recorded over the last two sessions, notably as temperature forecasts for February remain below seasonal norms. Nevertheless, gas systems remain comfortably supplied this morning, which should continue to weigh on prompt contracts. Far-curve contracts should continue to track moves in coal and EUA prices.
UK Electricity Market Average Buy Price: £48.70/MW

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<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>4.870</td>
<td>↑</td>
</tr>
<tr>
<td>April 2019 (p/kWh)</td>
<td>4.777</td>
<td>↓</td>
</tr>
<tr>
<td>Q2 2019 (p/kWh)</td>
<td>4.761</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2019 (p/kWh)</td>
<td>4.821</td>
<td>↑</td>
</tr>
<tr>
<td>Winter 2019 (p/kWh)</td>
<td>4.811</td>
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Power prices moved down with a slightly milder weather outlook ahead

Power prices moved down yesterday on the curve while being mixed on the spot market with temperatures forecasts adjusted upwards, despite remaining below seasonal norms. Peak power demand in France should not exceed 89 GW according to the latest RTE forecasts and the coldest temperatures should be limited to a few days this week. With a still low availability of nuclear assets in France, French day-ahead prices were nevertheless strong, and growing somewhat day on day. Meanwhile, German day-ahead prices were down on an expected growing wind production in NWE. On the far curve, clean fuel costs have stalled after a decrease in CO2 prices and coal prices on Monday. Power margins have also decreased in the past days thanks to improving supply in Europe, in particular with the return of Belgian nuclear assets. German CDS Cal 20 have turned negative again. All in all, the whole curve has decreased likely helped also by more milder weather forecasts. Elsewhere, EDF is confirming the start of 1.6 GW Flamanville 3 unit in Q4 this year.
Main Events

NWE Day-ahead prices ranged from 63.0 to 73.7 €/MWh. The German Cal 20 contract closed at 50.4 €/MWh and the French Cal 20 ended the session at 53.9 €/MWh. Coal API2 Cal 20 contracts closed at 85.6 $/t. EUA Dec’19 contracts closed at 24.9 €/t.

Outlook

Spot day-ahead prices should rise following cold temperatures forecasts at least until Friday and decreasing wind power in the coming days. This should be supportive of power prices in NWE. Coal and CO2 prices could seek stabilization today, especially as oil prices remain strong, weather forecasts colder than the norm and after strong losses in the past session. All in all, we have a steady outlook for power prices on the far curve.
Coal Buy Price: $70.80/metric tonne

Carbon Buy Price: €20.87/tonne
News

State of play
The European Commission (EC) has opened an investigation into whether the UK’s Capacity Market (CM) is in line with European Union state aid rules. The move follows the EU General Court’s annulment of a 2014 EC decision to approve the scheme on the grounds that it discriminated against demand side response providers. As a result, the CM was suspended and payments under the scheme have been frozen.

Back into it
Ofwat is poised to implement its proposed decision to allow businesses with significant water costs and whose invoices are based on unplanned settlement runs to be back billed by up to 24 months, rather than the 16 months set out in the original Customer Protection Code of Practice (CPCoP).

Step on it
National Infrastructure Commission chair Sir John Armitt has urged ministers to go further and faster to meet the country’s infrastructure needs. In particular, Sir John called on the government to: • adopt a clear National Infrastructure Strategy – he urged ministers to adopt the recommendations in the NIC’s National Infrastructure Assessment in the strategy the government has committed to produce this year; and • make “bold and brave” decisions – he explained that to date, the recommendations adopted and enacted by ministers have been the quickest to implement.

Leep pounces
Leep Utilities, a joint venture between investment manager, Ancala Partners, and real estate investment and infrastructure company, Peel Group has reached agreement to buy SSE Water from big six energy supplier SSE. Leep owns and operates regulated and non-regulated utility networks, including electricity, water and district heating networks.

Northern lights on
Invest Aberdeen has announced that Marine Scotland had granted the licenses required for a planned 1.4GW electricity interconnector between Scotland and Norway. Aberdeenshire Council approved the plans in January and the new announcement marks the final piece of planning permission required by the project. Developer NorthConnect said it is aiming for 2023-24 to begin commercial operations.

Decarbon it like a car bonnet
Think tank Bright Blue has urged the government to make decarbonising of the gas grid an energy policy priority, describing it as “one of the most significant political and economic challenges facing the UK”. It said that the continued use of natural gas in the UK for the past 50 years, was not compatible with the UK’s emissions targets.

Green for Paris
The International Renewable Energy Agency has calculated that 85 per cent of electricity generation will need to come from renewables by 2050 if the Paris Agreement targets are to be met. This growth, which is expected to cost some £14 trillion, includes wind and solar capacity increasing to account for 60 per cent of generation by 2050, from just 4.5 per cent in 2015. The report also recommended a similar level of investment to update infrastructure and flexibility options to support the transition to renewables.
In denial?
A survey by environmental charity CDP has found that 61 per cent of European companies were not currently using climate-scenarios to inform their business strategy, even though 80 per cent had identified that their businesses faced some sort of climate-related risk. The survey also found that 65 per cent of European businesses were disclosing their greenhouse gas emissions performance, with 58 per cent of respondents reporting emissions cuts in 2018.

Pipe up
The European Parliament, the Council and the European Commission have agreed provisionally on new rules for “strengthening solidarity” between member states to improve the existing Gas Directive. The rules seek to ensure that the principles of energy legislation – third-party access, tariff regulation, ownership unbundling and transparency – apply to all gas pipelines to and from third countries. Exceptions are to be possible only under strict procedures in which the Commission plays a decisive role.

More for less
The International Energy Agency has drawn attention to the part for energy efficiency in global electricity demand. It said that demand had increased by around 70 per cent since 2000, and in 2017 it increased by 3 per cent. This increase was more than for any other major fuel, pushing total demand to 22,200 TWh.
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. MEUC
2. GdF Suez
3. Haven Power
4. EIA
5. Forex
6. ICIS

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