September 2019 - Market Summary

Review of Market Trends

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# Macro Economics

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<th>Closing Rate</th>
<th>% Change</th>
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<tr>
<td>GBP</td>
<td>1.0960</td>
<td>↓</td>
</tr>
<tr>
<td>EUR</td>
<td>1.0900</td>
<td>↓</td>
</tr>
<tr>
<td>USD</td>
<td>1.2100</td>
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GBP to USD

GBP to EUR
GBP/USD
GBP/USD has bounced off the lows but remains below 1.26 as markets await Brexit developments. Intense weekend talks have failed to result in an accord. Negotiations continue ahead of the EU Summit.

The Relative Strength Index on the four-hour chart has dropped below 70 – thus exiting oversold conditions – and allowing for more gains. Upside momentum remains substantial and the pair remains above the 50, 100, and 200 Simple Moving Averages. All in all, the picture remains bullish. Support awaits at 1.2525, which capped GBP/USD in mid-September. It is followed by 1.2370, which temporarily capped the pair on its way up. 1.2415 separated ranges in late September and early October. It is followed by 1.2390 and 1.2345.

Resistance awaits at 1.2580, which was the peak in mid-September. Next, we find 1.2640, which played a role in the spring. The fresh high of 1.2706 is the next level to watch.

There may be light at the end of the tunnel – but that tunnel is long. Intense EU-UK Brexit negotiations over the weekend – dubbed by some as "tunnel negotiations" have failed to yield the big breakthrough that seemed imminent last week. GBP/USD has fallen below 1.26 after extending its massive rally and topping 1.27 on Friday. It remains considerably above the 1.22 handle that characterized its trading before Prime Minister Boris Johnson made concessions.

While the UK has agreed to refrain from a customs border on Ireland, Johnson's plan includes keeping Northern Ireland (NI) within both the EU's customs union and the UK's one, depending on the destination of goods and using a rebate system to regulate flows. However, Chief EU Negotiator Michel Barnier cast doubt about a system he called "untried" and that included too many "ifs and buts".

Barnier also said that a "political impulse" is needed, which seems to hint that further concessions from the British PM may be needed. The UK delegation led by David Frost may have a limited mandate, according to some European officials.

GBP/EUR
The Pound continues to see highly mixed and volatile movement as the Brexit saga continues to blanket the UK outlook with uncertainties, and so following last week's British Pound to Euro (GBP/EUR) exchange rate surge the pair is falling again today so far. The Pound's losses are not as sharp as last week's gains, but they are still highly noteworthy and they come despite a lack of strong market demand for the Euro.

Last week was an especially volatile week for GBP/EUR, as the pair hit significant lows and highs due to its wide movements. After opening the week at the level of 1.1233, GBP/EUR tumbled to a monthly low of 1.1091 before a particularly sharp rebound of over three cents towards the end of the week.

On Friday, GBP/EUR touched on its best levels in almost five months, 1.1493, before closing the week at the level of 1.1462.

Since markets opened this week though, GBP/EUR has been sliding back from its best levels and currently trends near the level of 1.1385.
Oil Market: Brent $60.78/bbl, WTI $54.07/bbl↑

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<tr>
<td>Brent ICE (USD/b)</td>
<td>60.78</td>
<td>↑</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>573.50</td>
<td>↓</td>
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The crude oil markets rallied a bit during the trading session on Friday as the Iranian oil tanker had been attacked. That being said, there is a massive amount of support underneath so this bounce isn’t a huge surprise.

**WTI Crude Oil**

The WTI Crude Oil market rallied significantly during the trading session on Friday, reaching towards the $55 level. That’s an area that is of course a large, round, psychologically significant figure and of course has the 50-day EMA trading just above it. If we can break above that level on a daily close, then it’s likely that we go looking to fill that gap near the $57.25 level. The 200-day EMA sits in that area as well. In the short term, pullbacks at this point will continue to be supported by the uptrend line underneath and of course the $51 level underneath that has been so reliable as of late.

**Brent**

Brent markets gapped higher after the oil tanker was hit, reaching towards the 50-day EMA before selling off again to form a shooting star. This is a negative sign, but now that we have broken through a significant resistance barrier, it’s likely that this pullback will offer enough interest for buyers to jump in and continue to go higher. If we break above the top of the shooting star from the session, that would obviously be very bullish sign and could send this market looking towards the $62.50 level, and then possibly even the $64 level after that. Pullbacks in this area should have plenty of support, especially near the $57.50 level. Below there, the market extend support all the way down to at least the $56 level. This is a market that continues to see value hunters.

**European Gas Market NBP Price:** 0.851 pence/kWh 🔻

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<th>Day Ahead (p/therm)</th>
<th>24.95</th>
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<tr>
<td>October 2019 (p/therm)</td>
<td>30.95</td>
<td>🔺</td>
</tr>
<tr>
<td>Winter 2019 (p/therm)</td>
<td>47.50</td>
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The UK market has experienced a downturn in price over the recent fortnight, with most contract periods across the curve shedding value.

Following the significant rally on 7th September, with the announcement of French Nuclear Reactor safety concerns, a reduction in Groningen Gas production from January 2020 and the OPAL pipeline news, the market has retraced those gains.

Weather forecasts have been revised upwards over the weekend, suggesting that the UK is set to sit above seasonal average until the end of October, with no cold weather likely in that period. This will reduce the demand, especially given that we’re into the winter period. The temperature forecasts have been lifted for France and Germany also, showing significantly warm and above average temperatures are likely which could reduce the demand patter across Europe.

Prompt prices have taken a hit this morning, following the revised weather forecasts, but also by the increased supply picture. Over the past months there has been key Norwegian infrastructure unavailable due to seasonal maintenance. Yesterday, Langeled flows ramped back up to 35mcm for the first time since 28th August. The UK is also confirmed to receive 4 LNG cargoes before 22nd
October, putting further pressure on the front curve as a healthy supply picture is set to coincide with increased temperatures and reduced demand.

Carbon EUA’s have offered further downside to the market, as the price pushed back below €25, plummeting to €22.94 on Monday morning. The Carbon market is being driven by Brexit uncertainty, with the supply/demand picture likely to change depending on the outcome of a deal or no deal Brexit.

Oil prices have settled and fallen back below $60/bbl. Following the Drone attack on the Saudi infrastructure, prices have reduced as the planned repairs were accelerated and returned quicker than expected. The global economy is weighing on demand, helping to offset the recent supply issues.

**Outlook**

What specifically affected prices in the past week?

**Bullish factors (upward pressure)**

- GBP Weakness

**Bearish factors (downward pressure)**

- Warmer Weather Forecast
- Weaker Carbon EUA Prices
- Strong LNG Outlook
- Completion of Norwegian Maintenance
Here’s what happened over the past month in brief,

- Friday 27th September saw day-ahead power fall to its lowest weekday price for 16 days.
- Weekly average wind generation increased by 66% and made up 27.3% of the UK energy mix.
- Average weekly solar generation fell by 47% in week 39.
- Falling energy complex prices drove seasonal power contracts lower.

**Prompt/Day-ahead Power**

The day-ahead price for Monday 23rd September was up from the previous Friday’s close following a drop-off in wind output during the morning. The NemoLink Interconnector went offline for planned maintenance as the week started, removing 1GW of import capacity between the UK and Belgium and helping to support the day-ahead price.
The following day, Tuesday 24th September, prompt prices were mostly unchanged. A small rise in average daily wind generation was counteracted by a marginal rise in the National Balancing Point (NBP) day-ahead price.

Prompt prices for delivery on Wednesday 25th September moved higher due to falling wind output, with the average daily generation dropping from 7.65GW to 5.3GW. The NBP day-ahead price also rose due to the increased gas demand, as more gas-fired power plants were called upon to make up for the drop-in wind output. However, a day-on-day drop in demand on the grid stopped the day-ahead power price from rising further.

A rise in wind production helped pressure the day-ahead price for Thursday 26th September. This occurred as more expensive forms of power generation, namely gas-fired plants, were pushed out of the generation mix. Prompt power was also under pressure from a falling NBP day-ahead price; this was trading lower because of a 26% daily increase in the amount of Liquefied Natural Gas (LNG) that UK terminals sent out.

The day-ahead price for Friday 27th September moved down, mainly driven by lower demand. Average daily demand dropped from 30.4GW to 29.5GW from Thursday to Friday. The NemoLink Interconnector also returned from maintenance late on Thursday evening, pressuring the day-ahead price. A nudge up on the NBP day ahead plus a slight drop in wind output helped prevent the power prompt price from falling further.

**Imbalance Prices**
Imbalance prices were positive in all settlement periods during week 39. The highest price of the week was £84/MWh, in period 19 (09:00 – 9:30) on Monday 23rd September, set by accepted offers to increase generation from a single generator, VPI Immingham. This is a 1.24GW gas-fueled combined heat and power (CHP) plant near Immingham, on the south bank of the Humber river.

The lowest imbalance price of the week (£2.50/MWh) was set on Friday 27th September during settlement period 6 (02:30 – 3:00). This was set by a single accepted bid (submitted to the balancing mechanism by an unknown party) to reduce generation or increase consumption.

**Renewables and other**
Wind output ramped up over Monday 23rd September from around 5GW in the morning to highs of 12.25GW during the late evening. Over the next two days, wind generation fell steadily to reach lows of 4.35GW on the morning of Wednesday 25th September.

During the next day, wind generation rebounded to reach levels of 11.35GW and then remained above 7.5GW until Saturday afternoon (28th September). At that time, it briefly dropped to lows of 5.6GW before bouncing back to 9.9GW on the morning of Sunday 29th September. There was a big increase in the average weekly wind output, from 4.35GW to 8GW week-on-week.

Levels of solar generation were quite poor during week 39, with peaks struggling to reach above 4.5GW and the weekly average dropping from week 38’s 1.75GW to just 950MW. The highest peaks were on Monday 23rd, Thursday 26th and Saturday 28th September with a range from 4.3GW to 4.45GW. The lowest level of just 2.5GW occurred on Sunday 29th September.

**Seasonal Contracts**
Secure and promote* (Seasons +1, +2, +3, +4) baseload contracts fell by £0.60/MWh on average over week 39.
On Monday 23rd September, curve power contracts lost value as they tracked losses on equivalent NBP contracts. The Dec-19 EU Allowance (EUA) carbon price also made losses on the day, providing pressure to long-term power prices. However, Brent crude made marginal gains on the day after trading lower than the previous day’s close in the morning.

On average, seasonal contracts made further losses the next day due to a generally bearish (downward moving) energy complex. The NBP curve, Brent crude, plus carbon and coal contracts all made losses on the day. There was a brief rally in carbon during the morning due to the ruling from the UK Supreme Court that the prorogation of Parliament was unlawful. The market appeared to believe that this indicated a no-deal Brexit was less likely, which provided a bullish driver (a rising price trend) to EUA carbon.

On Wednesday 25th September, the power curve continued to lose value as it tracked losses on the energy complex. The largest losses were seen on Rotterdam Cal ’20 coal, which fell 2.3% on the day; it’s dropped just over 7% since 17th September.

The power curve rebounded on Thursday 26th September following bullishness in the energy complex; EUA Dec-19 carbon, NBP curve products and Rotterdam Cal ’20 coal contracts all made gains.

On Friday 27th, after making gains in the morning, power products finished the day’s trading session down from the previous day’s close. The carbon price was one of the main factors driving the power curve lower; there was a 1.3% day-on-day drop in the EUA Dec-19 contract.
Coal Buy Price: $43.55/metric tonne
Beware the effect of a ‘hard’ Brexit on the energy market

The UK government published its White Paper on the future relationship between the UK and the EU on 12 July. In that White Paper, the government reaffirmed its commitment to broad co-operation on energy after Brexit, but there continues to be uncertainty as to the form that this co-operation will take.

The White Paper contemplates the UK leaving the EU’s Internal Energy Market (IEM), but somehow ensuring continued energy trade over our inter-country interconnectors without automatic capacity allocation through the IEM system. Alternatively, the White Paper contemplates the UK continuing to participate in the IEM, using a common rulebook, to preserve existing trade over the interconnectors.

In effect, that means that all options for continued co-operation remain on the table and worryingly there is no indication of the UK’s preferred option, how it would work or the extent to which there is any sort of EU buy-in to the proposals.

The market expects power and gas to continue to flow between the UK and the EU post-Brexit, but there is, as yet, no clarity on how this will work, how frictionless these trades will be and whether the result will be increased energy prices or energy price volatility.
Don’t forget, this all assumes that a “no deal” crash landing can be avoided and that is by no means certain in the current political climate.

Given what is happening at a macro-political level, a Brexit crash landing looks increasingly possible. It’s the worst-case scenario for the UK’s energy markets.

UK electricity and gas trade with the EU is worth approximately £6 billion annually. About 80% of that trade is natural gas, but GB also imports electricity from the EU (currently from France, Ireland and the Netherlands) with net imports equal to about 7.5% of total UK consumption and expected to increase if planned new interconnector capacity is delivered.

The UK exports some gas to Belgium and a significant amount of gas to Ireland (56% of its consumption) as well as electricity to France, Ireland and the Netherlands – although electricity exports are usually lower than electricity imports from these countries because UK wholesale electricity prices tend to be higher than those in the EU.

A bespoke solution will be needed for Ireland. Gas will need to continue to flow given Ireland’s high historic dependency on imports of UK gas and a solution will have to be found to avoid the collapse of the Single Electricity Market on the island of Ireland.

London had a leading role in electricity, gas, coal, oil and emission rights trading in Europe. Approximately 25% of global oil trading is conducted in London and the UK hosts one of the most liquid gas and electricity markets in the EU, covering physical trading, energy derivatives and clearing services. The London-based InterContinental Exchange (ICE) is one of the leading global energy exchanges and a main trading place for European energy futures. London also plays an essential role in determining essential energy market reference prices.

If the UK leaves the EU and Euratom on 29 March 2019 without a deal on transition or future trading arrangements – and unless both sides agree otherwise – all EU rules in the field of energy market regulation will cease to apply to the UK. UK-based operators will cease to participate in the rules that allow for physical interconnection of our electricity and gas markets, UK guarantees of renewable origin will no longer be recognised by the EU 27; and the UK will have to agree a new nuclear safeguarding regime to replace Euratom.

A Brexit crash landing will have a number of impacts on energy. It’s unlikely to mean that the lights go out, but it may well result in an increase in wholesale electricity prices and wholesale electricity price volatility. Interconnectors are not expected to stop flowing, but they will no longer do so on a frictionless basis. The UK will be free to choose its decarbonisation trajectory and pathway.

The EU may allow some level of access to the Internal Energy Market, but this is likely to be on a rule-taker basis. The EU has no tariff on electricity or gas imports from other WTO members, and as such flows of electricity and gas between the UK and the EU would be tariff-free. However, this does not automatically extend to the supply of energy plant and materials across EU/UK borders, which would be subject to tariff barriers.

The continuation of London’s leading role in European electricity, gas, coal, oil and emissions trading will depend on whether a market-access solution can be agreed for financial services, but on a crash-landing the immediate consequence is that UK authorised firms may be unable to trade freely in the EU single market.
**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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