November 2015 - Market Summary

Review of Market Trends

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Macro Economics

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<tr>
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<th>GBP (Closing Rate)</th>
<th>% Change</th>
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<tbody>
<tr>
<td>EUR</td>
<td>1.3775</td>
<td>2.04%</td>
</tr>
<tr>
<td>USD</td>
<td>1.5128</td>
<td>0.09%</td>
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**United States Dollar**

GBP/USD has made slow progress and after falling below the 1.50 figure during the month it recovered to close the month at 1.5095. The dollar is generally weaker and is the main driver behind the move higher in cable. The greenback’s cause wasn’t helped by weaker than expected Chicago PMI and Pending Home Sales data released earlier, coming in at 48.7 vs. 54.3 and 0.2% vs. 1.6% respectively. BoE Governor Carney’s press conference focused mostly on the UK bank stress test results that were released earlier this month, a relative non-event as far as currency traders were concerned. Attention now will turn to Manufacturing PMI and US ISM Manufacturing PMI.

Blizzard anticipates a range of 1.4980 to 1.5190

**Euro**

EUR/USD hasn’t done much over the last 24 hours. It’s bumped along less than 1.06 and trades are at 1.0590 currently. You’d be forgiven for thinking it might not do a lot between now and the ECB’s monetary policy announcement. In other news, consumer price data from Germany was released and was shown to have risen by 0.4% in November. This relatively positive news was shrugged off, however, as most investors cannot fail to see through the impending announcement on 3rd December. Meanwhile, manufacturing PMIs from across Europe are due any time now but they too might have to be significantly varied from forecasts to have any kind of material impact on the euro.

Blizzard anticipates a range of 1.4190 to 1.4300
Oil Market: Brent $44.81/bbl, WTI $41.65/bbl

<table>
<thead>
<tr>
<th>Market</th>
<th>Price</th>
<th>Change</th>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>44.81</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>409.25</td>
<td>↓</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>194.59</td>
<td>↓</td>
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Close to close at $44.61/bbl for Brent ICE (This morning at $ 44.81/bbl)

Why?
Despite a brave attempt to move upward and stay above $45/b, Brent prices dropped back to below this mark during the American session. Brent prices lost 70 cents as US Government data showed September output of US crude just fell -20 kbd to 9.326 Mbd in September, confirming the strong resilience of the sector. WTI also posted significant losses and it is now back on its $42/b support.

Main events:
Yesterday evening, a set of data fueled pessimism on markets during the American session pushed prices to weekly lows: first, US official data showed no meaningful decline in shale oil output in September despite a steady drop in rig counts. Then, the US CFTC (Commodity Futures Trading Commission) released data showing the bullish position held in WTI by hedge funds and other speculators fell last week the lowest in more than five years. At the same time, the dollar rose to 7 months high on expectations of rate hike to come soon, weighing on the cost of a barrel for owner of other currencies. On top of that, Russia, the biggest oil producer, said it will skip the next meeting: indeed, the Russian Energy Ministry said yesterday it will not send delegates for consultations or attend the OPEC meeting as an observer as was expected by many (the ministry only expects an experts-level meeting with OPEC in December). The news reinforced bets that the OPEC is likely not to change its current strategy and should continue to pump full steam for the six coming months at least as sharing production cuts with major producers outside the organization could be part of the solution. Brent market was squeezed yesterday with negative data from the demand side: China's economy showed renewed signs of weakness with its Manufacturing activity index at a 3-year low in November (China's National Bureau of Statistics' official PMI hit 49.6 in November, its lowest reading since August 2012).
Outlook:
We still have downward views for Brent as the general context is really bearish. Traders are watching towards Frankfurt for key meeting of the ECB where the bank is widely expected to cut interest rates on euro deposits and extend its quantitative easing program. Tomorrow, we will also have the US stocks figures, the last important numbers before the OPEC meeting on Friday. We see a first support for Brent at $44.2/b today. Today’s market mover will be the ISM at 4 pm...

European Gas Market NBP Price: 1.303 pence/kWh

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<tbody>
<tr>
<td>Day Ahead (p/therm)</td>
<td>38.20</td>
</tr>
<tr>
<td>January 2016 (p/therm)</td>
<td>38.33</td>
</tr>
<tr>
<td>Summer 2016 (p/therm)</td>
<td>35.10</td>
</tr>
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Close to close at 17.93EUR /MWh for TTF CAL 16 (This morning at 17.93EUR /MWh)

Why?
An undersupplied system in the UK pushed NBP spot prices higher on Monday, while expectations of tighter LNG supply in the coming weeks may have provided some support to the curve. NBP day-ahead jumped 1.2 p/therm higher at the close, triggering storage withdrawals to balance the system. Stronger oil prices also fueled the bullish sentiment on the curve.

Main Events:-
NBP ICE January 2016 prices, the new front-month contract, gained 0.63 p/therm at the close (+1.66%), to 38.65 p/th. TTF ICE January 2016 prices were also higher at the close: +21 euro cents (+1.15%), to €18.025/MWh. TTF ICE Cal 2016 prices were assessed 20 euro cents higher at the close (+1.13%), to €17.931/MWh.

Outlook:-
With only one LNG delivery expected this week in the UK compared to two to three over the last few weeks, nominations for British LNG send outs dropped to 26 mm cm/day this morning compared to almost 43 mm cm/day on average in November, which could limit losses in NBP prompt prices in the
coming days. Nevertheless, with lower gas demand due to mild weather and lower exports to Belgium and higher imports from Norway and the Netherlands, the UK system is oversupplied this morning. This is likely to weigh on NBP prices today on the back of well above-average temperatures expected to prevail in the coming days. Warmer weather forecasts and strong Norwegian production could also erode yesterday’s gains on the continent. Curve contracts could weaken today as oil prices should not be supportive.

UK Electricity Market Average Buy Price: £38.09/MW

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<thead>
<tr>
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<th>Price (p/kWh)</th>
<th>Change</th>
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<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>3.800</td>
<td>↓</td>
</tr>
<tr>
<td>January 16 (p/kWh)</td>
<td>4.005</td>
<td>↓</td>
</tr>
<tr>
<td>Q1 2016 (p/kWh)</td>
<td>3.985</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2016 (p/kWh)</td>
<td>3.750</td>
<td>↓</td>
</tr>
<tr>
<td>Winter 2016 (p/kWh)</td>
<td>4.145</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>3.615</td>
<td>↓</td>
</tr>
<tr>
<td>Winter 2017 (p/kWh)</td>
<td>3.985</td>
<td>↓</td>
</tr>
<tr>
<td>Summer 2018 (p/kWh)</td>
<td>3.480</td>
<td>↓</td>
</tr>
</tbody>
</table>
Close to close at £38.00/ MWh for CAL 16
Why?
Pressure went on yesterday on prompt power contracts in NWE countries. Temperatures will remain largely above average levels, as well as wind generation. Latest weather runs are even a bit more bearish than yesterday morning.

Main Event:-
The expected return to the grid of the Fiddler’s Ferry-4 coal plant on Wednesday, warm temperatures forecast for tomorrow, and a ramp up in overall imports scheduled for this afternoon have suppressed the Day-Ahead product a touch. Bearish has been mitigated somewhat by an outage at the Peterhead gas plant today and a dip in wind production forecast for tomorrow afternoon, which has contained the downward movement to degree. Near curve prices have refused to move noticeably away from their previous settlement assessments, regardless of bullish equivalent NBP contracts. The euro to GB pound rate is fairly close to its settlement, after UK banks passed Bank of England stress tests and news that the German unemployment rate fell to a record low since reunification of 6.3%. This has helped to keep products flat to their last assessments, as it has exerted little negative or positive influence. Further along the curve earlier gains made by the Brent Crude benchmark have led to a bullish atmosphere, with prices pushing into positive day-on-day territory.

Outlook:-
A weaker US Dollar firmed Brent earlier today, as this triggered greater buying interest from traders with other currencies. Positive movement has not been too extensive; however, as a soft coal benchmark has limited bullish control of the far curve. Poor Chinese PMI data undermined coal as it cast further doubt over Asian coal demand growth.

Coal Buy Price: £28.39/tonne
Carbon Buy Price: €8.54/tonne

News

UK electricity market making blamed for liquidity pooling

04 December 2015 Source: ICIS

Liquidity on the UK wholesale electricity market has increasingly pooled within the two market-making one-hour windows in recent weeks, causing traders to call for tweaks to energy regulator Ofgem’s secure and promote licence.

Concerns that the UK’s biggest six utilities were exerting undue dominance in the wholesale market persuaded Ofgem to introduce two one-hour long liquidity windows in March 2014 (see EDEM 31 March 2015).

The first year of the reforms, which oblige utilities RWE, EDF, Centrica, E.ON, SSE and ScottishPower to post bids and offers on particular products during the windows, coincided with a boost in general liquidity (see EDEM 10 September 2015). Ofgem confirmed at the time it would extend the licence for two more years.

One sided markets

However, evidence has emerged in recent weeks of a vacuum in the market outside of the two daily windows between 10:30-11:30 and 15:30-16:30 London time.

One-sided markets on the curve’s most liquid products, which are subject to mandatory market making, have commonly appeared outside of the windows. When bids and offers have been present
on screen simultaneously, the market has commonly been wider than the market-making obligations dictate during the windows.

Data collected by ICIS also shows that 44.5% of curve transactions on the front month and beyond occurred during the two windows in October and November.

“They’re [the windows] at odds with the underlying drivers, which trade all day,” said one utility trader, referring to fuels markets such as the UK’s NBP gas market that typically drives the UK power curve.

“I have no problem with it,” he added. “It would seem much more sensible to make it 80% over the course of the day rather than two hour windows.”

Other traders agreed that the focus of the regulations on two hour-long liquidity windows meant trade automatically gravitated to those windows.

“Markets do tend to behave in packs. The more numbers appear in the window, the more people wait for the window,” one source from an energy-to-business supplier said.

“Nobody really looks either side of those windows now, which is a by-product of the market making,” another source said.

**Speculative traders lose out**

“If you’re a speculative trader in the market, you’re doing nothing between those hours,” the source, who works for a supplier, said. “From our point of view, it’s not a problem as long as there’s liquidity in those two hours.”

Ofgem said market-making was working for the intended target, namely the small supplier base.

“Small suppliers say they have found it easier to access products since our rules were introduced,” a spokesman for Ofgem said. “This was one of the main aims of the reforms.”

He said Ofgem had noted a decrease in liquidity since April, which is likely due to benign market conditions.

While Ofgem says it will continue to monitor liquidity, tweaks to market-making requirements do not seem imminent.

“We took a proportionate approach by bringing in market making windows,” the spokesman said. “They ensure that parties are able to trade a range of products at set times during the day.”
**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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