

January 2016 - Market Summary

Review of Market Trends

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Macro Economics

GBP	Closing Rate	% Change	
EUR	1.3161	3.14%	↓
USD	1.4384	2.27%	↓



United States Dollar

GBP/USD opened notable higher following the worst monthly decline in US durable goods orders since Sept 2014. In early trading cable carved out some small gains, rising from an open of 1.4235 to 1.4280, as markets digested the dovish overnight FOMC statement plus news that the UK economy grew by 0.5% in the three months to the end of December. While the 2.2% annual pace of growth is the slowest for three years it still puts the UK as one of the fastest growing developed nations. It was then the turn of US durable goods orders to weigh on the dollar. Order for December printed -5.1% while core numbers, which exclude transportation items, came in at -1.2%. As mentioned above the normalised figures are the worse since sept 2014 while the core numbers haven't declined this much since Jan 2014. It was no surprise therefore that Sterling rose about 1.44 against the dollar and hit a high of 1.4407. Now attention shifts to US GDP for Q4 and the knock on effect of Eurozone CPI.

Blizzard anticipates a range of 1.4335 to 1.4425

Euro

GBP/EUR traded higher through month as news the UK GDP hit expected levels in December plus a surge in oil prices and thus risk appetite helped Sterling Rise. Opening the day at 1.3060 the pair hit a high of 1.3219 overnight. The paid opens lower despite German Retail sales for December missing expectations. YoY numbers printed 1.5% vs 2% exp and MoM declined to -0.2% vs 0.5% expected.

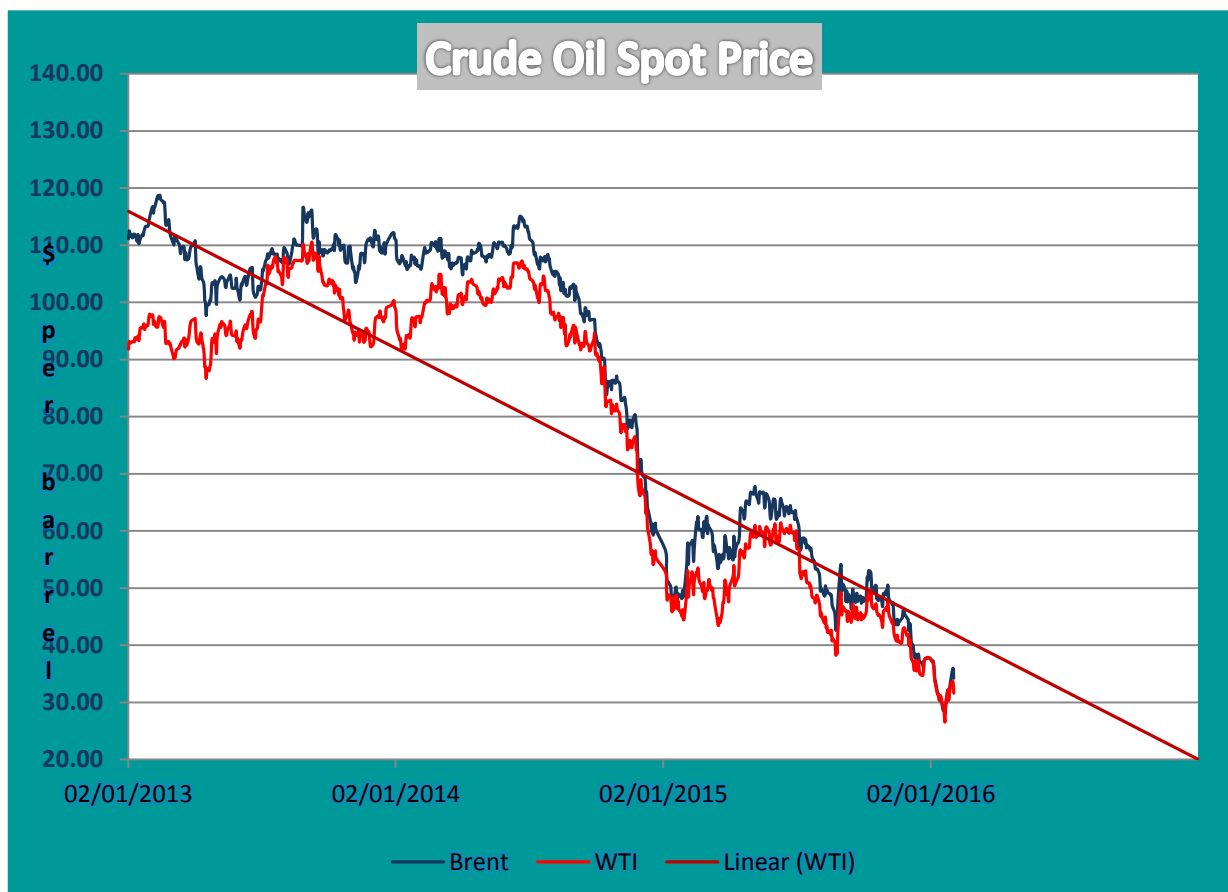


Today no data is due from the UK so the main driver is likely to be Eurozone CPI at 10am and US GDP numbers in the afternoon. EUR/USD gained heavily following the dismal US durable goods orders and talk of a potential production cut by the major oil producing powers. A report hit the wires this month that Russia had agreed with OPEC and non-OPEC members to cut production by 5%, in a bid to stabilise prices, however an unnamed source quickly discredited the report and the surge in oil fell away. As such Eurodollar rose from an opening price of 1.0915 to a high of 1.0960 and then dropped below 1.09 overnight. Eurozone CPI and US GDP will give the pair pull from both sides. We open today with EUR/USD at 1.0895.

Blizzard anticipates a range of 1.3135 to 1.3250

Oil Market: Brent \$34.46/bbl, WTI \$31.62/bbl

Brent ICE (USD/b)	34.46	↑
Gasoil ICE (USD/t)	308.50	↑
Fuel 1% Fob cg (USD/t)	153.16	↑



Close to close at \$33.89/bbl for Brent ICE (This morning at \$ 34.46/bbl)

Why?

Few weeks ago, rumours of talks between OPEC and non-OPEC producers to limit output were ignored, because there were not realistic. The fundamental situation has probably changed little, but the same rumours have pushed Brent oil prices higher from \$30/b early this month to almost \$36/b at the start of February. There have been rumours about a possible rise to \$37/b. This may happen, but there still remains the risk of a violent downward correction. The key market mover should be US GDP numbers later this month.



Main events:

Price weakening slowed following comments made by the Russian Energy Minister, Mr. Novak, who hinted at a possible meeting between OPEC and non-OPEC producers in February and even said that a 5% cut in output on both sides may be discussed. OPEC representatives said later that there was no plan for such a meeting and one Gulf member also stated that Saudi Arabia had no plan to cut output by 5%. Prices rose to \$35.84/b and then declined to around \$33.7/b, but they are now trading above \$34.5, still posting substantial gains compared to few days ago.

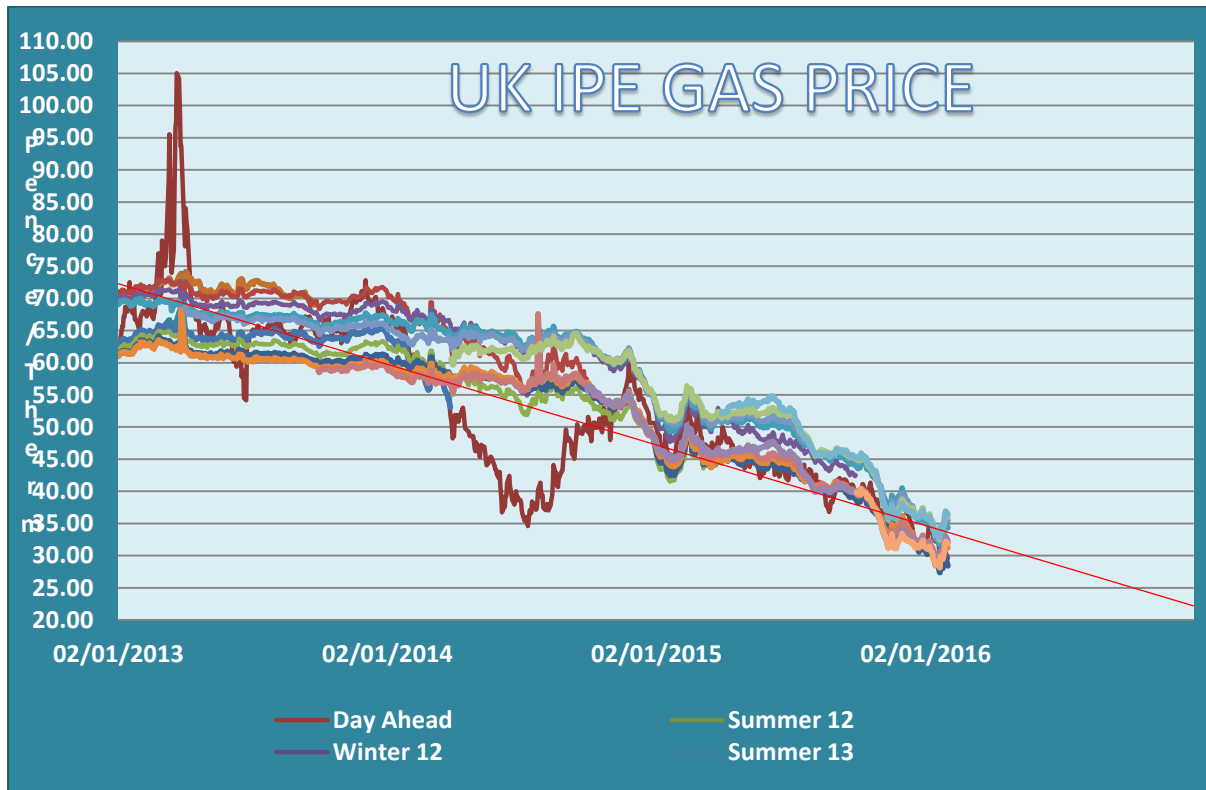
On the fundamental side, there is nothing to support this rebound in prices. There are reports (Reuters) about a 20% rise (compared to the average 2015 level) in Iranian exports in the January-February period (around 1.5Mb/d) on the basis of what has been already agreed.

Outlook:

Technically, the sharp rise of the last few days has brought oil prices into overbought territory. But this can only last another day. This would not be the first time. The main market mover should be US GDP figures. They are expected to be weak, which should fuel risk appetite on the basis of a prolonged status quo from the Fed. But the breakdown of data can also be truly worrying, fuelling fears of US recession and lower demand for commodities. In the first case, further rise in oil prices could be envisaged and therefore \$37/b mark is not out of the question. In the second case, the correction could pull prices back to \$32.7/b and even likely below \$32/b. Volatility is going to remain very strong anyway.

European Gas Market NBP Price: 1.303 pence/kWh

Day Ahead (p/therm)	38.20	↓
January 2016 (p/therm)	38.33	↓
Summer 2016 (p/therm)	35.10	↓





Close to close at 15.07EUR /MWh for TTF CAL 17 (This morning at 15.03EUR /MWh)

Why?

European gas prices continued to strengthen, mainly supported by bullish Brent crude prices which jumped to three-week high following news that Russia is willing to meet OPEC members to discuss a coordinated production cut. Higher gas demand in the UK (+6% day-on-day) and low Dutch production (145 mm cm/day yesterday compared to 185 mm cm/day on average in January) tightened British systems, supporting spot contracts although mild weather on the continent kept TTF day-ahead prices stable at the close.

Main Event

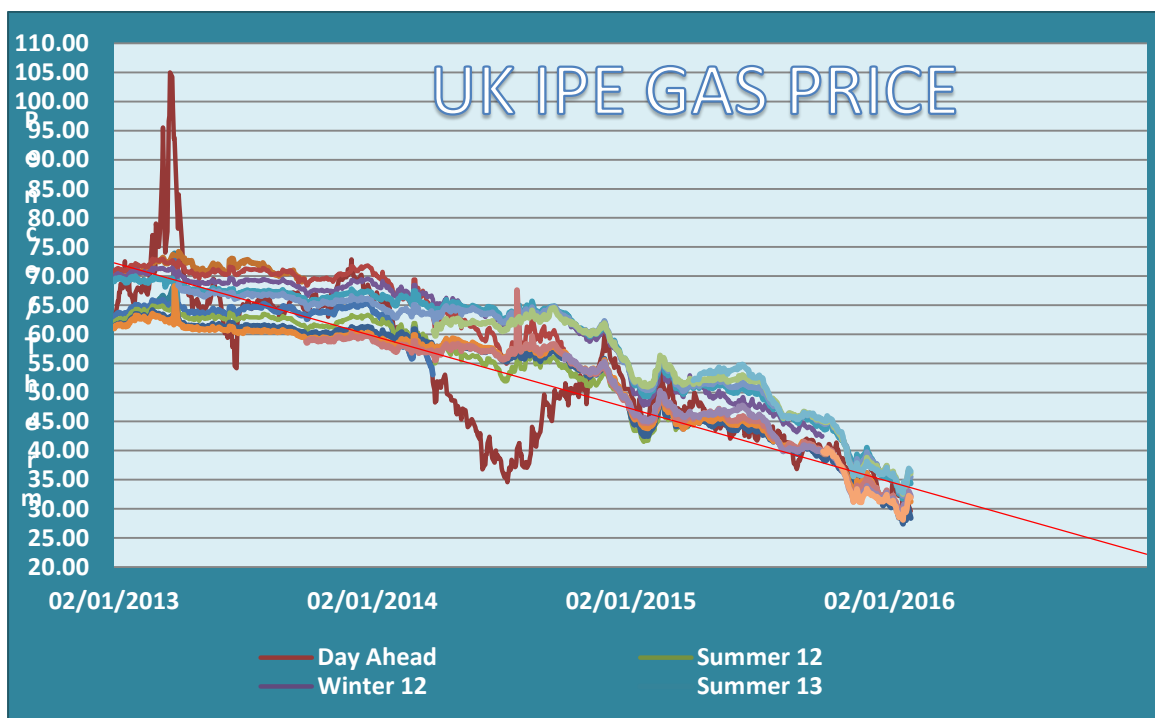
For the of trading, NBP ICE February 2016 prices gained 0.87 p/therm at the close (+2.83%), to 31.58 p/therm. TTF ICE February 2016 prices were assessed 39 euro cents higher at the close (+2.9%), to €13.669/MWh. Further out on the curve, TTF ICE Cal 2017 prices traded as high as €15.5/MWh intraday but retreated afterwards following movements in the oil market. They were finally assessed 54 euro cents higher at the close (+3.72%), to €15.066/MWh.

Outlook

Brent prices are trading higher than yesterday’s close, between \$34.5-35/bbl which is likely to support curve contracts at the opening. Once again, movements on the gas curve will be closely linked to the oil market. The key event of the day will be the release of US GDP figures. Spot and near-curve contracts could be under bearish pressure as temperatures are expected to increase throughout the February and could be up to 8°C above seasonal norms. Nevertheless, gains in the oil market largely outweighed bearish fundamentals on the prompt... All in all, Blizzard favours a stable to bearish outlook for spot and near-curve contracts as fundamentals could come back to the fore, whereas longer-dated maturities could strengthen again on the back of bullish oil prices.

UK Electricity Market Average Buy Price: £36.89/MW

Day Ahead (p/kWh)	3.250	↓
February 16 (p/kWh)	3.370	↓
Q21 2016 (p/kWh)	3.285	↓
Summer 2016 (p/kWh)	3.280	↑
Winter 2016 (p/kWh)	3.810	↑





Close to close at EUR 23.60MWh for German power CAL 17 (This morning at EUR 23.71/MWh)

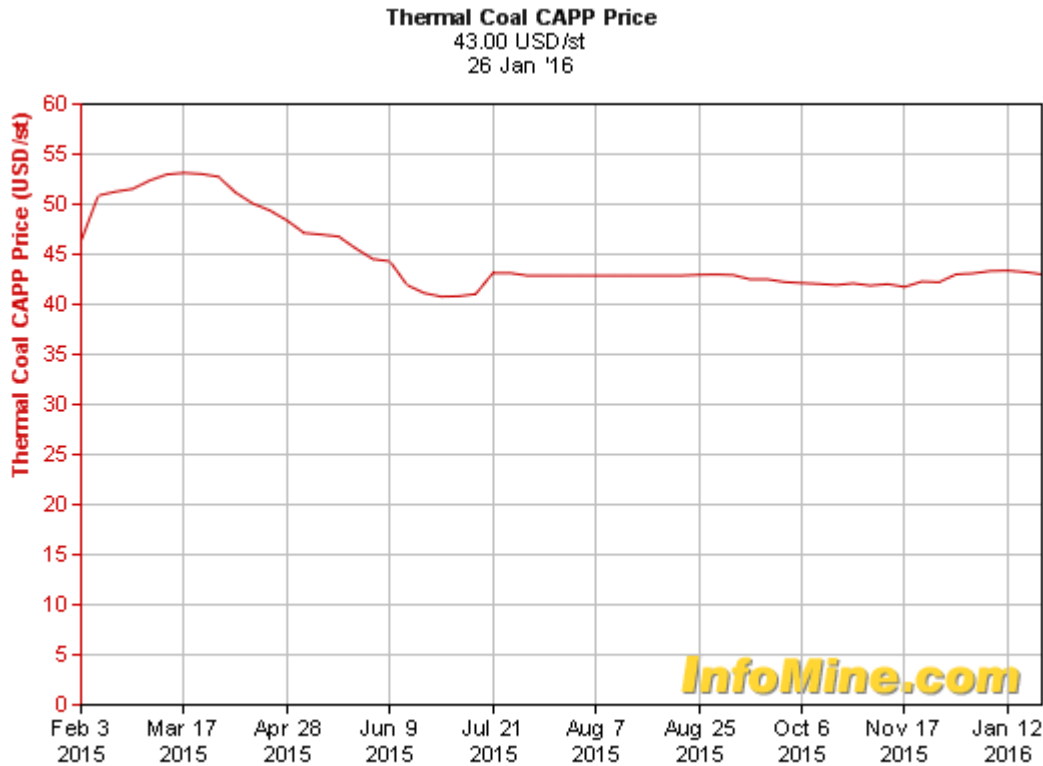
Why?

The new run for monthly temperatures forecasts confirms the mildness in the next few days and globally over the period; it extends until the first half of March, higher than forecast. There will just be a few cold days over the next week, although still above seasonal temperatures. On the top of that, strong winds are confirmed from Monday to Wednesday and thermal supplies are still comfortable. Prices could further soften for delivery beginning of next week in that context, as well as March 2016 prices. The market could be a bit tighter for the rest of the week, which all in all, could support week 5 prices in addition to higher fuel costs.

Main Event

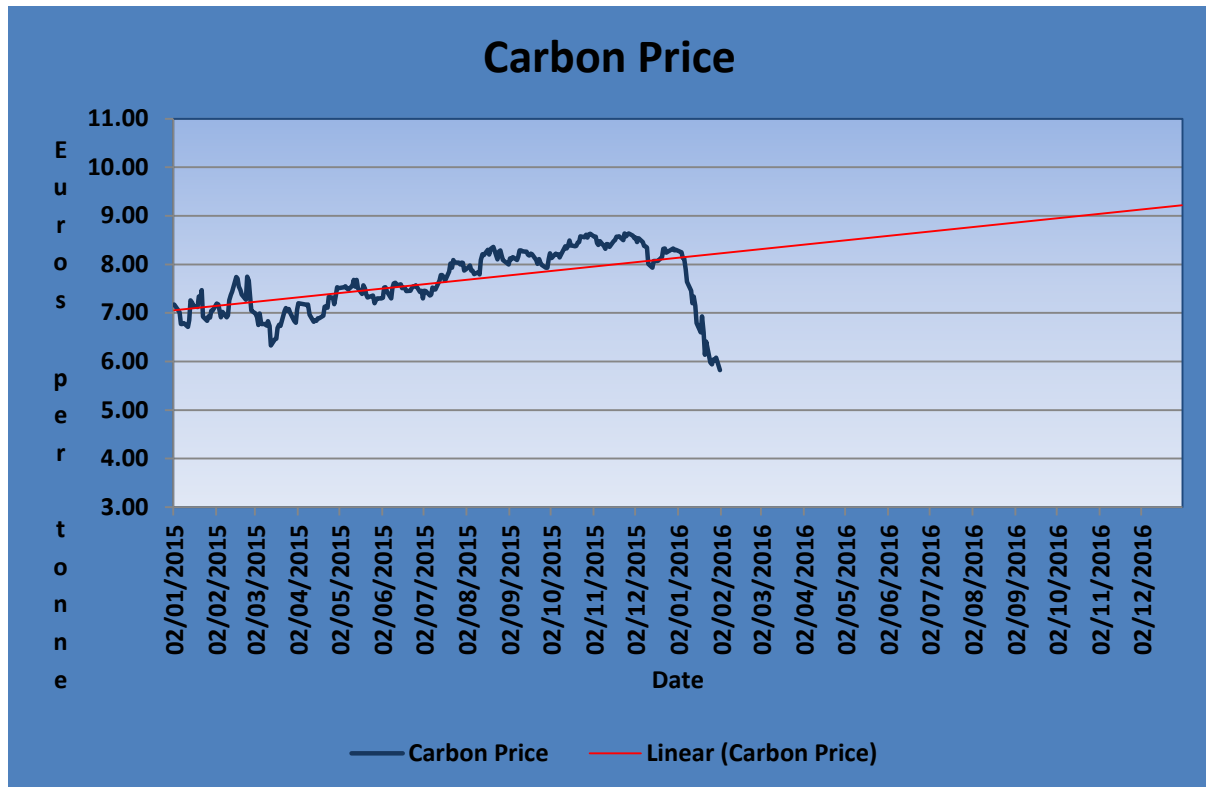
On the far curve, clean coal costs were stable yesterday with a small decrease in coal prices against an increase in emissions contracts. All in all, base load contracts reflected a small increase. There was less correlation between oil and coal prices than with gas prices which moved up more significantly. As a result, power contracts in France, Belgium and the Netherlands were more impacted (with higher clean gas costs at play) than coal dependant Germany. Calendar prices reached 3-week highs. CO2 contracts again were very volatile. The EUA Dec'16 contract closed at €6.09/t. The technical configuration for EUAs is turning bullish today. Closing above €6.20/t could even bring further support in the short-term. A likely scenario as clean dark spreads widened further yesterday as oil prices could extend their gains further. Note that emissions contracts are no longer in oversold territory, which opens room for a downside correction next week. In the meantime, our general outlook is bullish for today.

Coal Buy Price: £29.84/tonne





Carbon Buy Price: €6.08/tonne



News

UK power traders to eye coal market for peakload pricing

11 January 2016

The superior profitability of gas-fired power generation over coal in the UK has left coal-fired generators relying on pricier peaks and smaller within-day contracts to make money, a trend that is changing the dynamics of the UK wholesale electricity market.

Declining gas prices on the country’s NBP market and higher taxes and charges on the importation of coal have turned gas-fired generation into a more consistently profitable form of generation than coal this winter.

While switching for coal-to-gas has been commonplace over the last few summers, this winter has brought about a notable shift from coal to gas burn – not at all typical for the time of year.

Since 1 November 2015, CCGT plants have met on average 29.3% of the UK’s electricity demand, trumping coal’s share of 19.6%.

The change indicates that coal generators are increasingly looking away from the baseload period as a profit opportunity to peaks and even smaller within day blocks.

This should alter the dynamics moving the wholesale power market, with the NBP market offering direction to baseload contracts and the global coal market directing trade on the peaks.

The UK's carbon price support – a tax against industrial emitters of carbon – and a weaker pound against the dollar and euro that has increased coal import costs is forcing older coal plant to search for other profit avenues in the wholesale market.

Value

As a result this has left coal generators searching for higher value and therefore moving from baseload and peak sales to look at particular half hourly periods or blocks.

Certainly if they are forward hedging plant then they'll be looking to predominantly sell peaks or parts thereof.

Whereas traders have traditionally regarded the direction of the NBP market as a clear signal to the power curve, gas market movements relative to coal and movements in spark and dark spreads will be crucial to determining the value of outright power contracts.

Traders are looking at the price of the marginal fuel required to meet demand and then estimating what margin that type of plant owner will require to run it. Peaks will be pricing off coal, with the rest of gas.

But coal is also very weak.

Clean overtakes dark spreads

Clean spark spreads including carbon price support – the notional UK profit margin for gas-fired generation including the cost of carbon permits – have overtaken their clean-dark counterparts for forward delivery in recent months (see EDEM 30 November 2015).

Since 18 December, the clean dark spread for summer '16 delivery has been negative, reaching a low of -1.30/MWh on 4 January based on ICIS end-of-day calculations. This coincided with the clean spark rising to £4.13/MWh.

Coal flexibility concerns

Coal plants built 30, 40, even 50 years ago to operate explicitly on a baseload profile have previously been regarded as too inflexible to meet changes in system demand on short-term profiles. However, this is changing.

Drop back a few years and it certainly wasn't the norm, especially for older coal plants, to two-shift as it was harder to get the turbines to move faster and also seen as damaging to the equipment.

But necessity is the mother of all invention and with baseload and peak prices plunging despite permit costs increasing, coal generators have had to adapt or die, and therefore finding ways to deal with the perceived risk.

Traders agree that in practice they try and keep the plant hot, so they might not drop the output to zero, but they can certainly reduce it [or] increase it.

However, some commercial constraints could prevent coal generators from unwinding baseload positions and selling into the peakload and within-day blocks.

Sometimes coal plant can be seen to run when spot prices suggest it shouldn't. The reason is most likely that it is forward hedged profitably at some point in the past, and the owner simply can't easily unwind or prefers to run.

By not unwinding they are missing out on extra profits but it's not a straightforward process because the physical nature of coal makes it difficult.

NBP remains important

Forward NBP prices will remain of interest to the power market as the impact of internationally traded LNG cargoes on the NBP becomes clearer.

The enhanced flexibility of gas plant compared to older and less-efficient coal would ensure some combined-cycle gas turbines serve at the margins at both baseload and peakload times.

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*
7. *BBC*
8. *Guardian*

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