November 2014 - Market Summary

Review of Market Trends

Report No. 09
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United States Dollar

The pound slipped gently lower this month. The dollar was stronger, although most of the US market was still out for Thanksgiving. GBP/USD started the month above 1.57 and fell to a low of 1.5590 in Asia. It recovered a little in early Europe to open December at 1.5635. This month is a very busy month in FX. UK PMIs were due the combination of which has printed slightly weaker than market forecasts recently. If this is the case, we could see GBP/USD test another break below 1.56. There are also plenty of top tier economic indicators due from America. Markets are expecting 230,000 new US jobs to have been created.

Blizzard anticipates a range of 1.5605 to 1.5730

Euro

EUR/USD has also trickled lower, trading to a low of 1.2420 towards the month end. European inflation data was released but it failed to surprise and printed as expected at 0.3% year on year for November – a five year low. The unemployment rate also printed in line with market forecasts, coming in at 11.5%. PMI’s are due from Spain and Italy and there are other bits and pieces of data due throughout December but the main event will be the European Central Bank’s monetary policy announcement at the beginning of December. No change in rates or policy is expected but President Draghi will no doubt sound extremely dovish in his accompanying press conference and may even signal when the bank intend to implement measures that resemble full blown quantitative easing.

Blizzard anticipates a range of 1.2535 to 1.2620
**Oil Market: Brent $72.58/bbl, WTI $68.59/bbl**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Price</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>72.58</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>629.25</td>
<td>↓</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>358.24</td>
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**Close to close: DOWN at $ 70.15 /bbl for Brent ICE JAN15 (This morning at $ 69.26/bbl)**

**Why?**
Brent prices plunged again at the end of the month to break a five year low and touch their lowest since October 2009 when crude was recovering from the 2008 crisis. Brent has now stabilized around its May-2010 level around $68.3/b. WTI had the same move, also posting -$10/b weekly losses, and the American benchmark now trades around $64.5/b, the lowest since July 2009. Markets remain very well supplied and pessimistic on prices after the OPEC decided to keep its 30 Mbd ceiling unchanged.

**Main events**
Crude markets are still trying to analyze the consequences of OPEC decision. The cartel has made a strategic shift by launching a market share war instead of defending prices. It becomes clear that Saudis and its rich gulf allies pushed this solution last Thursday against other members who were expecting a cut (Venezuela, Iran and Algeria for example). The kingdom clearly said it wanted to combat the US shale oil boom by depressing prices in a move that should undermine the profitability of North American producers and therefore make US domestic production drop in the medium term. Secretary General Abdullah al-Badri effectively confirmed OPEC was entering a battle for market share but the outcome of the fight is uncertain as the impact on US shale is unclear while consequences on national budgets of small OPEC producers are obvious and immediate… Indeed, Oil-producing countries Iraq and Nigeria have already revised their 2015 budgets to reflect lower prices. Baghdad has changed its budget on a forecasted oil price of $70/b. Iran and Russia, maybe the two biggest losers of last week’s decision, should finalize ‘soon’ the agreement to Russian supply
of grain and equipment to Iran in return for oil, according to Russia's Economy Minister. Such an oil-for-goods deal would enable Tehran to significantly raise oil exports despite sanctions and also boost Russian economy.

Outlook
After the two major milestones from last week, nervousness should decrease on crude markets this week. Prices have found their direction for December: downward! The economic agenda will be the market mover today where we expect a small technical rebound but the trend should remain bearish this week with next support at $65.9/b before $64/b in focus.

European Gas Market NBP Price: 1.999 pence/kWh

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<table>
<thead>
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<th></th>
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<tbody>
<tr>
<td>Day Ahead (p/therm)</td>
<td>58.60</td>
<td>↓</td>
</tr>
<tr>
<td>November 2014 (p/therm)</td>
<td>58.70</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2015 (p/therm)</td>
<td>53.78</td>
<td>↓</td>
</tr>
</tbody>
</table>

Close to close: DOWN at 23.95 EUR /MWh for TTF CAL 15

Why?
Milder weather in the UK and falling oil prices weighed on European prices. The British system remained oversupplied throughout the session as total gas demand fell below seasonal norms, while supply improved with higher BBL flows and the end of an unplanned outage at the SAGE processing facility which triggered a sharp rise in flows at the St-Fergus terminal. Continental spot prices followed the bearish trend at the NBP, despite below-average temperatures expected in Germany from Friday and from Saturday in the Netherlands. Brent prices plunged after the OPEC meeting as oil producers decided not to cut production to support falling oil prices, exerting strong bearish pressure on far curve contracts.
TTF ICE Cal 2016 and Cal 2017 prices dropped by 22 and 27 euro cents respectively at the close, to €24.114/MWh and €24.036/MWh. Following the sharp drop in oil prices, the gas-to-oil spread narrowed significantly over the past few weeks, reaching its lowest level since June 2009 for year-ahead contracts, with long-term oil-indexed prices now almost at parity with Cal 2015 prices according to supplier estimations. With temperatures 3°C above seasonal norms in the UK, British gas demand is expected to plunge by 30 mm cm, falling 13% below seasonal norms. But consumption is expected to increase significantly in December with the arrival of below-average temperatures across Europe, which should support European spot prices. However, the continuous drop in oil prices is likely to weigh again on curve contracts and could offset the bullish pressure at the front. All in all, we favor a stable outlook for European curve prices.

**UK Electricity Market**

Buy Price: £49.00/MW

<table>
<thead>
<tr>
<th>Day Ahead (p/kWh)</th>
<th>4.900</th>
<th>↓</th>
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<tbody>
<tr>
<td>Week-ahead (p/kWh)</td>
<td>4.930</td>
<td>↓</td>
</tr>
<tr>
<td>December 14 (p/kWh)</td>
<td>4.920</td>
<td>↓</td>
</tr>
<tr>
<td>January 15 (p/kWh)</td>
<td>4.935</td>
<td>↓</td>
</tr>
<tr>
<td>Q1 2015 (p/kWh)</td>
<td>4.885</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2015 (p/kWh)</td>
<td>4.820</td>
<td>↓</td>
</tr>
<tr>
<td>Winter 2015 (p/kWh)</td>
<td>5.280</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2016 (p/kWh)</td>
<td>4.915</td>
<td>↓</td>
</tr>
<tr>
<td>Winter 2016 (p/kWh)</td>
<td>5.285</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>4.886</td>
<td>↓</td>
</tr>
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</table>

Close to close: UP at EUR 36.05 /MWh for German power CAL 15

**Why?**

Spot prices were traded down on the back of typical weaker power consumption, higher renewable output across the country and higher run-of-river hydro production. It should also be noted that yesterday's strike action at EDF in France was finally lifted as an agreement was found between unions and the company. On near-term prices, the major indicator weather eased the upside pressure which prevailed over recent sessions: temperatures were revised a bit higher so that week- and month-ahead prices could go down. The downside was less significant, the drop in clean gas costs was not very strong. So far, the risk of heavy cold temperatures by the start of December seems however limited.

On the far curve, power markets eased down after having reached new highs earlier this week. We believe markets will remain quite calm. Besides important dates on carbon next week, we are reminded that Germany is to unveil in December a series of measures in order to reach its emission reduction target for 2020: the German government estimates that without intervention it would fall short of 7-8% of emission reduction to reach its 40% reduction target in 2020. The closure of coal-fired power plants was mentioned earlier this month, so it may be an important date for NWE power markets.
Coal Buy Price: £33.92/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: €6.80/tonne

News

Daily: Crude oil declines as Japan falls into recession
Crude oil prices declined on Monday following the news that Japan, the world’s fourth-biggest crude importer, had slipped into recession. Brent crude fell 10 cents to close at $78.31 a barrel, after declining as low as $77.94 earlier in the session, while WTI crude for December delivery dropped 18 cents to settle at $75.64 a barrel.

Daily: European power prices jump on colder weather forecasts, weak renewable supply
Brent crude boosted almost $2 a barrel on Friday for its sharpest daily gain in three weeks as a support came a day after prices plunged to four-year lows below $80. Brent’s new front-month contract, for January delivery, settled at $79.41 from Thursday’s $77.49. U.S. crude’s front-month increased by $1.61 to close at $75.82 a barrel, after a four-year low at $73.25 and session high of $76.30.

Daily: British gas prices decline as robust supply eclipsed higher demand
U.S crude oil prices settled higher on Wednesday at more than $67 after figures showed an unexpected decline in stockpiles, while a report indicating that Saudi Arabia expected lower prices for oil pulled down Brent below $70 a barrel. The spread between Brent and U.S. crude narrowed to below $3 a barrel, its lowest in 1-1/2 months.

Centrica hit with an £11m fine for failing to meet energy efficiency obligations on time
British largest energy supplier, Centrica, has been hit with an £11.1million ($17.4 million) penalty for failing to meet energy efficiency obligations by a 2012 deadline, announced Britain’s energy regulator Ofgem.

Ukraine to make prepayments for Russian gas by the end of the week
Ukraine it is ready to make an advance prepayment by December 7 for 1 billion cubic metric of Russian gas, said Ukrainian Energy Minister Yury Prodan.

Ukraine gets 150 million euro loan from EIB to modernize its gas pipelines
Ukraine received a 150 million euro ($187 million) loan to modernize its section of the natural gas pipeline used to deliver gas from Russia to Europe.
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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