



MONTHLY MARKET UPDATE: JANUARY

OVERVIEW

- Gas and electricity prices for the remaining winter months have fallen significantly over the last month
- Prices for summer and beyond have also fallen but not to the same extent
- LNG shipments into Europe and the UK have remained at the high levels seen prior to Christmas and have been one of the main drivers in the falls in gas and electricity prices, along with relatively mild weather
- Oil prices have increased over the same period providing some support to gas prices

MONTHLY PRICE MOVES													
ELECTRICITY PRICES (BASELOAD) £/MWh						GAS PRICES p/therm							
	LAST NIGHT'S CLOSE	MONTHLY CHANGE	30 DAY MEAN	30 DAY HIGH	30 DAY LOW	Annual Change		LAST NIGHT'S CLOSE	MONTHLY CHANGE	30 DAY MEAN	30 DAY HIGH	30 DAY LOW	Annual Change
Feb-19	58.20	-8.03	63.77	68.45	58.20		Feb-19	55.20	-10.59	62.40	69.04	55.20	
Mar-19	55.43	-8.03	60.87	65.73	55.43		Mar-19	53.51	-10.91	60.71	66.96	53.51	
Apr-19	54.45	-6.80	58.91	62.30	54.45		Apr-19	51.71	-8.71	57.17	62.31	51.71	
Winter 19-20	60.38	-4.08	62.75	65.55	60.38	31.82%	Winter 19-20	60.62	-5.09	63.31	67.14	60.62	26.00%
Winter 20-21	56.50	-2.75	57.96	59.75	56.35	34.20%	Winter 20-21	57.52	-2.85	58.85	61.42	56.99	23.65%

	LAST NIGHT'S CLOSE	MONTHLY CHANGE	30 DAY MEAN	30 DAY HIGH	30 DAY LOW	Annual Change
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$59.93	\$3.67	\$58.17	\$62.74	\$50.47	-15.02%

LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

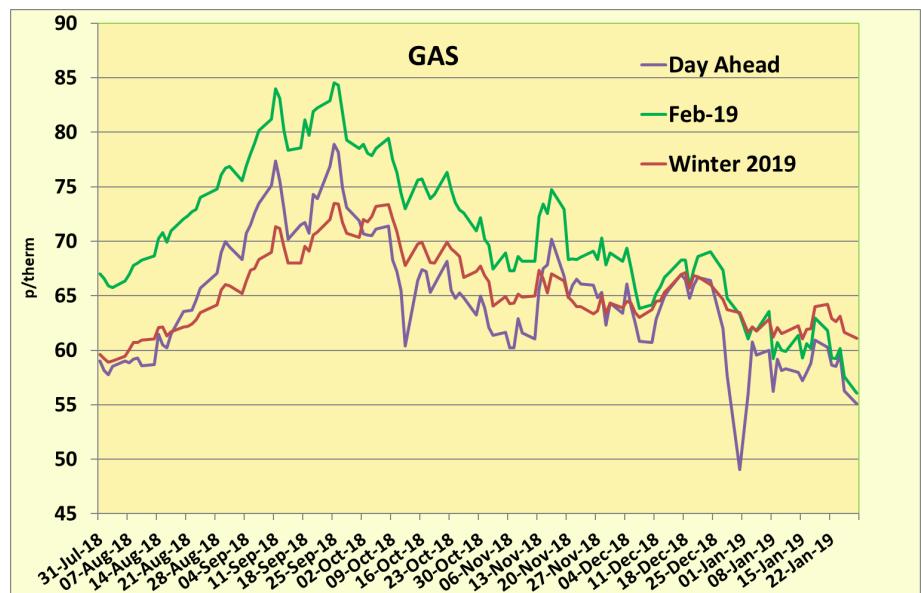
- Weather forecasts for the remainder of winter
- Day Ahead gas prices
- Brexit
- Gas storage levels
- The level of gas imports from Norway, Belgium and Holland
- LNG shipments into the UK
- Market sentiment
- Currency exchange rates
- Coal prices
- Oil prices
- European gas prices
- Domestic and global economic indicators
- Carbon Prices



IN DETAIL

Gas and electricity prices have lost value over the course of the last month, mainly as a result of gas and electricity supplies coping comfortably with winter demand, and partly as a result of concerns diminishing regarding the potential for severely cold weather before the end of winter.

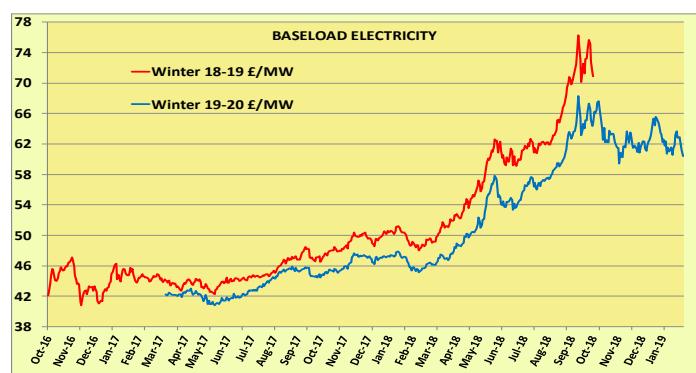
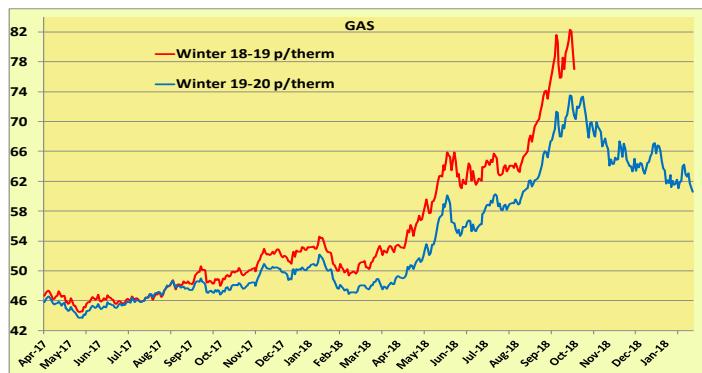
As can be seen from the graph on the right, these falls have been more pronounced on the shorter term contracts such as Day Ahead and February gas. Prices have remained volatile, however, and have reacted whenever weather forecasts have suggested the potential for colder weather. Gas prices for winter 19 and beyond have fallen to a lesser extent in the last month with the majority of those falls occurring between Christmas and the New Year since when we have seen prices relatively flat, although currently trending downwards.



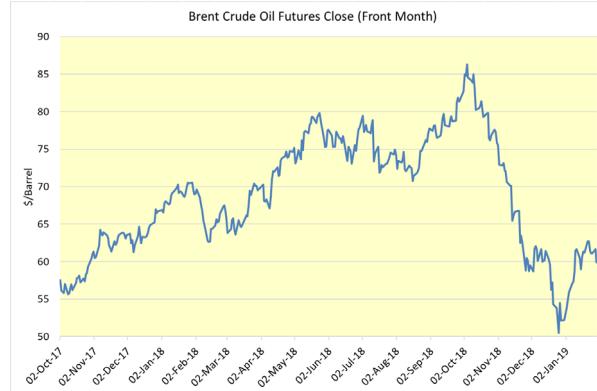
One of the main drivers for the falls that we have seen in gas and electricity prices has been the continuation in the high level of LNG shipments into Europe and the UK that we have seen since Christmas. LNG (Liquefied Natural Gas) is natural gas cooled down to liquid form for ease and safety of non-pressure storage or transport, at which point it occupies approximately 1/600th of the volume of natural gas in the gaseous state. It is a more flexible method of transporting gas around the world when compared with fixed pipe-lines. The main destinations for LNG shipments are either Europe or Asia and cargoes are particularly price sensitive. In recent months Asian demand for LNG has been weak due to relatively warm weather, which has led to a fall in Asian LNG prices resulting in Europe representing a more lucrative destination for shipments with the UK benefiting from a record number of cargoes in December.

This scenario has continued in January and by the end of the month the UK will have received approximately 20 shipments compared with just 1 cargo last January. Europe in general has also seen a similar increase in shipments which has limited their reliance on withdrawals of gas from storage. As a result of this, and of the relatively mild weather in Europe, more gas has been available for importing into the UK, with imports from the Netherlands reaching record levels in January, forcing more downward pressure on UK gas prices.

As mentioned above, gas and electricity prices for winter 19 and beyond have also fallen in the last month, but these falls have not been as significant. Prices rose prior to Christmas as market participants looked to close positions ahead of the Christmas break. As can be seen from the graphs below, electricity prices for winter 19 rose back towards their September highs in December which also coincided with a recovery in carbon prices.



Prices corrected downwards between Christmas and the New year since when they have remained relatively volatile. It can also be seen from the graphs that gas prices for winter 19 have fallen further from their September highs than electricity prices, with gas prices having fallen approximately 17% compared to 10.5% for electricity. To some extent this can be explained by the fact that gas is more weather sensitive - more risk was built into prices during last summer to counter the threat of a cold winter, and this risk is now coming out of prices as concerns regarding colder weather recede. In addition, electricity prices for winter 19 continue to find support from carbon prices.



Having threatened to break below \$50 per barrel prior to Christmas, oil prices have recovered and are currently trading around \$60 per barrel, providing some support to gas prices. This recovery can be partly attributed to hopes of a reconciliation between China and the US to end sanctions which are seen as a threat to the global economy and future oil demand. Potential US sanctions on Venezuela are also providing some support. US oil production continues to increase, however, and this continues to have a limiting effect on oil prices.

As discussed above, the high level of LNG shipments into Europe that we have seen since October has reduced the requirement to withdraw gas from storage. European gas storage levels are now higher than the long term average and higher than their levels from 12 months ago. With no sign of prolonged cold weather as we look towards the end of winter, and with a likely continuation in the level of LNG shipments, European gas storage levels are likely to remain high. Some of this storage gas may be sold off in the coming weeks as the owners look to secure profits or minimise losses. This could help to maintain imports into the UK at their current levels leading to further falls in UK gas prices.

SUMMARY

In the absence of a prolonged spell of cold weather gas and electricity prices could fall further in the short term. The outlook for LNG remains favourable with a further 4 shipments currently en route to the UK. As discussed above, European gas storage levels remain relatively high, and UK storage levels are currently above 90%. Whilst the UK's storage capacity was significantly reduced with the closure of the Rough storage site, there remains sufficient capacity to react to short spells of cold weather. With LNG flows remaining high throughout the winter there has been little need to call on these storage reserves. When gas supplies exceed demand the surplus gas can be injected into storage. With storage sites full this is not an option increasing the downward pressure on prices to reduce supply in line with lower demand that we are likely to see if temperatures improve.



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