

February 2016 - Market Summary

Review of Market Trends

Report No. 02

Martin Rawlings

3/1/2016

Contents

Macro Economics.....	2
Oil Market: Brent \$34.46/bbl, WTI \$31.62/bbl.....	3
European Gas Market NBP Price: 1.035 pence/kWh.....	4
UK Electricity Market Average Buy Price: £33.95/MW.....	5
Coal Buy Price: £30.96/tonne	6
Carbon Buy Price: €4.90/tonne.....	7
News	7



Macro Economics

GBP	Closing Rate	% Change	
EUR	1.3975	3.11%	↓
USD	1.2843	3.17%	↓

United States Dollar



Dollar

A surprise increase in preliminary US GDP for the fourth quarter sent the dollar higher. During morning trading Sterling had been making a small recovery, moving above the 1.40 level and hitting an intraday high of 1.4039, however, an increase in annualised US GDP to 1% for Q4 saw GBP/USD fall over 1.7 cents to 1.3862. The annualised GDP numbers posted 0.6% higher than expected and while it was only for the end of last year, showed the US is in a good position to weather some of the headwinds from the continuing economic storm. The true test will be next set of GDP figures for the first quarter of this year, due at the end of April and will show the effect of the Fed’s December rate hike. In terms of data this week, the main headlines come from US ISM manufacturing PMI and US Non-farm payrolls plus UK consumer inflation expectations. Month end is relatively quiet with UK Consumer Credit and Mortgage Approvals all expected to increase from the previous month and US Pending home sales for January and Chicago Purchasing Managers Index for Feb. The Market opens the new month at 1.3870.

Blizzard anticipates a range of 1.3825 to 1.3920

Euro

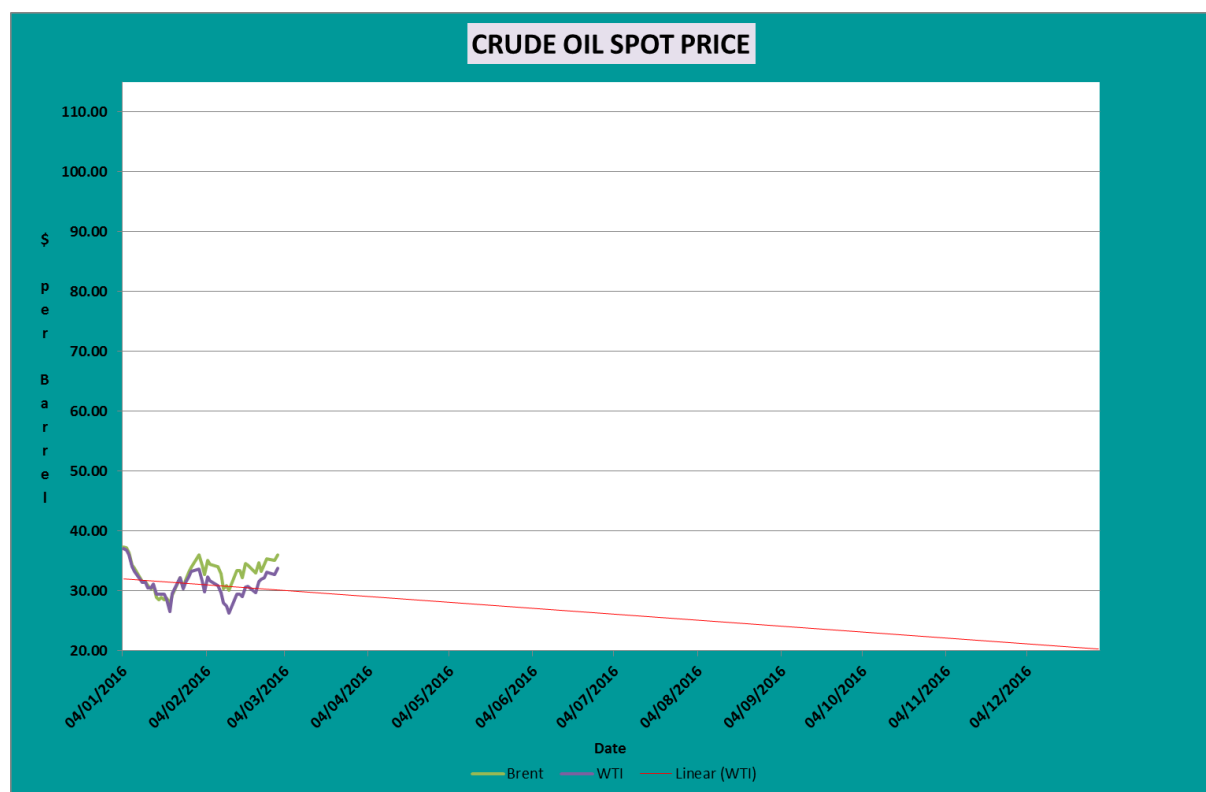
GBP/EUR had a relatively calmer month but still managed to trade a 1 cent range throughout. Pulling back from a low of 1.2631, Sterling Euro climbed to a peak of 1.2734 as a set of economic confidence indicators, including Industrial / Consumer confidence and Economic sentiment, from Europe posted below par readings. Unsurprisingly February’s German Consumer price index printed 0.1% below expectations for both the Yearly and Monthly figures and GBP/EUR seemed to be holding above 1.27 following the news. Unfortunately, Sterling’s gains were traded away throughout the rest of the day

and the pair dropped back below 1.27 but held close to this level. Looking ahead sees the Eurozone post their February CPI numbers while the end of the month has the Bank of England releasing its consumer inflation expectations. In between we have Manufacturing PMI for both the UK and Europe along with Eurozone Producer price index for January. We open today with GBP/EUR at 1.2710. EUR/USD fell heavily throughout as the better than expected US preliminary GDP numbers and poor Eurozone data saw the dollar stronger and the Euro weaker across the board. As mentioned above US GDP printed 0.6% higher than expected for Q4 while German CPI posted slightly lower by 0.1%. This sent Euro dollar down over a cent from 1.1025 to 1.0920. With continuing low oil and commodity prices it is unlikely that the Eurozone CPI will provide the Euro with any respite and if Non-Farm payrolls continue their improving trend we could see EUR/USD make a run towards 1.08. We open today with EUR/USD at 1.0915.

Blizzard anticipates a range of 1.2665 to 1.2760

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

Brent ICE (USD/b)	35.12	↑
Gasoil ICE (USD/t)	314.00	↑
Fuel 1% Fob cg (USD/t)	140.84	↑



Close to close at \$35.10bbl for Brent ICE (This morning at \$ 35.12/bbl)

Why?

Crude markets ended the month steady and higher than expected with Brent trading above \$35.2/b after a peak at \$37/b, a level last seen in the very first days of 2016. The +15% weekly gain was the combination of good EIA data midweek (especially US output strong decline), negotiations between OPEC & Qatar and bullish bets from financial speculators: this set of data brought visions of a brighter future to the market for the first time in 20 months and operators were quick to hope the market was finally bottoming out, showing first signs of shifting sentiment... But for how long?



Main events:

Negotiations are ongoing among OPEC members about the “freeze deal” that could be concluded as soon as tomorrow (according to Russia). Nigerian President Buhari said that the OPEC cartel needs to take action to stabilise the oil market because crude prices have fallen to "totally unacceptable" levels. Any news of progression about the deal will make the headlines and drive the prices but there are still many uncertainties about what is going to happen in the case.

Ecuador's President Rafael Correa also said Latin America's oil exporters, including Venezuela, Colombia, Ecuador and Mexico, are discussing the possibility of pushing for higher oil prices ahead of a meeting of OPEC and non-OPEC producers in March.

The CTFC report showed financial speculators have sharply raised their bullish bets on oil last week with non-commercial actors' position on NYMEX back around 300 Mb, a highest since Mid-October. US shale producers cut oil rigs for a 10th week in a row to the lowest levels since December 2009, data showed on Friday (BH rig count), which analysts expect will lead to a production fall of -600 kbd this year.

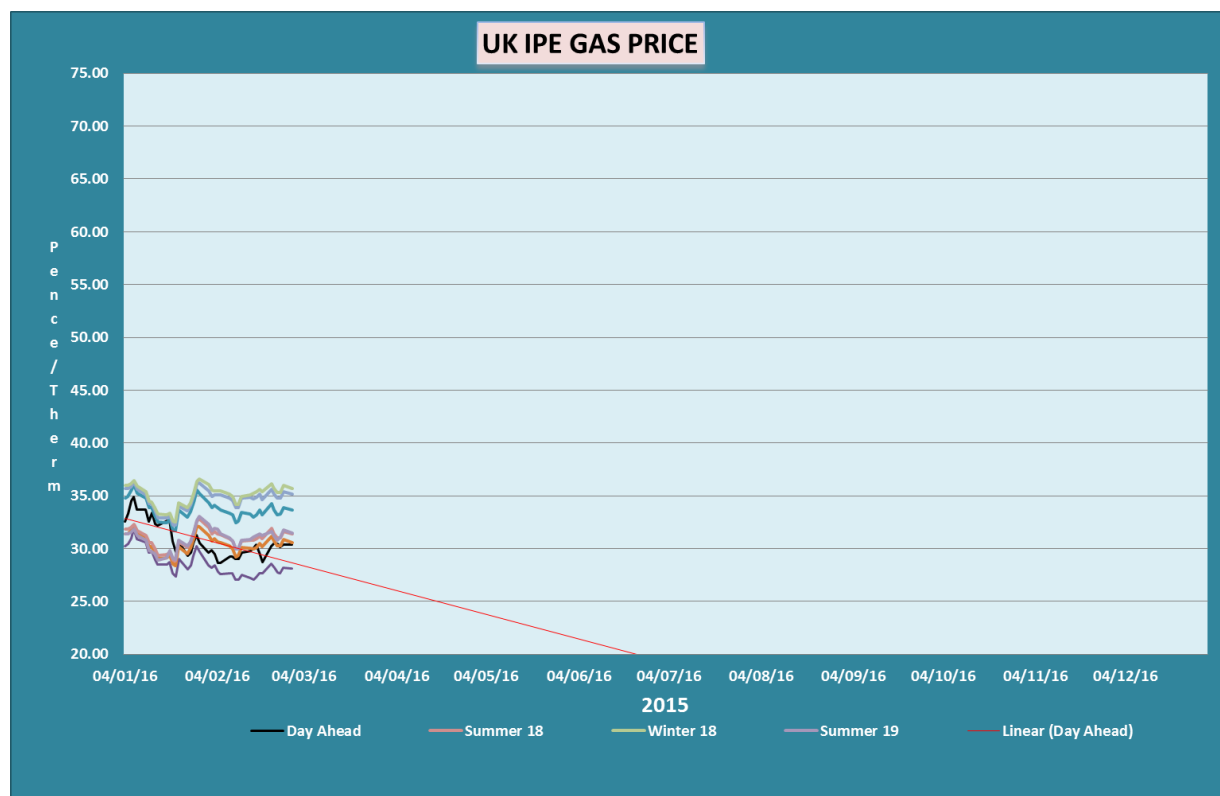
In Iran, Friday's vote ended more than a decade of conservative domination of the legislature and the Assembly of Experts: the reformist candidates gained the election and it open the way for changes to economic policy that will boost foreign investment and trade with the West, in line with current Rohani's politics.

Outlook:

We expect to see prices correcting in the wake of financial markets negative sentiment and the strengthening dollar could continue to weigh on prices. The first support could be \$34.7/b. Note that the Brent contract for April delivery is expiring today.

European Gas Market NBP Price: 1.035 pence/kWh

Day Ahead (p/therm)	30.35	↓
March 2016 (p/therm)	29.96	↓
Summer 2016 (p/therm)	28.21	↓





Close to close at 13.82EUR /MWh for TTF CAL 17 (This morning at 13.85EUR /MWh)

Why?

European gas prices ended the month on a bullish note, supported by a rally in oil prices. Gains on the prompt were limited by lower demand forecasts for the coming days and comfortable supply.

Main Event

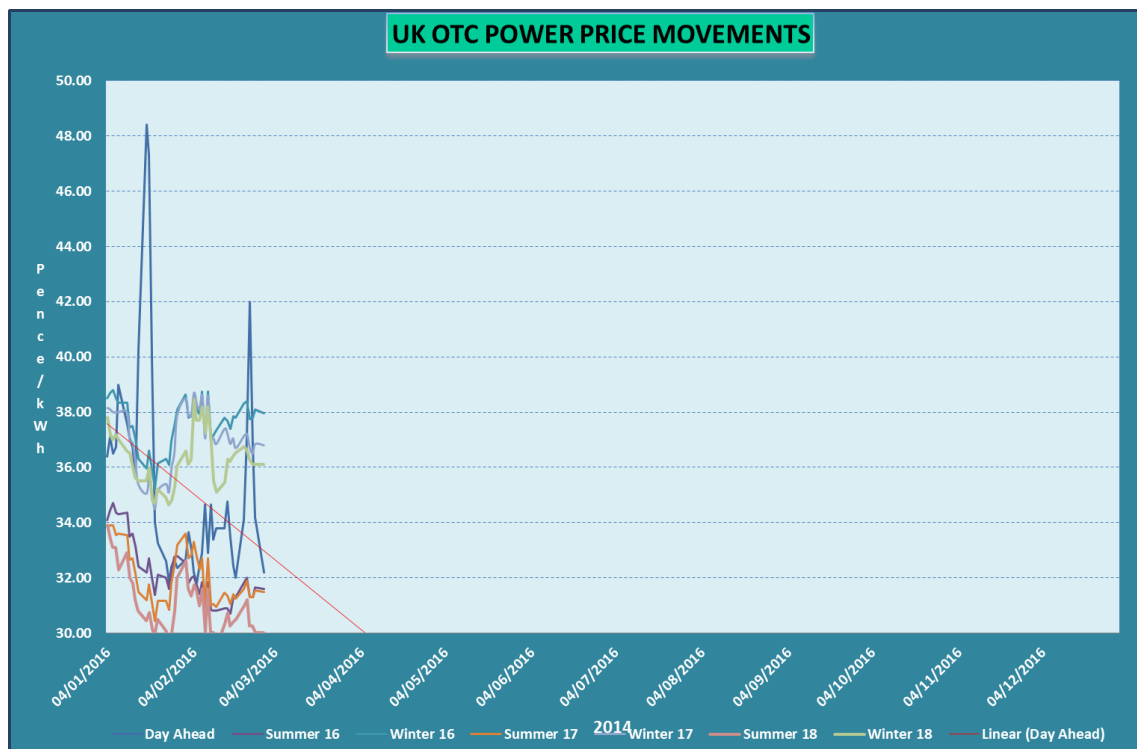
Front-month future contracts expired on Friday which gave a boost to liquidity and provided additional support to the near-curve. NBP ICE March 2016 prices gained 0.62 p/therm. at the close (+2.12%), expiring at 29.85 p/th. TTF ICE March 2016 prices were also higher at the close: +26 euro cents (+2.18%), to €12.164/MWh. Further out on the curve, TTF ICE Cal 2017 prices were assessed 29 euro cents higher at the close (+2.17%), to €13.821/MWh.

Outlook

Despite a 12 mm cm drop in consumption compared to Friday and a further fall in demand expected tomorrow, the UK system is short this morning due to a drop in LNG send outs and Langeded flows, which could leave NBP spot prices little changed today. Despite an increase in temperatures expected in the very-short term, cold weather is due to prevail in early March with temperatures 1-2°C below seasonal norms across Europe this weekend and at the beginning of next week. Nevertheless, this is unlikely to trigger a significant increase in gas demand compared to last week while storage levels remain at a very high level on the continent. All in all, we favour a stable to slightly bearish outlook for spot and near-curve prices this week. Finally, Brent prices could weaken today after Friday’s rally (see Eco & Oil Price Analysis for further details), which could exert some downward pressure on the curve.

UK Electricity Market Average Buy Price: £33.95/MW

Day Ahead (p/kWh)	3.220	↓
March 16 (p/kWh)	3.260	→
Q2 2016 (p/kWh)	3.180	→
Summer 2016 (p/kWh)	3.160	↑
Winter 2016 (p/kWh)	3.795	↑





Close to close at EUR 21.60MWh for German power CAL 17 (This morning at EUR 21.55/MWh)

Why?

The prompt has shifted to a spectrum of increased bullish pressure recently. Spot prices should be slightly supported on the back of colder weather. From the end of this week, seasonal average temperatures and satisfactory wind output could dampen the level of prices again, but this will be short-lived. From next week, the upward pressure on prices could resume as temperatures should be back to below average levels. Consequently, week- and month-ahead contracts are up.

Main Event.

On the far curve, we still do not see a strong bullish potential in sight. On the CO2 side, the EUA Dec16 contract is currently being traded at €4.94/ton. The 20-day moving average of €5.14/ton is likely a strong resistance level and the amount of free allowances received by industrials over the course of February should also limit the upside potential. Carbon could therefore be range-bound this week, between €5.14 and 4.62/ton. API2 year-ahead coal prices have pared some of their gains by the end of last week: at this stage, prices could remain sustained due to higher oil and a possible strike action in Colombia at Cerrejon coal mines.

Outlook

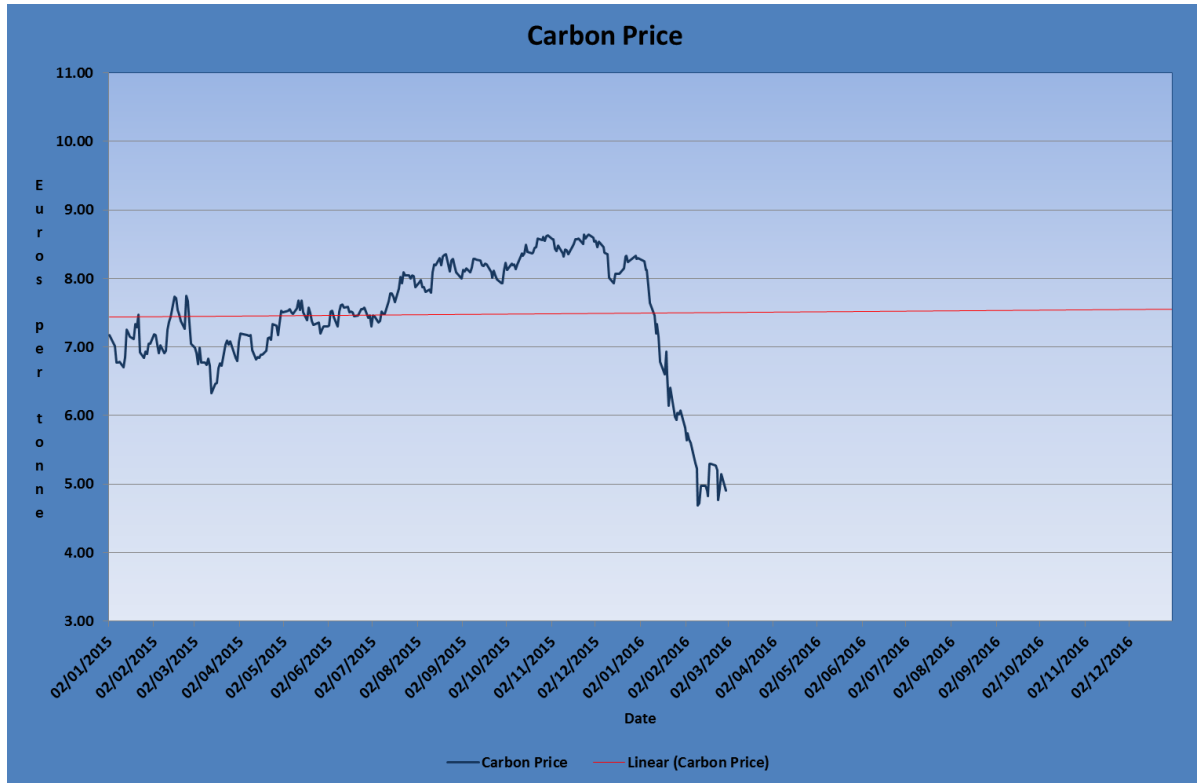
Finally, in terms of margins, we have a stable clean dark spreads. CDS could stop dropping: a more supportive prompt could filter to the far curve. All in all, power prices could therefore be stable in March. The year-ahead baseload support is at €21.3, then 20.65/MWh. Resistances stand at €21.90, then 22.45/MWh.

Coal Buy Price: £30.96/tonne





Carbon Buy Price: €4.90/tonne



News

Power Market Outlook for 2016

The UK power market will look for signs of detachment from the country's NBP natural gas market. Coal-to-gas switching has occurred more frequently in the last 12 months as plummeting gas prices have made some of the UK's most efficient gas plant more profitable than coal. More baseload gas-fired generation could shift the current dynamics of the market.

Increased quantities of renewable generation are expected to enter the system this year, with 1.2GW of onshore wind set to be installed, according to latest RenewableUK figures. This could depress the prompt and forward market further. The market will also track increases in solar installed capacity closely, with mid-afternoon summer generation potentially denting peakload deliveries more than last summer.

An even tighter system could emerge by the middle of winter 2016, advanced data from National Grid shows. Peak half-hourly demand during weeks 49, 50, and 51 could be enough to push the system margins into deficit, data from balancing company Elexon shows. However, much will depend on the weather as milder than normal temperatures this winter have suppressed demand and kept the market oversupplied.

Gas Market Outlook for 2016

The oversupply which pressured prices in Britain throughout 2015 looks set to continue as new LNG liquefaction capacity, most importantly in the US and Australia, comes on stream. The market expects a significant proportion of the new volumes to make their way to Europe as the global LNG market is already oversupplied and, Britain especially, has ample regasification capability.



The NBP's dominance as the largest traded market in Europe will continue to be challenged by the Dutch TTF. A significantly larger exchange market in Britain meant the NBP re-established a slender liquidity lead going in 2016. Liquidity growth is likely to remain centered around hedging of the new LNG volumes coming into Britain.

The wide-reaching review of tariff rules to be done by National Grid, together with shippers, in 2016 could go towards an overhaul of a tariff system thought to be outdated by many in the market. The British balancing market could also be set for some significant change if regulator Ofgem allows exchange PEGAS to also offer balancing services alongside ICE Endex.

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*

Disclaimer

This material is intended for information purposes only. It does not constitute an independent investment research, a personal recommendation or other general recommendation relating to transactions in financial instruments or an investment advice.

This material is intended for general distribution, it does not take into account any specific investment objectives, financial situation or particular needs of any recipient. It cannot be transmitted to any other person without the prior written consent of Blizzard Utilities Limited.

The information contained herein, including any expression of opinion, is not intended to constitute an offer or a solicitation to buy or sell any financial instruments, products or services, an investment research or an investment recommendation or other financial, investment, legal, tax or accounting advice or any other advice.

Further, all information contained herein has been obtained from and/or is based upon sources believed to be reliable is deemed to be clear, fair and not misleading but cannot be guaranteed as to accuracy or completeness. The views and opinions, forecasts, assumptions, estimates and target prices reflected in this material are as of the date indicated and are subject to change at any time without prior notice. The figures that may refer to past performance herein are in no instance an indication of future valuations or future performance. Blizzard Utilities Limited is under no obligation to disclose or to take account of this document when advising or dealing with or for its customers. Blizzard Utilities Limited nor any of its affiliates, directors, employees, agents or advisers nor any other person accept any liability to anyone for any direct, indirect, special, incidental, consequential, punitive or exemplary damages (including, but not limited to, lost profits) arising from the use and dissemination of this material or the information contained herein.

Blizzard Utilities Limited**Exchange House****1 Selden Hill****Hemel Hempstead****Hertfordshire****HP2 4TN**

Contact us:**T: 0845 873 7948****E: martin.rawlings@blizzardutilities.com**