August 2015 - Market Summary

Review of Market Trends

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Contents

Macro Economics ........................................................................................................................................... 2
Oil Market: Brent $47.52/bbl, WTI $42.56/bbl ...................................................................................... 3
European Gas Market NBP Price: 1.305 pence/kWh .............................................................................. 4
UK Electricity Market Average Buy Price: £40.58/MW ........................................................................... 5
Coal Buy Price: £27.89/tonne .................................................................................................................. 6
Carbon Buy Price: €8.09/tonne ................................................................................................................ 7
News ......................................................................................................................................................... 7
Blown away: UK renewables under threat ................................................................................................. 7
United States Dollar

Those hoping for a September rate hike from the Fed got a fillip yesterday as the second estimate of Q2 US GDP was revised upwards from 2.3% to 3.7%. The improved figure was above the 3.2% analysts had penciled in and cable dropped below 1.54 for the first time since early July as a result. The report stated “the increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures (PCE), exports, state and local government spending, non-residential fixed investment, residential fixed investment, and private inventory investment.” The recent China stock-market turmoil had seen big moves in EUR/USD as Euro funded carry trades were unwound and the dollar was dumped as forecasters pushed back the estimated date of lift-off from the Fed. EUR/USD which was close to breaking below 1.10 last week rose as high 1.1670 at the end of August. This positive GDP data accompanied by a recovery in Chinese stocks has seen the dollar pare its losses. GBP/USD which broke above 1.58 is at 1.5425 with EUR/USD at 1.1295.

Blizzard anticipates a range of 1.5370 to 1.5540

Euro

With Chinese stocks recovering their dramatic losses from earlier this month, the Euro has slipped as we head to the bank holiday weekend. Data has been few and far between from the Eurozone as traders relax; however, there was better news from Spain as Q2 GDP printed 1% with the annualised reading showing 3.1% expansion. Spain’s economic reforms seem to be paying dividends however with unemployment at 22% they aren’t out of the woods yet. GBP/EUR trades at 1.3630.

Blizzard anticipates a range of 1.3580 to 1.3720
Oil Market: Brent $47.52/bbl, WTI $42.56/bbl

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>47.52</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>459.25</td>
<td>↑</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>459.25</td>
<td>↑</td>
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Close to close at $ 47.56/bbl for Brent ICE AUG15 (This morning at $ 47.52/bbl)

Why?
Crude values rocketed this month with gains up to +10% close to close and they were still strongly on the rise at month end. Both benchmarks set new 6.5 years lows but posted biggest gains in 6 years a few days later, showing the very strong current volatility. Two bullish factors gave the impression of a squeezing on fundamentals, long time awaited news by operators: equity markets rebounded strongly after the rout of the beginning of the month, raising hope of a decreasing risk aversion on markets, and supply was seen diminishing due to a force majeure in Nigeria. Brent almost touched $48.5/b, $43.5/b for WTI, but retreated 50 cents since then.

Main events:
The main news this month was regarding supply: Shell declared force majeure on Bonny Light crude oil exports after shutting down two key pipelines in Nigeria due to a leak and theft: two of the biggest onshore pipelines carrying Bonny Light crude oil to vessels for export, the Trans Niger Pipeline and the Nembe Creek Trunkline, were shut and it could represent up to 160-180 kbd losses (8% of 2 Mbd Nigerian exports). Shell did not give a timeline for restarting either line yet. Markets mostly see this as an opportunity to alleviate the general oversupply of crude oil in the Atlantic Basin. Talking about supply, there have been more calls for an emergency meeting of OPEC according to the Wall Street Journal, Venezuela is pushing for an emergency meeting of OPEC with Russia. It comes after calls from Algeria and Iran earlier this month, showing the growing sentiment among members of the cartel that Saudi’s strategy is suicidal for weaker economies. Venezuela seems on the brink of collapsing with its economy destroyed and facing cash shortages despite the highest oil reserves in the world.
Outlook:
Overreaction of the market in high volatility is a habit for crude oil and the jump when it came was considerable as operators were waiting for positive news following the earlier rout. Blizzard is expecting a correction later in September with a resistance at around $47.4

European Gas Market NBP Price: 1.305 pence/kWh

<table>
<thead>
<tr>
<th></th>
<th>Day Ahead (p/therm)</th>
<th>September 2015 (p/therm)</th>
<th>Winter 2015 (p/therm)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>38.25</td>
<td>39.35</td>
<td>44.08</td>
</tr>
</tbody>
</table>

Close to close at 19.30EUR /MWh for TTF CAL 16 (This morning at EUR 19.35/MWh)

Why?
European prices strengthened, supported by tighter supply and significant gains in the crude oil market. The UK system remained undersupplied throughout the month due to a drop in flows at the St-Fergus Shell terminal following a planned outage on the Entry Segal pipeline system. This provided support to NBP day-ahead prices although gains were largely eroded towards the close. NBP ICE September 2015 prices gained 0.51 p/therm at the close (+1.31%), to 39.47 p/therm.

Main Events:-
On the continent, an 11% jump in gas demand combined with higher storage injections supported TTF day-ahead prices on the back of constrained Norwegian deliveries at the Emden terminal. Brent prices jumped to $47.56/bbl at the close (+$4.4/bbl day-on-day!) amid rising equity markets and some positive economic data in both the US and the euro zone (see Eco & Oil Price Analysis for further details), providing strong support to curve contracts. Consequently, the gas-to-oil spread (computed between the TTF forward curve and our long-term oil-indexed proxy) dropped from €1.6/MWh to zero for the Cal 16 maturity (see above graphs). TTF ICE September 2015 prices gained 35 euro cents
(+1.85%), to €18.973/MWh. TTF ICE Cal 2016 prices were assessed 22 euro cents higher at the close (+1.15%), to €19.3/MWh.

**Outlook:**
The UK system is deeply oversupplied this morning due to a rise in Langeled and UKCS flows, which could weigh on NBP spot prices today. Nevertheless, LNG send outs could decrease next month as the frequency of Qatari LNG deliveries is expected to slow down, which could provide some support to the day-ahead contracts. Brent prices are trading above the month end’s close, which could support curve contracts. Volatility in the EUR/GBP rate could also filter through TTF and NBP curves after the release of UK GDP figures this morning.

**UK Electricity Market Average Buy Price:** £40.58/MW

<table>
<thead>
<tr>
<th>Day Ahead (p/kWh)</th>
<th>3.913</th>
<th>↑</th>
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<tbody>
<tr>
<td>August 15 (p/kWh)</td>
<td>4.130</td>
<td>↑</td>
</tr>
<tr>
<td>Q4 2015 (p/kWh)</td>
<td>4.330</td>
<td>↑</td>
</tr>
<tr>
<td>Winter 2015 (p/kWh)</td>
<td>4.400</td>
<td>↑</td>
</tr>
<tr>
<td>Summer 2016 (p/kWh)</td>
<td>4.055</td>
<td>↑</td>
</tr>
<tr>
<td>Winter 2016 (p/kWh)</td>
<td>4.465</td>
<td>↑</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>4.005</td>
<td>↑</td>
</tr>
<tr>
<td>Winter 2017 (p/kWh)</td>
<td>4.475</td>
<td>↑</td>
</tr>
</tbody>
</table>

Close to close at £40.76/ MWh for CAL 16

**Why?**
Power near-term contracts were supported this month. Spot prices increased on the back of warmer weather and reduced availability of wind generation. Solar power was down too, but to a lesser extent. At the same time, nuclear availability in France has been revised lower. Imbalance prices in both Belgium and in the Netherlands were also quite high.
Main Events:
Across equity and commodity markets, the trend was up. The global economic context was supportive and coal prices managed to climb back higher, to $53.50/ton on the API2 year-ahead contract this month. Gas TTF cal16 prices were also higher, to €19.35/MWh. Consequently, power prices on the curve rebounded too. The German year-ahead contract was traded at €30.47/MWh and France rose to €38.65/MWh.

Outlook:
Carbon prices were the sole component to be traded lower this month. Coal prices increased and the EUR weakening against the USD, clean coal costs became more expensive and made inroads into clean dark spreads. This, in continuation, is less bullish for emissions demand and likely prompted more profit-taking. The EUA dec15 contract was traded at €8.07/ton at the time of writing, far from recent highs of €8.42/ton. Once more the global equilibrium is fragile and highly dependent on whether the recovery in equities is sustainable. A lot depends on the US central bank’s intentions regarding the hike in interest rates. So keeping an ear at Jackson Hole (meeting of central bankers in the US since yesterday) is probably wise...pure power fundamentals have likely very few impact for the time being.

Coal Buy Price: £27.89/tonne
Carbon Buy Price: €8.09/tonne

News

Blown away: UK renewables under threat

UK energy secretary Amber Rudd has taken a decisive stance in her first months in office, with her latest move coming when she announced cuts to the Renewables Obligation (RO) subsidy scheme for small scale solar PV generators. This is one of a series of cuts to renewables subsidies that the energy secretary has made in the last month, going far beyond the Conservatives’ manifesto pledge to put an end to onshore wind support schemes.

This follows what has been labelled a ‘retrospective’ move to sweep away a renewable energy tax exemption. Levy exemption certificates will no longer be issued for power generated after 1 August this year, causing renewable producers to lose out on their value of £5.54/MWh.

The damage caused by retrospective cuts to financial support can reach far beyond the individual units in the initial firing line. A retrospective cut demonstrate a willingness on the part of a sitting government to alter economic parameters at very short notice that define the viability of projects. In this case the backlash will be long and loud, and will no doubt involve legal disputes, contract reviews and tough decisions.
Installed Solar Capacity

- **2.3 GW** in Q1’15
- **2.5 GW** in 2014

Investors rushed to get solar projects online before the renewable obligation (RO) subsidies scheme closed down for solar units larger than 5MW at the end of March 2015.

National Grid forecast for renewable growth (July, 2015)

<table>
<thead>
<tr>
<th></th>
<th>SOLAR</th>
<th>WIND</th>
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<tbody>
<tr>
<td>Until 2020</td>
<td>9-18GW</td>
<td>19-22GW</td>
</tr>
<tr>
<td>Until 2030</td>
<td>11-29GW</td>
<td>25-48GW</td>
</tr>
</tbody>
</table>

The UK government intends to end the subsidy scheme for small solar PV generation on 1 April 2016, a year earlier than expected. The grandfathering aspect of the RO support system for solar PV projects in England and Wales could also be scrapped from 22 July onwards. Grandfathering means there is a guaranteed level of support set at a certain price for the lifetime of a project. This follows other regulatory changes in the last 12 months.

“*We need a bit more visibility and transparency. Businesses and investors don’t like sudden, unexpected changes in policies.*”

Blissan Kelly, Director of business environment, Confederation of British Industry.

6x major changes to renewable legislation in the last 12 months

- **ONSHORE WIND**: 8.25
- **OFFSHORE WIND**: 5.10
- **BIOMASS**: 2.77
- **SOLAR**: 7.75

UK Installed renewable capacity (GW), DECC

ROCs issued in Q1’15

- **BIOGAS**: 4.901
- **SOLAR**: 9.275
- **OFFSHORE WIND**: 5.03
- **ONSHORE WIND**: 6.379
- **HIDRO**: 4.205
- **OTHERS**: 5,242

Growth in installed solar capacity

(Source: DECC, National Grid)
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. FT
6. ICIS

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