December 2014 - Market Summary

Review of Market Trends

Report No. 10
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Contents

Macro Economics ........................................................................................................................................... 2
Oil Market: Brent $56.42/bbl, WTI $52.69/bbl............................................................................................. 3
European Gas Market NBP Price: 1.7265 pence/kWh ............................................................................. 4
UK Electricity Market Buy Price: £36.00/MW ............................................................................................ 5
Coal Buy Price: £32.15/tonne ....................................................................................................................... 6
Carbon Buy Price: €7.34/tonne ..................................................................................................................... 7
News ............................................................................................................................................................. 7
Macro Economics

<table>
<thead>
<tr>
<th>GBP</th>
<th>Closing Rate</th>
<th>% Change</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>EUR</td>
<td>1.2877</td>
<td>2.42%</td>
<td>⇑</td>
</tr>
<tr>
<td>USD</td>
<td>1.5158</td>
<td>3.07%</td>
<td>⇐</td>
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**United States Dollar**

It’s been a quiet month in the currency markets with thin trading due to the Christmas/New Year holidays. Cable has traded between 1.55 and 1.5575 over the past day and currently sits at 1.5560. Yesterday saw the Nationwide House Price Index show monthly growth of 0.2%, slightly under the 0.3% expected. This follows the trend in the second half of 2014 of slowing house prices in the UK. December saw a strong Conference Board Consumer Confidence reading from the States. The reading of 92.6 was less than the 94.6 expected however this was still the second highest number since the financial crash. This month’s one release of note will be US Unemployment Claims from the States with 287k expected.

Blizzard anticipates a range of 1.5500 to 1.5600

**Euro**

December saw more deflationary worries from the Eurozone with Spanish CPI showing a -1.1% fall in prices. EUR/USD continues to trade near two year lows and is currently at 1.2156. Next month sees
the latest CPI estimate from the Eurozone, the last reading was a dangerously low 0.3% and should this fall further it seems QE will have to be implemented by the ECB. GBP/EUR trades at 1.28.

Blizzard anticipates a range of 1.2730 to 1.2860

**Oil Market: Brent $56.42/bbl, WTI $52.69/bbl**

<table>
<thead>
<tr>
<th>Description</th>
<th>Price</th>
</tr>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>56.42</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>512.50</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>267.09</td>
</tr>
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</table>

**Close to close: DOWN at $ 56.42 /bbl**

**Why?**

Brent and WTI 1st-nearby prices both fell $5 to $6/b during Christmas break, setting new 5.5 year lows (prices are equivalent to May-2009 levels): Brent plunged below $56/b while WTI now trades around $51.5/b. Worries about a surplus of global supplies amid weak demand for 2015 continued to drag on oil markets in the wake of OPEC Decision not to cut output on 27-Nov, at a time when Brent was above $77/b 40 days ago... It was an eternity ago! The European benchmark has now lost 50% of its value since its peak at $115/b at mid-June 2014.

**Main events**

Adding to oil glut fears, Russian Energy Ministry data showed that Moscow's 2014 oil output (oil and gas condensate) hit a post-Soviet record high average of 10.58 Mbd, rising by +0.7 % last year. The production in December hit 10.67 Mbd, also a record high since the collapse of the Soviet Union. Regarding Iraq also, oil exports hit a record high average of 2.94 Mbd in December, their highest
level since 1980 (according to an oil ministry spokesman on Friday). In Libya, oil production has dropped to around 380 kbd as fighting are still fierce around oil ports: Es Sider and its adjacent Ras Lanuf terminal have been closed for three weeks now but the fire triggered by a rocket last week at the Es Sider port’s storage tanks was extinguished. New air strikes by loyal forces on the commercial port of Misrata (a western city allied to a group that holds the capital Tripoli) have also been reported. The strong fall of the euro also add to worries for crude prices as the EUR/USD pair lost some ground to settle below 1.2 for the first time in 4.5 years. The non-commercial actors increased slightly their net-long positions on NYMEX to reach 335 Mb, still 12% above the 1.5-year low of end of October at 300 Mb.

**Outlook:**
The outlook remains pessimistic for the crude prices. Indeed, with the 10% loss during the 15 days break, operators now have the $50/b level in focus. The weaker euro will also put downward pressure on Brent. Main mover this week will be the US job report on Friday before oil supply and demand forecasting reports next week to get fresh assessment of the oil glut figures for this year. The first support for the New Year could be $55/b.

**European Gas Market NBP Price:** 1.7265 pence/kWh

<table>
<thead>
<tr>
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<th>Day Ahead (p/therm)</th>
<th>January 2015 (p/therm)</th>
<th>Summer 2015 (p/therm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close to close</td>
<td>DOWN at 20.75 EUR /MWh</td>
<td>47.50</td>
<td>46.50</td>
</tr>
</tbody>
</table>

**Why?**
Gas prices dwindled, with front month, front quarter and front year contracts expiring at record lows. European curves came under strong bearish pressure from a comfortable LNG supply outlook due to weak demand in Asia, above-average temperature forecasts for January across Europe and the continuous fall in oil prices. Four LNG cargoes berthed into British terminals in December, giving a boost to gas supply during this low-consumption period and weighing on NBP spot prices. Spot prices also shed value on the continent, pressured by weak demand forecasts and high storage levels. Bears remained in charge of European prices during the first trading session of 2015, as warm weather forecasts and healthy supply continued to exert downward pressure. NBP ICE February 2015 prices lost 1.82 p/therm at the close (-3.65%), to 47.99 p/therm. TTF ICE February 2015 prices were also significantly lower at the close -85 euro cents (-3.98%), to €20.448/MWh. Further out on the curve, crashing oil and prompt prices pushed contracts lower. TTF ICE Cal 2016 prices dropped below the €21/MWh level for the first time since inception: -53 euro cents at the close (-2.49%), to €20.746/MWh.

Outlook
The market remains bearish for European prices in the short-term with mild weather expected to prevail in January across Europe and no major concern over gas supply. Storage levels are in line with record highs observed last year at the same time in most European countries, which should continue to weigh on near-curve contracts. Two LNG cargoes are already expected to berth in the UK at the beginning of next month, confirming that LNG supply is likely to remain healthy this month. On the far curve, weak oil prices should continue to weigh on longer-dated maturities.

**UK Electricity Market Buy Price: £36.00/MW**

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Day Ahead (p/kWh)</strong></td>
<td>3.600</td>
</tr>
<tr>
<td><strong>February 15 (p/kWh)</strong></td>
<td>4.355</td>
</tr>
<tr>
<td><strong>Q1 2015 (p/kWh)</strong></td>
<td>4.270</td>
</tr>
<tr>
<td><strong>Summer 2015 (p/kWh)</strong></td>
<td>4.540</td>
</tr>
<tr>
<td><strong>Winter 2015 (p/kWh)</strong></td>
<td>4.940</td>
</tr>
<tr>
<td><strong>Summer 2016 (p/kWh)</strong></td>
<td>4.550</td>
</tr>
<tr>
<td><strong>Winter 2016 (p/kWh)</strong></td>
<td>4.945</td>
</tr>
<tr>
<td><strong>Summer 2017 (p/kWh)</strong></td>
<td>4.706</td>
</tr>
</tbody>
</table>

Close to close: DOWN at EUR 34.11 /MWh

**Why?**
The bearish pressure softened yesterday in NWE countries due to a limited rise in consumption and moderately weaker wind production. In spite of this, there are still negative hours on the German market; off-peak hours where nuclear, thermal and wind is combined to weak demand. But week-ahead contracts went up as the weather should cool down next week as we already indicated in this report yesterday. Month-ahead prices took the other direction nevertheless as the medium-term weather forecast yesterday morning revised temperature upwards, lifting some risk premium over Jan and Q115 prices. On the far curve, lower fuels continued to exert a bearish pressure on forward power prices.

In terms of margins, clean spark spreads were higher over the last days, driven by the weakness in gas prices. Clean dark spreads were stable. All in all, if fuels prices correct down, we believe that there might be more downside than upside potential today.
Coal Buy Price: £32.15/tonne

<table>
<thead>
<tr>
<th>CIF ARA USD/tonne</th>
<th>Bid</th>
<th>Ask</th>
<th>Trend</th>
<th>Last Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month Ahead</td>
<td>74.25</td>
<td>74.70</td>
<td>➔</td>
<td>73.50</td>
</tr>
<tr>
<td>Cal 2015</td>
<td>72.25</td>
<td>72.50</td>
<td>➔</td>
<td>72.35</td>
</tr>
</tbody>
</table>
Carbon Buy Price: €7.34/tonne

News

Energy Tariffs to Expire on New Year’s Eve
A recent analysis of the energy market, conducted by UKPower.co.uk, has revealed that 13 popular energy tariffs will expire, leaving consumers with an 8% increase in their energy bills, on average.

Fuel poverty could be inevitable if the UK Government doesn’t rethink their energy strategy
The Government’s Committee for Climate Change has released a report that urges the government to refocus their strategies when it comes to the future of Britain’s energy, or risk further fuel poverty for our country’s poorest households.

UK energy bills predicted to keep rising in the future
The Committee for Climate Change forecasts that consumers will watch their energy bills continue to rise in the coming years. Will the British energy bill reach its breaking point?

Npower chief says more should be done to secure the success of ECO scheme
Npower’s chief executive Paul Massara openly supported Ofgem's fining of rival energy firm British Gas, but claims the Energy Company Obligations scheme is still far from perfect.

British Gas hit with £11.1 million penalty
Big Six energy supplier, British Gas, have been hit with an £11.1 million fine for failing to meet obligatory energy efficiency targets on time.

A ‘world first’ tidal energy project could give Britain the boost that it needs
The government has announced it is in the early stages of discussions that could lead to a 'world first' tidal energy project off the south coast of Wales. Energy experts are hopeful that these discussions mark a change in attitude towards renewable energy in Britain.
Big Six energy supplier E.ON ‘quits’ gas and coal to focus on renewable energy
The German utility firm and Big Six energy supplier, E.ON, reveals plans to sell off most of their power-generating units due to the “dramatically altered global energy markets.”

Read more: http://www.ukpower.co.uk/gas_electricity_news/2014/December#ixzz3Oo9imWsS

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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