month on month marketview

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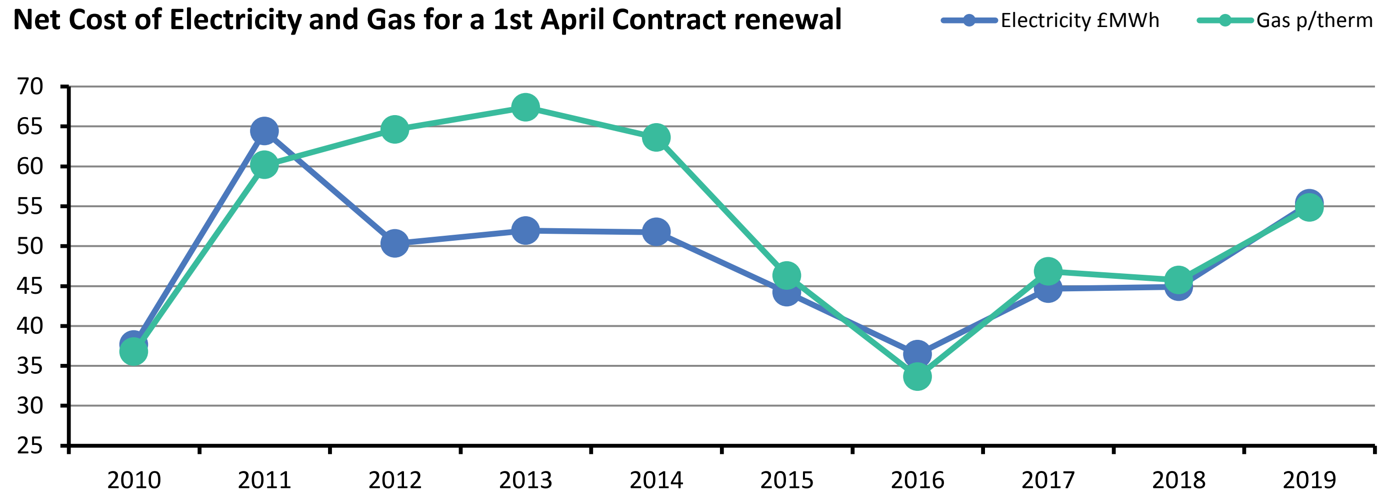
Review of January 2019

Net Cost of Electricity and Gas for a 1st April Contract renewal



Electricity: base load cost - excludes distribution, taxation and supplier margin and costs

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
41.15	37.63	64.40	48.07	51.73	44.64	35.23	50.78	48.02	58.74

Gas: core gas cost - excludes distribution, taxation and supplier margin and costs

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
43.84	36.75	60.17	61.72	66.86	47.61	31.49	49.11	48.30	57.32

▲: Indicates that there was an upward pressure on prices. ▼: Indicates that there was a downward pressure on prices.

January in summary

January has mainly been driven by the weather and system supply, with LNG helping to balance the demand.

Market volatility

Weather forecasts were the primary market diver for January.

Weather

January started off dry and settled with high pressure dominant, but it was a mainly cloudy high. The high moved further away into the second week giving generally mild and less settled weather, with plenty of cloud in western areas but some sunshine especially to the east of high ground. It was often colder in the second half of the month with frequent north-westerly winds, though with occasional milder interludes, notably on the 24th to 26th, and although the weather was more unsettled, rainfall amounts were often small. Frost and snow were quite widespread between the 17th and 23rd and more especially during the last few days of the month. It continued mostly cloudy in many western parts but with plentiful sunshine at times in the east and north of Britain.

Gas, Storage and LNG News ▼

Weather forecasts were the primary market driver, as suggested temperatures would be above seasonal normal for the rest of January and start of February, causing downside risk to be priced into the NBP prompt and near curve. The healthy gas system fed bearish sentiment into further-dated UK gas contracts. However the extended cold spell forecast in the UK from 17/01/2019 into February led to the bulls seizing control of the prompt and the front of the curve. Temperatures were expected to drop further below norms to a maximum deficit of 6°C under around the 27-28/01/2019. There was also no expected end to the cold spell by early February, which helped to lift the front. All this support found little resistance despite four LNG tankers set to arrive in the UK by the end of January, as well as high storage levels. Strength from the wider fuels market helped to ensure later-dated products rose above their close points as well. News that China was considering implementing stimulus measures to boost its economy firmed Brent, as this offset concerns over the US/China trade dispute. Risk continued to be priced out of the market last week, with improved renewable output and abundant supply offsetting rises in demand. Indeed, gas demand was 30-40% above average last as below seasonal normal temperatures gripped the UK. Yet healthy imports from Continental Europe, namely Norway, Belgium and the Netherlands, combined with strong domestic production to meet the increased gas-burn. This resulted in a long system at the start of each trading session.

Politics and global economics

The Chinese state planner announced that falling factory orders could lead to a further drop in economic activity in coming months, with further job losses. It follows the news announced that the world's second largest economy and largest oil importer had its lowest annual growth in almost 30 years. On Tuesday 29th January the US imposed sanctions on Venezuela's state-owned oil company PDVSA. US security adviser, John Bolton, stated $7bn of PDVSA assets would be blocked as a result of the sanctions while the company would also lose an estimated $11bn in export proceeds over the coming year. Such sanctions have been imposed in an attempt to inflict severe damage to the government of President Nicolás Maduro, with Venezuela relying on oil for 90% of its revenue. Opposition and National Assembly leader Juan Guaidó has declared himself the rightful head of state, a view supported by Washington. Global oil markets have risen on the back of the news, with output across the world threatened by the sanctions.

Oil ▲

Brent crude has gained significantly in 2019 so far, reaching $62/bbl. The front-month contract rose by 2.7% during trading amid renewed optimism over US-Chinese trade negotiations. The benchmark battled to positive ground after an early session shock from news that US gasoline stocks reached their highest level since 2016. However oil prices fell as news broke that China's exports and imports fell in December 2018. This led to concerns over global economic growth once again rearing their heads, as any reduction in growth from China will undermine fuel consumption. Brent crude lifted back above $60/bbl in response to news China may impose more stimulus measures for its economy, as well as a decline in US rig count. Furthermore the Energy Information Administration increased its oil consumption forecast for 2019 by 20,000 bbl/day. Oil prices are up roughly 4% week-on-week following a three-month collapse at the end of 2018. Renewed confidence in global economies, as well as suggestions that OPEC cuts, are beginning to limit supply has provided fresh buying interest into oil markets. Barclays cut its 2019 Brent price forecasts, attributing large US production to add supply to the market. The forecast sees such output as an offset to any short-term disruptions to Venezuelan supply due to possible US sanctions.

Coal ▼

EUAs traded higher as expected coal burn from increased power demand supported buying interest. However EU carbon prices settled slightly weaker despite a late surge as a looming hike in auction supply, Germany's coal phase-out decision, and Brexit concerns weighed on sentiment.

Carbon ▼

EUA prices jumped 25% in just 5 days in December as polluters aimed to buy their full quota of allowances to offset emissions before the Dec 2018 contract expired. Indeed, prices hit a 3 month high as the front-year contract ceased trading on Monday 17th December. The product expired in the final auction of the year and the last until 7th January – the first affected by the Market Stability Reserve. Bullishness was also seen on the Dec 2019 product, with the liquidity improving as it became the front product.

Looking Ahead

The view on generally healthy supply continues for February due to frequent LNG cargo arrivals. However risk of lower Norwegian flows to the UK on the planned maintenance, could be a bullish factor.

month on month weatherreview

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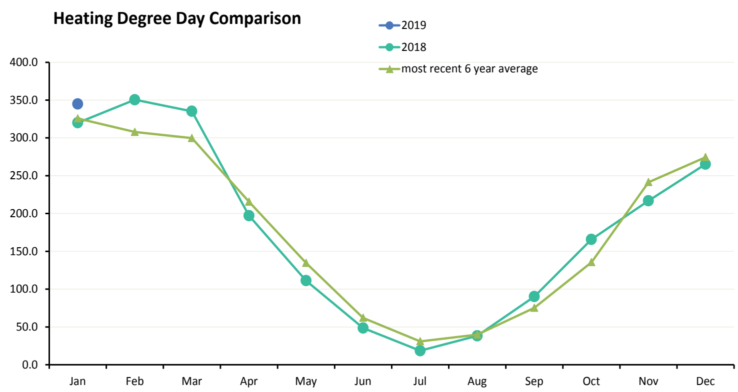
Degree days are a representation of the length of time and severity with which the outside temperature either drops below (heating days) or goes above (cooling days) 15.5°c, and therefore it is assumed that heating or cooling is required.



Heating 2017/18 and 2018/19: Summary

2018-19 Summary v 6 Year Average

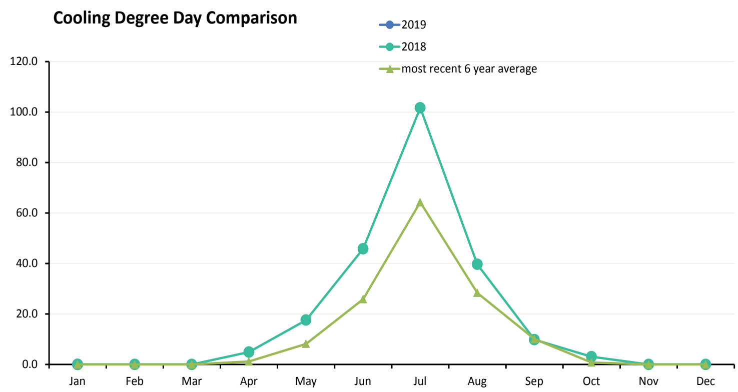
(* Positive numbers = warmer, negative = colder than 6 year average)

2018-19	Dec	Jan	Year total
DD	20.1	-19.9	**-19.1**
%	7%	-5.9%	**-0.9%**

2018 v 2017 and 2019 vs 2018 Summary

(* Positive numbers = warmer, negative = colder than 2016)

2018-19	Dec	Jan	Year total
DD	56.1	-24.8	**-24.8**
%	17.5%	-7.7%	**-1.1%**



Cooling 2017/18 and 2018/19: Summary

2018-19 Summary v 6 Year Average

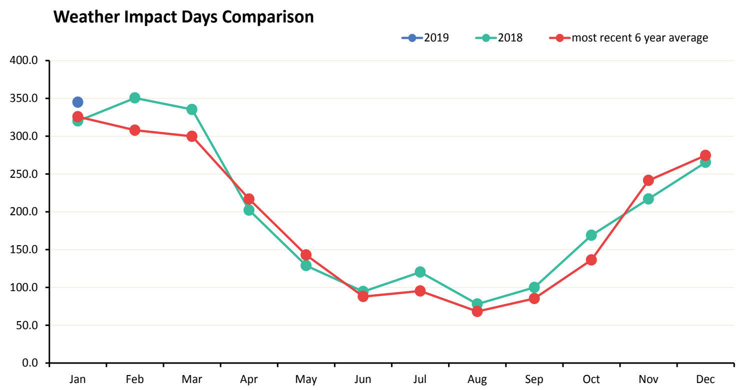
(* Positive numbers = warmer, negative = colder than 6 year average)

2018-19	Dec	Jan	Year total
DD	0	0	**0**
%	0%	0%	**0%**

2018 v 2017 and 2019 v 2018 Summary

(* Positive numbers = warmer, negative = colder than 2016)

2018-19	Dec	Jan	Year total
DD	0	0	**0**
%	0%	0%	**0%**



Weather impact days 2017/18 and 2018/19: Summary

2018/19 Summary v 6 Year Average

(* Positive numbers = warmer, negative = colder than 6 year average)

2018-19	Dec	Jan	Year total
DD	17.2	19.1	**19.1**
%	6.1%	5.9%	**0.8%**

2018 v 2017 and 2019 v 2018 Summary

(* Positive numbers = warmer, negative = colder than 2016)

2018-19	Dec	Jan	Year total
DD	56.1	24.8	**24.8**
%	17.5%	7.7%	**1.0%**

Met office UK summary

January started off dry and settled with high pressure dominant, but it was a mainly cloudy high. The high moved further away into the second week giving generally mild and less settled weather, with plenty of cloud in western areas but some sunshine especially to the east of high ground. It was often colder in the second half of the month with frequent north-westerly winds, though with occasional milder interludes, notably on the 24th to 26th, and although the weather was more unsettled, rainfall amounts were often small. Frost and snow were quite widespread between the 17th and 23rd and more especially during the last few days of the month. It continued mostly cloudy in many western parts but with plentiful sunshine at times in the east and north of Britain.

The provisional UK mean temperature was 3.7 °C. It was a dry month with 52% of average rainfall overall. Sunshine was 101% of average overall.

Utility impact summary

It has been a cold start to the year with temperatures causing you to have almost 25% more requirement for heating than last January. This means your bills may have seen a significant increase. The 6 year average follows this closely, showing almost a 20% increase in heating requirement.

It has been a dry sunny month however with the nights still long lighting levels may not have seen the impact of the increased sunshine so electricity bills are likely to have remained steady.

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