May 2016 - Market Summary

Review of Market Trends

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Martin Rawlings
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Macroeconomics

<table>
<thead>
<tr>
<th>Currency</th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>GBP</td>
<td>1.2802</td>
<td>1.15%</td>
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<tr>
<td>EUR</td>
<td>1.4553</td>
<td>1.01%</td>
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United States Dollar:

With the spring bank holiday in the UK and Memorial Day in the US. There was little data to move GBP/USD and instead the pair spent the day rebounding following Fridays comments from Fed Chairman Janet Yellen. In a speech during US trading hours she gave a clear indication that a US rate rise was coming. Her actual words were "It's appropriate, and I've said this in the past, I think for the Fed to gradually and cautiously increase our overnight interest rate over time and probably in the coming months, such a move would be appropriate.” As such the end of the week saw Cable fall from an intraday high of 1.4678 to 1.4608 before rebounding yesterday to 1.4640. Today no data is due from the UK so investors will be looking towards any further Brexit opinion polls plus this afternoons Personal Income / Spending and Consumption figures from the US. Looking further into the week tomorrow sees the release of US ISM Manufacturing for May as well as their unemployment rate and Nonfarm payrolls on Friday. June opened with GBP/USD at 1.46.

Blizzard anticipate a range in the GBP/USD rate of 1.4560 to 1.4660

Euro:

Following Fed Chairman Yellen comments, as mentioned above, EUR/USD shaved nearly a cent from its high of 1.12 and continued to hold a fairly tight range throughout. Opening June at 1.1135 the Euro found some support following improvements to Services Sentiment, Business Climate and Economic sentiment indicators for May. German Preliminary CPI also came in on par with annualised figures at 0.1% and Month on month at 0.3%, thus helping euro dollar pull back to an intraday high of
1.1152. The European numbers also helped the single currency regain a little ground against sterling with GBP/EUR falling from 1.3164 to a low of 1.3103. The main news comes in the form of Aprils Unemployment rates and Preliminary Consumer price index from the Eurozone. Unemployment is expected to hold at 10.2% while both YoY and MoM CPI are predicted to improve by 0.1%. Later in the week we have the ECB interest rate decision and accompanying monetary policy statement, however, it is very unlikely this will throw up anything new. As such the main volatility drivers should be Wednesdays’ UK & European Market Manufacturing numbers, US ISM manufacturing and Fridays Nonfarm Payrolls. We open today with GBP/EUR at 1.3110 and EUR/USD at 1.1130.

I anticipate a range in the GBP/EUR rate of 1.3075 to 1.32

**Oil Market: Brent $49.48/bbl, WTI $48.89/bbl**

<table>
<thead>
<tr>
<th>Description</th>
<th>Price</th>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>49.48</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>448.50</td>
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<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>224.90</td>
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**CRUDE OIL SPOT PRICE**

Close to close at $49.76 bbl for Brent ICE (This morning at $ 49.48/bbl)

Brent prices moved back towards $50/b in a quiet session as US markets were closed for Memorial Day. The last Monday of May traditionally marks the start of the peak demand summer driving season, therefore supporting prices in US, but rising OPEC output combined with resumption of Canadian production made the fundamentals sound rather bearish. All in all, the move was slightly positive with Brent adding 44 cents close to close as it trades around $49.8/b.

**Main events:**

Ahead of the OPEC meeting scheduled in Vienna, all major producers from the Middle-East are raising their exports to gain market shares. Saudi Arabia, Kuwait, Iran, Iraq (Iraq will supply 5 million barrels of extra crude to its partners in June) and the United Arab Emirates are planning to raise supplies in the third quarter, putting at risk the long-time awaited re-balancing that appeared in May.
OPEC members are boosting production to benefit the recent rise in oil prices and also to defend their market share, in Asia especially, as Iran is very aggressive commercially since its come back in January.

The peak summer US driving season starts this week and it is expected to support prices in the US in the coming weeks. As a consequence, traders triggered a cut in the amount of open short crude positions on NYMEX and their level fell to its lowest this year last week.

**Outlook:**
Markets will first move with the economic agenda that is quite full before the opening in US. Market operators will look back to what happened over the last three days as the sentiment is rather bearish with rising output worldwide. We see more downward risks and Brent could return to the $49.5/b level ahead of the OPEC meeting.

**European Gas Market NBP Price:** 1.134 pence/kWh

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<tr>
<td>Day Ahead (p/therm)</td>
<td>33.25</td>
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<tr>
<td>July 2016 (p/therm)</td>
<td>31.85</td>
</tr>
<tr>
<td>Winter 2016 (p/therm)</td>
<td>37.20</td>
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European gas prices continued to increase, supported by the drop in Norwegian supply after the Kollsnes processing plant and the Troll field were brought offline for their annual maintenance. Additional bullish pressure came from the expected return of the Rough storage today, which should increase injection demand.

At the close, NBP ICE July 2016 prices increased by 1.27 p/therm (+4.09%), to 32.300 p/therm. TTF ICE July 2016 prices increased by 33 euro cents (+2.36%) at the close, to €14.238/MWh. On the far curve, TTF Cal 2017 prices were also higher: +25 euro cents (+1.62%) at the close, to €15.702/MWh.
Main Event:
The UK system remains undersupplied, as the loss in Norwegian supply is not compensated by the other supply components; the situation is almost the same in other European countries given the stability in Russian and Algerian flows. These tight balances could therefore continue to support spot and near curve prices today. However, as prices are trading at their technical highs, we continue to believe that a technical drop cannot be ruled out.

Outlook:
On the far curve, we favour a stable to slightly bearish outlook for cal 2017 prices as the impact of oil prices could be bearish.

UK Electricity Market Average Buy Price: £34.40/MW

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<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>3.535</td>
<td>↑</td>
</tr>
<tr>
<td>July 16 (p/kWh)</td>
<td>3.430</td>
<td>↑</td>
</tr>
<tr>
<td>Q3 2016 (p/kWh)</td>
<td>3.460</td>
<td>↑</td>
</tr>
<tr>
<td>Winter 2016 (p/kWh)</td>
<td>4.085</td>
<td>↑</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>3.500</td>
<td>↑</td>
</tr>
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Close to close 35.35 £/MWh CAL 17

Main Events:
The UK power Baseload Day-ahead contract closed the week down in negative territory, despite limited available nuclear capacity. This largely stemmed from early losses on the corresponding gas contract, as an increase in the use of the fuel was needed to compensate for the loss in nuclear capacity to meet demand. The momentum was further supported by falling consumption forecasts amid warmer temperatures for the week. Contrastingly, the Peakload contract closed the week in positive territory despite relatively high periods of solar generation; this was mainly due to really low wind output through the majority of the week.
On the front of the curve, products eventually stepped up in response to sharp gains on equivalent NBP gas contracts; however prices fell early in the week as result of strong gains in the value of the pound relative to the euro. The currency shift was brought about by ongoing tensions surrounding the Bank of England’s ability to cope with any potential fallout ahead of the Brexit referendum. The majority of gains across the curve were driven by a stronger wider fuels complex. Carbon and coal prices tracked positive signals on the crude oil market. The benchmark Brent contract managed to breach $50/bbl for the first time in seven months, following signs that the global glut is shrinking and further disruption in Nigeria, which grounded the Chevron facility; after starting on a weak note in reaction to a strong US dollar.

**Coal Buy Price: £29.91/tonne**
Carbon Buy Price: €6.10/tonne

News

Crude oil prices rallied for a third consecutive day on Monday, spurred by attacks on Nigeria’s oil industry and new draws in U.S. crude inventories. July West Texas Intermediate crude boosted $1.07, or 2.2%, to settle at $49.69 a barrel on the New York Mercantile Exchange, the highest level since July 21 of last year. August Brent crude climbed 91 cents, or 1.8%, to settle at $50.55 a barrel on London’s ICE Futures exchange. During the session, it reached $50.83, its highest since November.

Meanwhile, European forward power prices prolonged their hike on Monday, with higher coal prices driving the benchmark German position up 3.8 percent to a fresh 2016 high. Benchmark German Cal '17 baseload power increased at 27.70 euros ($31.44) a megawatt hour (MWh), up 3.8 percent from the previous settlement. The equivalent French position increased at 1.7 percent at 32.55 euros/MWh. European coal prices for 2017 delivery advanced 3.5 percent at $54.6 a tonne. EU carbon allowances increased 4.7 percent to 6.23 euros a tonne. Spot power jumped on weaker wind supply and modest solar output, while a bounce in thermal availability compensated some of the increases. German and French prices were at par. German baseload power for Tuesday delivery progressed 1.05 euros compared with the price paid for Monday to trade at 30.55 euros/MWh. The equivalent French contract climbed by 75 cents to 30.5 euros/MWh. British prompt gas prices rebounded on Monday as maintenance at the country's gas pipeline system slashed supply. Gas for day-ahead delivery stood at 35.35 pence per therm at 08:33 GMT, up 0.65 pence from their previous settlement. Further along the curve, gas prices also jumped. The July contract edged 0.75 pence higher to 33.55 pence per therm, while the winter ’16 gas contract rose by 0.75 pence to 39.10 pence per therm.
The costs of offshore wind development might be decreased to under €80/MWh (£61.6/MWh) by 2025.

That’s the claim of a joint declaration inked by 11 energy firms. Their estimate comprises the cost of linking the projects to the grid. The companies: Adwen, EDPR, Eneco, E.ON, GE, Iberdrola, MHI Vestas, RWE, Siemens, Statoil and Vattenfall, said the sector will be completely competitive within a decade. The sector is on course to attain its cost reduction goals and will be a vital technology in Europe’s energy safety and decarbonisation targets, according to them. The companies insist the price reduction objective is only possible with a stable, long-term market for green energy in Europe and they request EU policymakers to work together to establish comprehensible laws to offer investors’ confidence in spending in offshore wind projects.
Note:

Due to the non-availability of daily price data for baseload power and carbon there are currently a blank on the graphs. We hope to rectify this problem as soon as possible. In the meantime please accept our apology for any inconvenience this may cause.

Terminology

- All oil prices: in US dollar
- Oil product: Brent crude or West Texas Intermediate (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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Blizzard Utilities Limited
Exchange House
1 Selden Hill
Hemel Hempstead
Hertfordshire
HP2 4TN

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