Market Intelligence

April/May 2019

We take a look back at the energy price trends
and triggers over the months of April and May.

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GAS REVIEW

Gas News

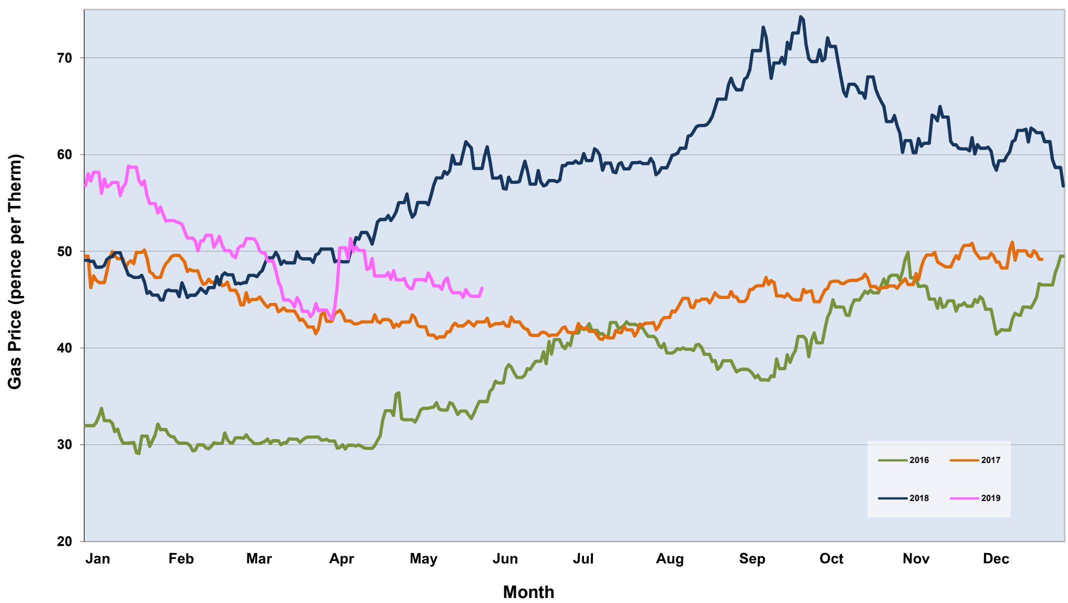
Leak causes price surge

April saw a slight dip in gas prices at the start of the month which was quickly followed by a 44% surge due to a leak at Norway's Aastsa Hansteen field. The consequent reduction in the amount of imports came about at the same time as the demand on power generators was ramped up as the wind strength decreased. The rise was also supported by exports through the IUK pipe, linking the UK and Belgium, remaining at a constantly high rate since the beginning of April. However, annual maintenance on the IUK pipeline is due take place earlier than usual this year and it is unclear as to what impact this is going to have on the market.

Norwegian outages at several gas facilities, coupled with the cold weather at the start of May, caused prices to rise. As the month progressed, LNG imports grew stronger, by a cargo delivery a day at one stage which, at the time, resulted in LNG accounting for a third of UK gas supply.

The Labour Party has indicated that they have plans to introduce the National Energy Agency to replace National Grid if it gets into office. The National Energy Agency prioritises climate change, fuel poverty and security of supply. The Conservatives and National Grid have both discredited the plans, claiming it would cause "enormous distraction, cost and complexity."

Historic NBP Gas Graph



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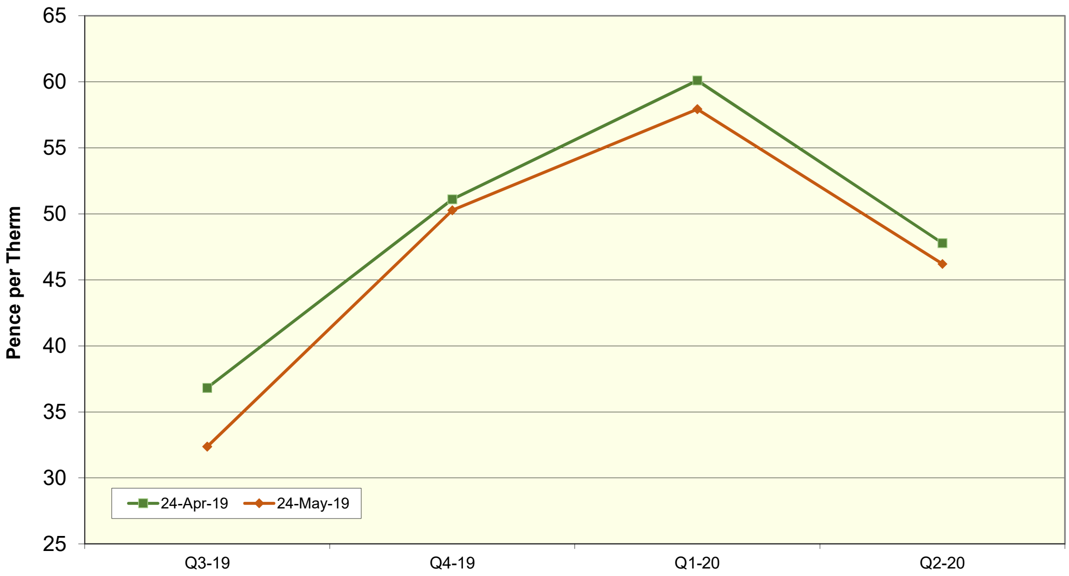
GAS REVIEW

NBP Gas Prices

	Trading date		
	24-Apr-19	**24-May-19**	**Increase**
Q3-19	36.83	32.38	-4.45
Q4-19	51.10	50.28	-0.83
Q1-20	60.10	57.93	-2.18
Q2-20	47.78	46.20	-1.58
Day-Ahead	31.05	29.28	-1.78
Gas Year 19	52.24	49.83	-2.41

Forward NBP Gas Curve



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ELECTRICITY REVIEW

Electricity News

11-year high

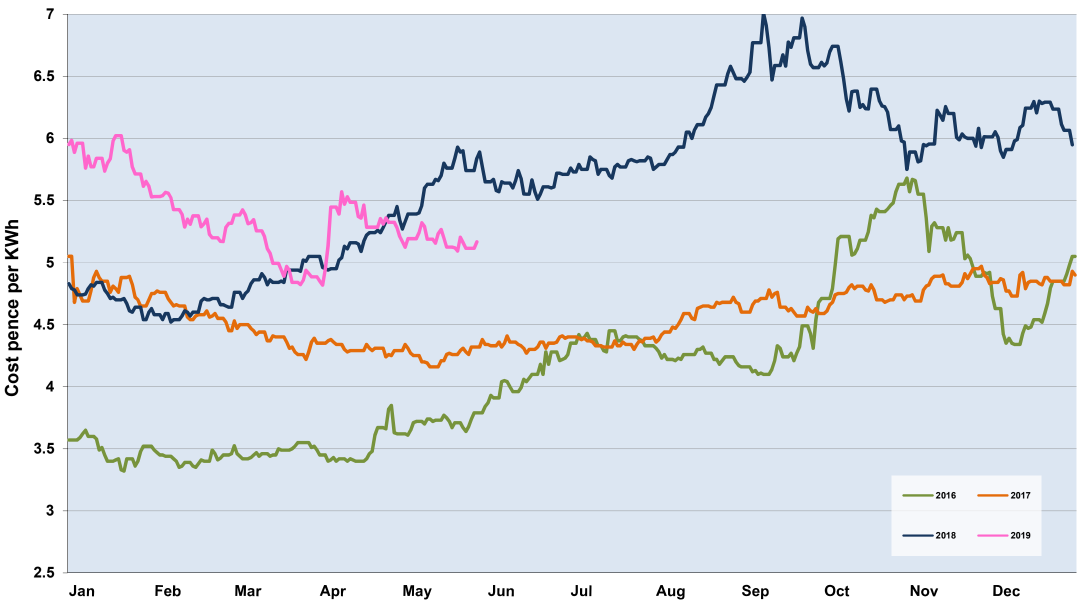
Early April saw UK power prices follow the same trend as the gas market in taking a steep rise. Factors contributing to the price increase included: high demand due to the extended cold and windless weather spell, unscheduled Norwegian outages and an upturn in the price of EUA's, which hit an 11-year high.

The Brexit delay has kept the UK in the European Emissions Trading Scheme for the short-term future at least, which means the probability of any "allowance dumping" has decreased. Despite this, the constant Brexit uncertainty will continue to distort EUA allowance prices in either direction, with the impact possibly leaking into the energy markets.

Throughout May, the UK power market has chopped and changed due to the impact of the fossil fuel markets, Natural Gas and Oil. The Norwegian gas outages and Middle East tensions surrounding oil have both had a strong impact on the power market.

Day-ahead prices increased at the start of May due to temperatures dropping by almost 5°C below seasonal norms, and this boosted demand and decreased solar output. Various weather models are predicting seasonal norm temperatures across the end of May/beginning of June in the UK which will attempt to hold prices steady.

Undelivered Wholesale Electricity Rates

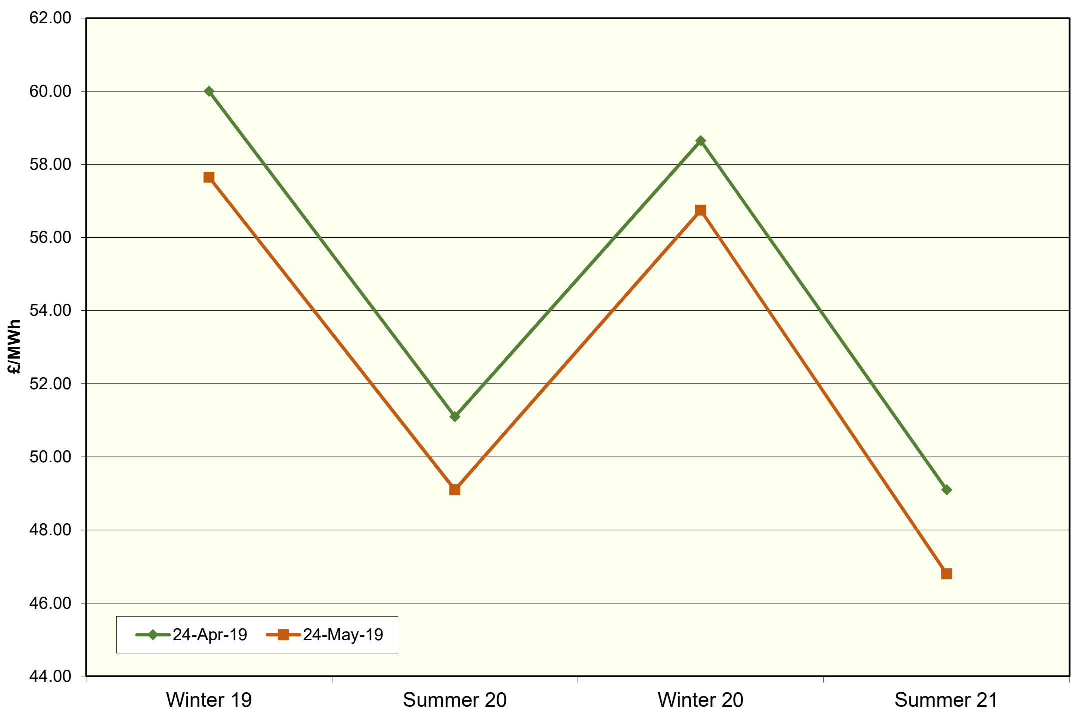


ELECTRICITY REVIEW

OTC Power Price Assessments £/MWh

	Trading date		
	24-Apr-19	**24-May-19**	**Increase**
Winter 19	60.00	57.65	-2.35
Summer 20	51.10	49.10	-2.00
Winter 20	58.65	56.75	-1.90
Summer 21	49.10	46.80	-2.30
Day-Ahead	41.20	40.15	-1.05

OTC Electricity Forward Price Curve



OIL REVIEW

Political tensions

At the beginning of April oil prices climbed to over $69/barrel – a four-and-a-half month high – with a drop in both OPEC production and US oil inventories. As the month progressed, prices jumped up to $72/barrel, as a result of inter-faction fighting in Libya which is impacting on oil output.

Reports that Russia is unwilling to extend the oil production cut deal it agreed with OPEC into the second half of this year means that oil prices could be set to come under intense pressure, with the knock-on effect that other energy markets will also start to feel the strain.

Oil prices continued to rise in May, hitting $75/barrel on the back of the US not renewing Iran oil sanction waivers, Russian exports decreasing due to contamination concerns and Venezuela's political uncertainty. Further reasoning behind the price rise came from growing tensions between Iran and other states, with Saudi Arabia fearing attacks on oil tankers and production facilities were carried by Iran-backed forces.

News of an international energy company wanting to search for oil and gas in a special area of conservation off the Welsh coast has triggered outrage among conservationists, who claim it would kill young mammals in an area that is home to the UK's biggest dolphin population.

LOOKING FORWARD

Starter for 10

While we now know for certain when Theresa May will be standing down from office, what affect her tearful announcement will mean to energy prices is very much unknown. The need to resolve the current farce that is Brexit will be top priority for the new PM. Energy markets will continue to remain highly susceptible to the perceived outcome, deal or no deal.

Failure to monitor market conditions properly forces one's hand when it comes to signing contract renewals. At Energy Management, we are extremely proactive in this regard and the high level of vigilance undertaken on behalf of our clients enables us to procure energy at exactly the right time.

It is also worth noting that energy contract renewals can be secured up to two years in advance, allowing a large window to make the most of market conditions.

Get in touch with the EM team on 01225 867722 or email sales@energymanagementltd.com to find out how we can aid your proactive procurement strategy.

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MARKET INFORMATION

Trade sanctions

While the general trend has been downward over the past eight weeks, the pronounced 'sawtooth' pattern exhibited has made any procurement decision a challenge. Electricity wholesale pricing has been especially challenging as each of these "teeth" has carried a noticeable amplitude. Markets have now returned to levels not seen since mid-March but, with so many mixed drivers, traders remain cautious with their predictions.

The long-term effects of the US's appetite for trade sanctions is a key factor that many market analysts are keeping a watchful eye on. The biggest, in terms of worldwide effect, involves China and the US with both sides now applying their own sanctions. This has put Brent Crude into a tailspin, taking many of the "big players'" stock markets with it.

The US has also upped the ante with Iran and Mexico, threatening both countries that they will simply not deal with countries who do not follow policies that the current US President deems beneficial to the US first and the rest of the world second. The same can be applied to Climate Change protocol, where the US has already made its current status clear and removed itself from the 2015 Paris Agreement, and subsequently increased its production and use of fossil fuels – a major contributor of "Greenhouse" gas emissions – in order to protect its economy.

> **"The long-term effects of the US's appetite for trade sanctions is a key factor that many market analysts are keeping a watchful eye on."**

Conversely, the UK climate change "stats" continue to improve with a record two weeks without coal-fired generation achieved. In addition, impressive renewable generation has occurred over the same period, 13% coming by way of wind, hydro and Solar PV.

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