

August 2014 - Market Summary

Review of Market Trends

Report No. 06

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Macro Economics

GBP	Closing Rate	% Change	
EUR	1.2586	0.18%	↑
USD	1.6523	2.02%	↓



United States Dollar

GBP/USD drifted lower although it did spike to a high of 1.6610 as the London session finished. It eventually fell to a low of 1.6564 very late in the month, but it staged a rapid recovery in Asia to open September at 1.6630. It's been a whippy last few sessions of trading compounded somewhat by the fact it's a public holiday in the U.S. today and markets have started thinning out. US data released was generally pretty strong with Chicago PMI – the biggest release on the day – printing better than market forecasts at 64.3 - it was part of the reason why we saw cable drift lower. The focus this month will be on UK PMI's, monetary policy decisions and U.S. Non-Farm Payrolls. It's a busy week starting with UK Manufacturing PMI.

Blizzard anticipates a range of 1.6850 to 1.6945

Euro

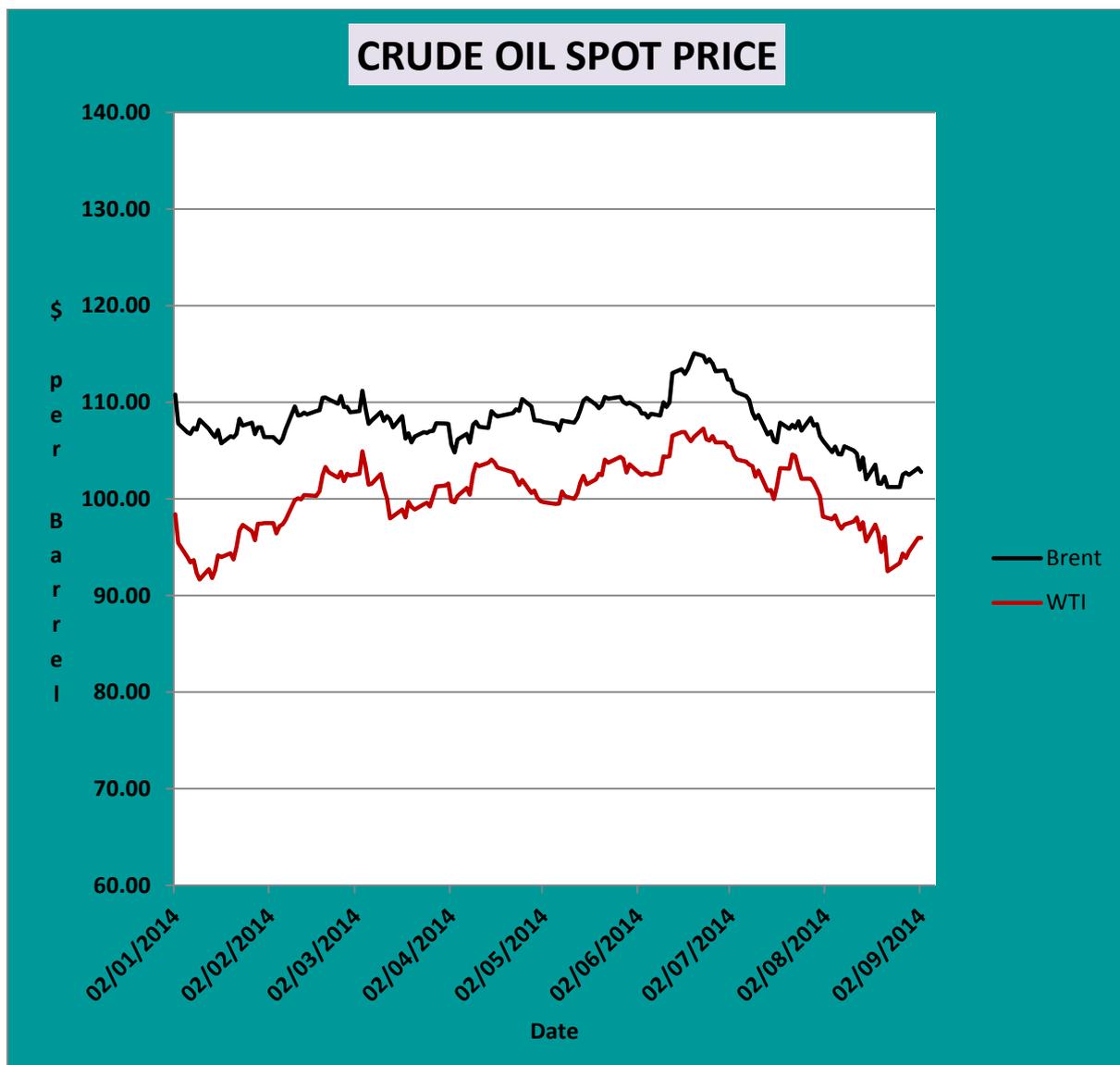
EUR/USD was thumped lower at month end. Attention was centred on European inflation data but it didn't really surprise with the CPI Flash Estimate y/y printing at 0.3% (as expected). The European unemployment rate was also released and caused little fuss, printing at 11.5%. The pair fell to a low

of 1.3126 in reaction to the stronger than expected US data as well as re-positioning ahead of the long weekend in the U.S. Meanwhile the Russia/Ukraine situation continues to weigh on sentiment. There's also growing and louder calls for the ECB to act officials meet to decide on monetary policy. According to a report from Reuters, Benoit Coeure, an ECB official said that the central bank was ready to adjust policy and provide additional liquidity to banks if needed. Draghi's recent comments at Jackson Hole add weight to the argument that the bank will do something too. EUR/USD eventually fell to a low of 1.3117 early this morning but has recovered a little to open at 1.3135.

Blizzard anticipates a range of 1.2600 to 1.2685

Oil Market: Brent \$102.49/bbl, WTI \$94.55/bbl

Brent ICE (USD/b)	102.49	↓
Gasoil ICE (USD/t)	862.00	↓
Fuel 1% Fob cg (USD/t)	565.71	↓



Close to close: UP at \$ 102.79/bbl for Brent ICE SEP 14***Why?***

Markets were quiet yesterday during the labour day holiday in US (very low traded volumes) and Brent posted small 40 cents losses to come back below \$102.8/b. Operators were, looking at Ukraine, Iraq and Libya where situations can change suddenly any time but they kept a cool head and seem to be taking a wait-and-see stance before making any decision. The slowing oil demand growth due to weak economic recoveries in China and Europe was the other issue of the day.

Main events:

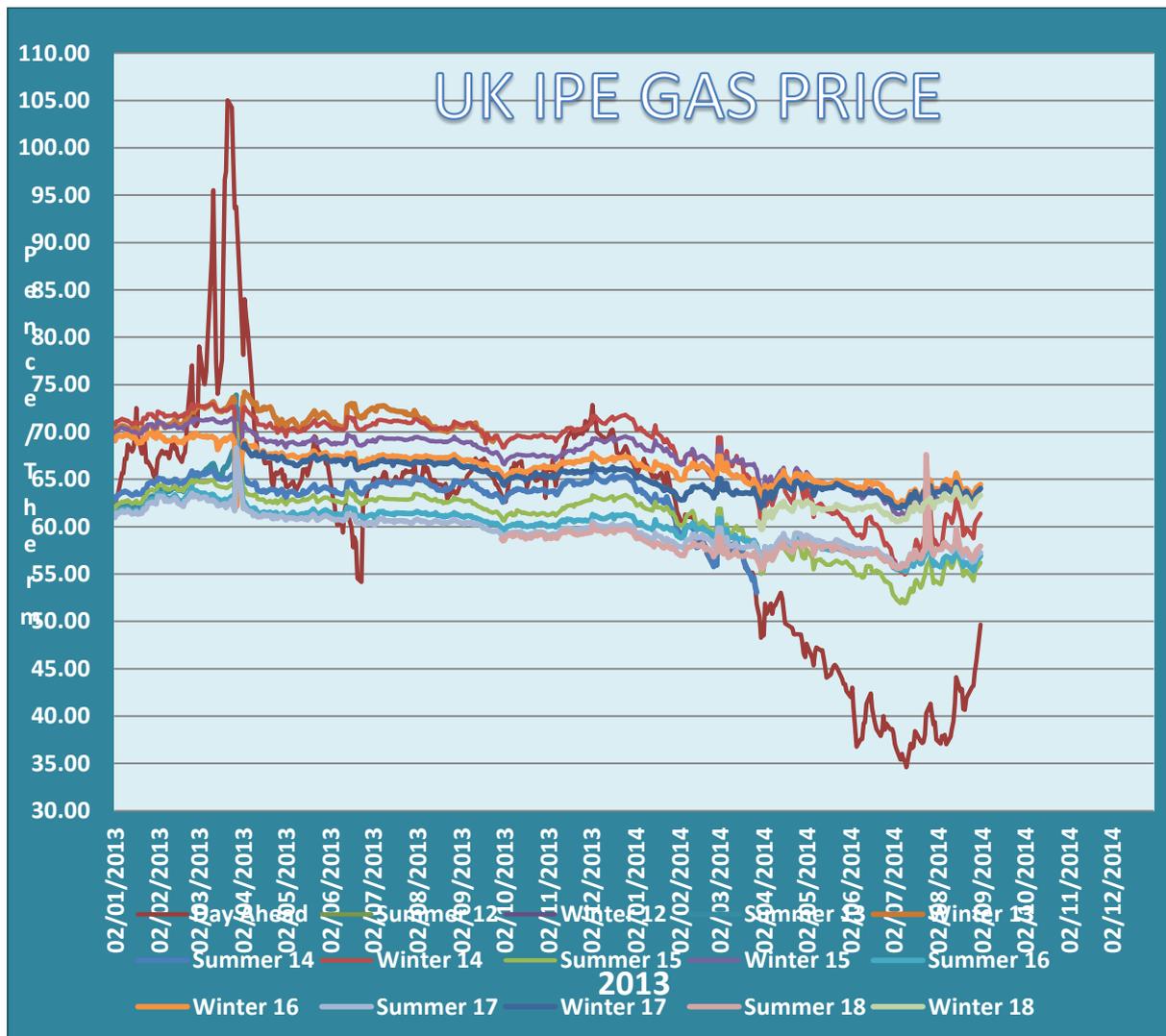
Libyan output remains high at 700 kbd (compared to 155 kbd in May) despite renewed fighting on-going in Tripoli. Yesterday, the government said it has lost control of most ministries and state institutions located in Tripoli to rival armed groups. In Iraq, oil exports fell in August to 2.375 Mbd, according to official data released yesterday. This slight drop is mainly due to bad weather as the oil complex remains overall unaffected by the Islamic insurgency. Production of British Buzzard oilfield has stopped again after returning from maintenance last week. Buzzard is the biggest contributor to the Forties oil stream, one of the four benchmark crudes used for the Brent.

Outlook:

About Ukraine, talks are over in Minsk, in a tense climate as Moscow still denies any ground intervention and ask for an immediate cease-fire while Ukraine claim to be fighting with regular Russian troops in its eastern territories. There is no real direction in the market yet and traders are waiting for events or figures to give them clues about next trend for crude. \$100/b is a floor at the moment but upside is also limited in this time of uncertainty.

European Gas Market NBP Price: 1.559 pence/kWh

Day Ahead (p/therm)	45.70	↑
Sept 2014 (p/therm)	51.10	↑
Summer 2015 (p/therm)	55.55	↑



Volatile despite long system

September gas opened 14mcm long, with supply at parity with August levels but demand down on lower CCGT consumption following the return of some coal fired generation from maintenance and stronger prices on the NBP. Demand was also weighed on by a downturn in exports to the continent following the return of the Emden terminal from maintenance, although this was offset by a drop in imports through Langeled. Despite the long system prompt prices ticked up, taking lead from strong momentum on the near curve. Prices eased off amid volatile trading, with intra-month spreads widening enough to encourage injections into storage.

The system is currently 5mcm long with demand forecast at 168mcm. LNG send-outs from South Hook have dropped, currently flowing at under 25mcm/day, following declining levels of supply from

the facility over recent weeks. LDZ consumption is also predicted higher despite warmer temperatures, with CCGT generation also nominated higher. The completion of maintenance works on the FLAGS pipeline have seen a ramp up in Norwegian imports despite lower expected flows through Langeled. This is joined by the return of imports through BBL, currently nominated at 5mcm but much higher current flows indicating these could increase as the month progresses.

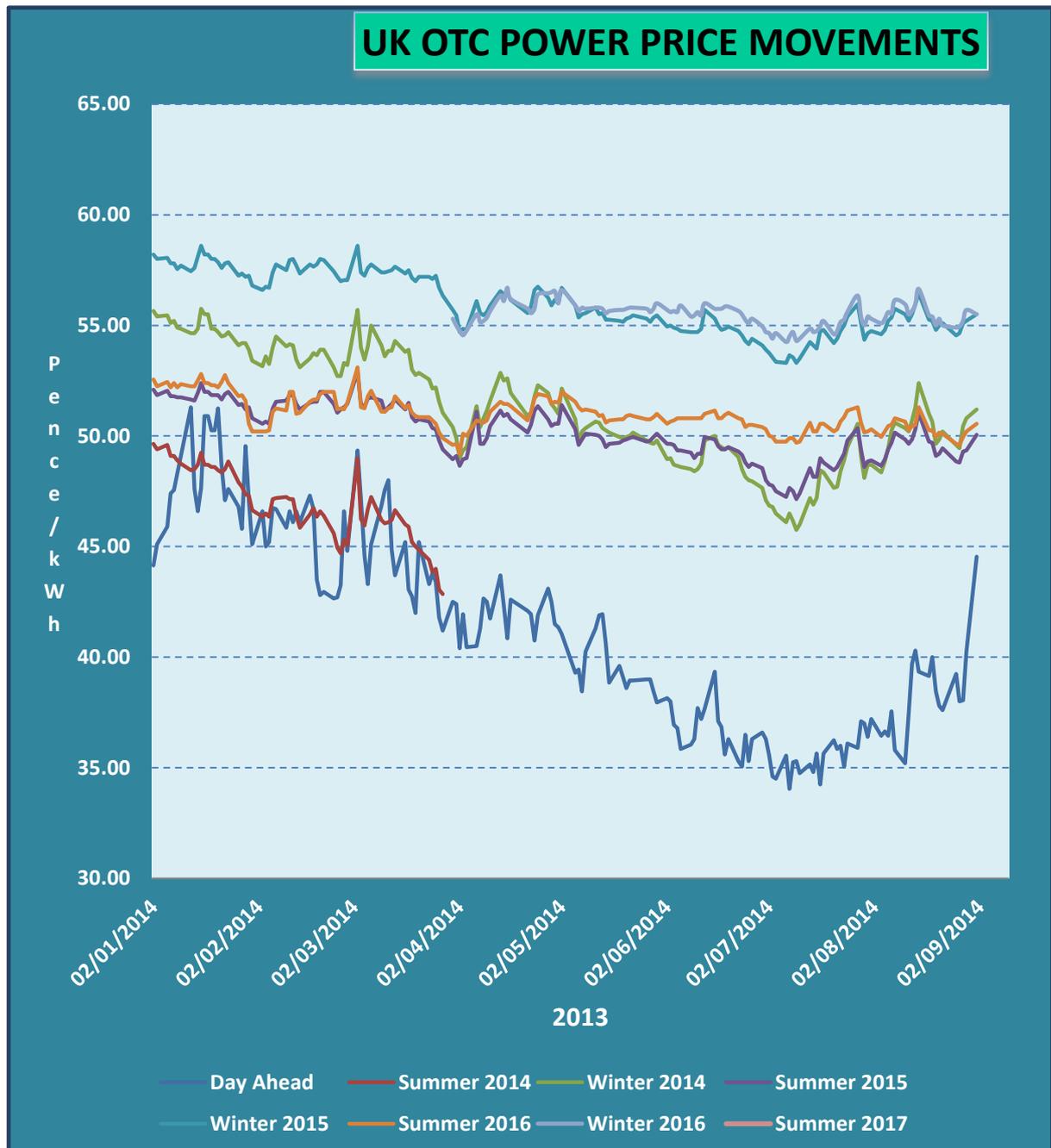
Despite comfortable intra-day supplies, prompt prices have gapped up on the back of planned maintenance at Easington and platforms in the North Sea. The drop in LNG send-outs also removed some confidence in swing supplies over the coming weeks, though milder forecast temperatures could limit this somewhat. Further out on the curve, prices continue to make gains though the moves have been less marked. An as yet lack of significant developments could see some risk premium be removed from contracts added in prior to the weekend.

UK Electricity Market Buy Price: £40.25/MW

Day Ahead (p/kWh)	4.025	↑
Week 36 2014 (p/kWh)	4.025	↑
October 14 (p/kWh)	4.475	↑
November14 (p/kWh)	5.030	↑
Q4 2014 (p/kWh)	4.925	↑
Winter 2014 (p/kWh)	5.080	↑
Summer 2015 (p/kWh)	4.935	↑
Winter 2015 (p/kWh)	5.520	↑
Summer 2016 (p/kWh)	5.020	↑
Winter 2016 (p/kWh)	5.570	↑

Some of the risk premium built up on the curve over the month, dropped out of the market at the start of September. Political developments in the Ukraine saw prices across the UK power curve close the month at new highs. Uncertainty over the return date of several nuclear plants to the grid provided additional strength to contracts closer in on the curve. Prompt contracts were predominantly bullish, firming alongside their gas counterparts. An increase in forecasted demand for September provided further sentiment for the Week-Ahead contract.

APX Power UK Spot	Value	Change
Base	29,880.70 MWh 50.31 £/MWh	+21.7% +24.50%
Industrial Peak	15,826 MWh 57.43 £/MWh	+48.9% +39.50%
Total	1,539 Trades	+5.6%



Coal Buy Price: £35.72/tonne



	Units	Sept 14	Q4 14	Q1 15	Q2 15	Q3 15
Coal API 2	USD/MT	77.15	77.29	77.80	78.30	79.45
Coal API 4	USD/MT	70.75	71.57	73.40	73.75	74.89

Carbon Buy Price: €6.39/tonne



News

UK grid asks for additional capacity to fill probable winter supply gap

Britain's power network operator National Grid has submitted by a year a plan to tap supplementary electricity capacity over the winter after a number of unpredicted plant outages

Russia and Ukraine settle on gas negotiations on September 6

Russia's Energy Minister Alexander Novak declared on Monday that Moscow and Kiev have decided to hold a new round of negotiations to resolve a gas crisis on September 6.

Nordic spot power prices have increased on lower wind electricity production

Brent crude remained stable below \$103 a barrel on Tuesday, with a new conflict in OPEC oil producer Libya balanced by worries of slowing oil demand increase because of weak economic improvements in China and Europe.

Gazprom starts construction of the mega-pipeline to China

President Vladimir Putin supervised on Monday the beginning of construction on a giant pipeline that is likely to convey Russian gas to China of about \$400 billion in the three decades after flows start in 2019.

Statoil: 75% of gas sold to Europe at spot prices

Norway's Statoil, Europe's second major gas supplier, currently vends approximately 75% of its gas at spot prices, in a budge from oil-related prices that has aided it obtain market share but strike profits this year, as stated by its gas trading manage.

National Grid: Electricity prices could double within 20 years

Electricity prices could double by 2035, while gas prices might increase by 43%, according to forecasts released by the National Grid.

EDF to halt four nuclear reactors in northern England

EDF Energy will shut down temporarily four nuclear reactors at two large power plants in the north of England after a technical issue was found in boiler units.

Daily: European coal prices soar on nuclear and gas production outage

Brent crude slipped on Monday despite many geopolitical risks including U.S. air strike in Iraq, while U.S. crude increased on expectations of a draw in U.S. inventories. Brent crude dropped 34 cents to settle at \$104.68 a barrel, while WTI crude rose 43 cents to close at \$98.08 a barrel.

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. APX UK
2. Total Gas & Power
3. GdF Suez
4. European Energy Exchange (EEX)
5. Coal spot.com
6. European Carbon Futures
7. FT
8. Energymarketprice

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