September 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: 1.358 pence/kWh......................................................................................4
UK Electricity Market Average Buy Price: £41.01/MW.....................................................................................5
Coal Buy Price: £27.34/tonne ............................................................................................................................6
Carbon Buy Price: €8.11/tonne...........................................................................................................................7
News ..................................................................................................................................................................7
Jeremy Corbyn pledges to nationalise the Big Six ...........................................................................................7
Government faces criticism over fast track fracking plans .............................................................................7
Macro Economics

<table>
<thead>
<tr>
<th>GBP</th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>EUR</td>
<td>1.3454</td>
<td>1.27%</td>
</tr>
<tr>
<td>USD</td>
<td>1.5348</td>
<td>0.51%</td>
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United States Dollar

Equity markets recovered a bit this month and with the slight improvement in risk appetite cable pushed briefly back through 1.52. It failed to hold though and opened towards the lower end of its recent range at 1.5145. In terms of data or market moving events, there wasn’t much this month. Carney spoke but steered clear of immediate policy direction. UK Final GDP and Current Account is due next month which might have an impact before US ADP Non-Farm Employment Change is released. There may also be an effect on GBP/USD from month end flows.

Blizzard anticipates a range of 1.5080 to 1.5245

Euro

With a recovery in equity prices during the early European session the euro fell out of favour and dropped to 1.1190 vs. the USD. Weaker than expected German CPI data also contributed to the sell-off with Prelim CPI m/m coming in at -0.2% vs. expectations for -0.1%. There was good support down around 1.12 though and by month end the pair had recovered to hit an intra-day high of 1.1270. It’s back lower, however, after the release of weaker than expected German Retail Sales. GBP/EUR remains lowly and opens this morning at 1.3490...

Blizzard anticipates a range of 1.3445 to 1.3580
Oil Market: Brent $47.52/bbl, WTI $42.56/bbl

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<table>
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<tr>
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<tbody>
<tr>
<td>Brent ICE</td>
<td>47.52</td>
<td>↓</td>
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<tr>
<td>Gasoil ICE</td>
<td>459.25</td>
<td>↑</td>
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<tr>
<td>Fuel 1% Fob</td>
<td>459.25</td>
<td>↑</td>
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Close to close at $48.37/bbl for Brent ICE (This morning at $49.23/bbl)

Why?
Oil prices posted tiny gains but markets remain wishy-washy with no trend and no momentum. Nonetheless, the environment is turning slightly bullish with declining US production, Russian air strikes in Syria and the first hurricane in USA but that was not enough to give a real boost to prices. Brent prices hesitated after the EIA report that included both some bearish (stocks) and some bullish (production) elements but they finally choose to rise with limited amplitude. Brent and WTI finally ended the session with stable prices at $48.4/b and $45.1/b respectively.

Main events:
The EIA report was in line with API forecasts, showing significant jumps for crude and gasoline stocks. Crude stocks rose +4 Mb last week almost its average level since June, with opposite moves in Cushing (-1.1 Mb, surprisingly) and PADD3 (+5.15 Mb). Products inventories remain stable as gasoline jump (+3.3 Mb due to a demand drop) was offset by other products stocks decline. The production posted a -40 kbd loss, taking US output down to 9.1 Mbd, a lowest since December last year. The declining trend for US output has resumed and forecasts for end of Q4 could drop down to 8.8-8.9 Mbd at the end of this year, meaning a -0.8 Mbd compared to the highest touched during last summer.

About US, hurricane Joaquin strengthened in the Atlantic and could become a major storm, according to the U.S. National Hurricane Centre. Nevertheless, forecast models did not agree on whether it would make landfall in the United States. The hurricane is about 80 miles east-northeast of the central...
Bahamas and continues to strengthen, it has recently intensified into a category 3, but it does not threaten the Gulf of Mexico so far.

Another bullish factor was the announcement of air strikes in Syria by Russian jets with fears that unintentional clashes could happen with US air force as they are both carrying bombing campaigns in the same area with no coordination.

But pessimistic figures keep on coming from Asia, fueling concerns over demand strength for coming months: activity in the Chinese manufacturing sector contracted for a second straight month in September and Japanese manufacturers' confidence worsened in the three months to September. Weak data from Indonesia and Malaysia also implied a worsening economic outlook for Southeast Asia yesterday… The Asian physical benchmark, the barrel of Dubai crude, even touched a 6-year low for a monthly average in September at $45.375/b.

**Outlook:**
The main driver will be the American ISM manufacturing and it could be disappointing. We have downward expectations for Brent today with a first support at $48.2/b as we believe volatility will remain low.

**European Gas Market NBP Price:** 1.358 pence/kWh

<table>
<thead>
<tr>
<th>Day Ahead (p/therm)</th>
<th>39.80</th>
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<tr>
<td>November 2015 (p/therm)</td>
<td>41.45</td>
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<tr>
<td>Winter 2015 (p/therm)</td>
<td>42.51</td>
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**Why?**
A drop in gas demand and a stronger pound against the euro weighed on NBP prices. British gas demand fell by 10 mm cm due to lower consumption in both residential and power generation sectors and lower exports through the IUK pipeline. As supply remained rather stable, this led to an oversupplied UK system and exerted bearish pressure on NBP prompt prices. NBP ICE November 2015 prices, the new front-month contract, lost 0.26 p/therm. at the close (-0.62%), to 41.7 p/therm.
Main Events:-
European spot prices also ended the 2014-2015 gas year on a bearish note. An increase in Dutch production nominations and slightly higher Norwegian imports at the Dutch/German border weighed on TTF prompt prices. TTF ICE November 2015 prices were assessed 10 euro cents lower at the close (-0.5%), to €18.667/MWh. The trend remained bearish for TTF ICE Cal 2016 prices on the back of weak prompt contracts: they lost 6 euro cents at the close (-0.33%), to a new record low at €18.62/MWh. Small gains were recorded further out on the curve due to firm Brent prices and a drop in the euro against the pound.

Outlook:-
Today is the first day of the gas year 2015-2016, which triggered some changes in fundamentals this morning. In the UK, nominations for storage injections jumped with the return of injections at Rough, leading to an undersupplied UK this morning. However, Langeled flows and LNG send outs are higher compared to yesterday and nominations for IUK exports dropped by 10 mm cm/day, which overall could weigh on NBP prompt prices today. Nominations for Russian gas imports at the Ukraine/Slovakia border dropped by 15 mm cm/day compared to yesterday but in the meantime, nominations for reverse flows to Ukraine from Slovakia dropped by 22 mm cm/day, which is a rather bearish signal for continental spot prices on the back of a gradual increase in temperatures over the next few days. Curve contracts could follow the bearish trend at the front today as no significant move is expected in oil prices.

UK Electricity Market Average Buy Price: £41.01/MW

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<tr>
<td>Day Ahead (p/kWh)</td>
<td>4.101</td>
</tr>
<tr>
<td>October 15 (p/kWh)</td>
<td>4.065</td>
</tr>
<tr>
<td>Q4 2015 (p/kWh)</td>
<td>4.205</td>
</tr>
<tr>
<td>Winter 2015 (p/kWh)</td>
<td>4.275</td>
</tr>
<tr>
<td>Summer 2016 (p/kWh)</td>
<td>4.020</td>
</tr>
<tr>
<td>Winter 2016 (p/kWh)</td>
<td>4.435</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>3.970</td>
</tr>
<tr>
<td>Winter 2017 (p/kWh)</td>
<td>4.420</td>
</tr>
</tbody>
</table>
Close to close at £41.01/MWh for CAL 16

Why?
Outages at the Fiddler’s Ferry-1 and C-3 coal plants have combined with lower wind production to squeeze the level of available supply and lift prompt products above their close points. A resurgent GB pound has undermined products on the near curve, as it has reduced buying interest from traders with euros. Added bearish pressure has been exerted by equivalent gas contracts, yet in spite of this prices at the front of curve have failed to soften considerably as a result of positive signals from the prompt mitigating some bearish influence. Products at the end of the curve have followed this negative trend, regardless of a bullish wider fuels market assessment.

Main Events:
A fall in US oil stockpiles and production, as well as the US Energy Information Administration announcing it believes that global oil demand will increase at its fastest rate in six years during 2016, has buoyed the benchmark Brent Crude contract above $52/bbl. Strength from Brent has lifted the coal benchmark into positive day-on-day territory, whilst carbon is currently flat to its last.

Outlook:-
Demand is forecast to climb down a touch; however this has been unable to noticeably weaken the bulls grip on the prompt thus far.

Coal Buy Price: £27.34/tonne
Carbon Buy Price: €8.11/tonne

News

**Jeremy Corbyn pledges to nationalise the Big Six**

Jeremy Corbyn has pledged to start buying up shares from the ‘Big Six’ energy companies until the government owned a controlling stake. By doing this, he aims to nationalise not only the big six but also the National Grid.

Speaking with Greenpeace on the matter Corbyn said: “I would want the public ownership of the gas and the National Grid, I would personally wish that the big six were under public control, or public ownership in some form.”

He is confident this can be achieved “through majority shareholding; you can do it by increased share sales, which are then bought by the Government in order to give them a controlling interest. Does it cost? Yes. Is there a return? Yes.”

**Government faces criticism over fast track fracking plans**

After the plans for fracking in Lancashire were rejected, the Government now plans to write to local authorities to tell them to fast-track fracking applications. What’s more, if the council doesn’t fast track quick enough, the power may be taken out of their hands and ministers will be able to “step in… if planners are perceived to be obstructive.”
Amber Rudd spoke over the weekend saying that the government would write to planning authorities to clarify that it no longer wanted development bids to be “dragged out for months, or even years”.

Green MEP Keith Taylor said: “The government’s plans to fast-track fracking is shocking but not surprising as we all know the Tories are in bed with the fracking industry. Going all out for fracking is short-sighted and is a big distraction from the new era of clean renewable energy that scientists are urging us to move into.”

Rudd said the UK needed to pursue shale energy to “help ease the transition to renewable energy and ensure energy security”, adding “local communities would benefit from a deal that will see operators pay councils £100,000 for each wellsite plus one per cent of production revenue, equivalent to £5m to £10m a year”. Councils will also keep all revenue raised from business rates.

Yet in the case of Cuadrilla vs Lancashire, it was actually Cuadrilla themselves that prolonged the decision by amending the application and changing information countless times throughout autumn and winter of last year. In January of 2015 the recommendation of Lancashire County Council was for refusal, upon learning this Cuadrilla pushed that the decision was deferred until June 2015 in order to provide new information on new noise and highways mitigation measures.

Environmental campaigners continue to oppose a practice they say can damage water supplies and harm wildlife. Greenpeace’s Daisy Sands says: "The same government that has just given more powers to local councils to oppose wind farms, the cheapest source of clean energy, is about to strip them of their right to say no to risky and polluting fracking."

The public's support for fracking is also at an all-time low with only 1 in 5 people supporting shale gas exploration and 1 in 3 supporting nuclear. Around 95 firms have already applied for nearly 300 licenses.
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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