

OCTOBER MARKET UPDATE

OVERVIEW

- Gas and electricity prices have fallen significantly over the last month, mainly driven by an improved short term supply outlook and falls in carbon prices
- Oil prices have also lost value over the last month supporting the falls in gas prices
- LNG flows have increased sharply over recent weeks adding further support to the falls in gas and electricity 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
Dec-18	63.40	-12.28	68.84	76.95	61.65		Dec-18	67.55	-13.92	74.51	84.38	65.72	
Jan-19	64.50	-10.50	70.01	77.05	62.93		Jan-19	68.30	-13.41	75.07	84.40	66.65	
Feb-19	64.40	-10.05	68.98	73.15	62.70		Feb-19	68.93	-12.99	75.54	84.53	67.44	
Winter 19-20	60.83	-4.26	63.94	67.60	59.43	33.32%	Winter 19-20	64.91	-5.65	69.59	73.50	64.05	35.23%
Winter 20-21	56.15	-1.85	58.00	60.83	55.63	27.04%	Winter 20-21	59.43	-3.65	63.18	66.75	59.11	26.14%

	Last Night's Close	Monthly Change	30 Day Mean	30 Day High	30 Day Low	Annual Change
Brent Oil	\$72.83	-\$6.57	\$80.30	\$86.29	\$72.83	17.34%

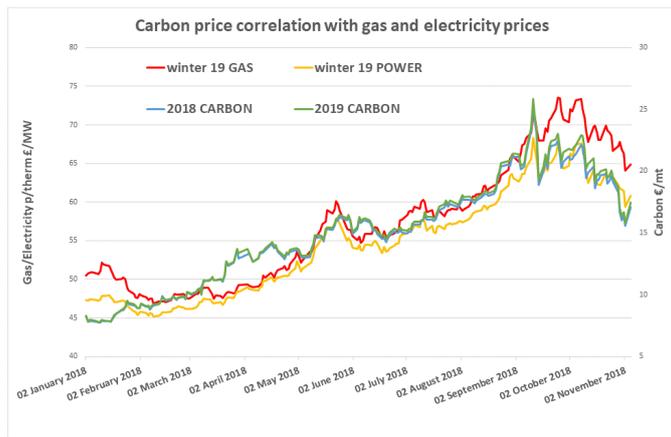
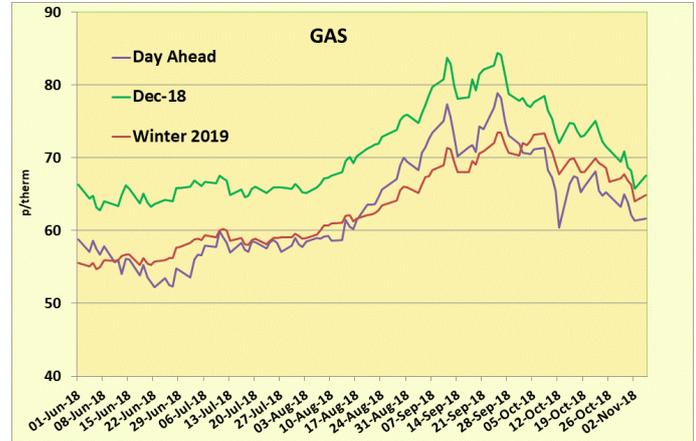
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Carbon Prices
- Coal Prices
- Oil Prices
- Weather forecasts for winter
- Day Ahead gas prices
- European gas storage levels
- European gas prices
- UK gas storage levels
- Gas export levels
- The volume and frequency of LNG shipments into the UK and Europe
- Currency exchange rate fluctuations
- Domestic and global economic indicators
- Brexit

IN DETAIL

Significant falls in carbon prices and an increase in the volume of LNG shipments arriving into Europe have contributed to sharp falls in gas and electricity prices for the coming winter, and to more modest falls for prices from summer 19 onwards.

As can be seen in the graph on the right, Day Ahead gas prices have fallen from the highs we saw towards the end of September when they approached 80p per therm and are currently trading around 60p. One of the main reasons for this fall has been relatively mild weather in October combined with an increase in imports from Norway as oil fields return to full production after maintenance. The graph also shows how prices for December and winter 19 have also fallen in line with the falls in Day Ahead gas prices.

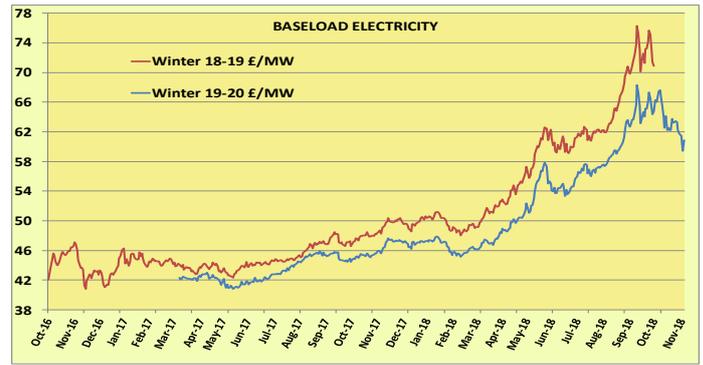
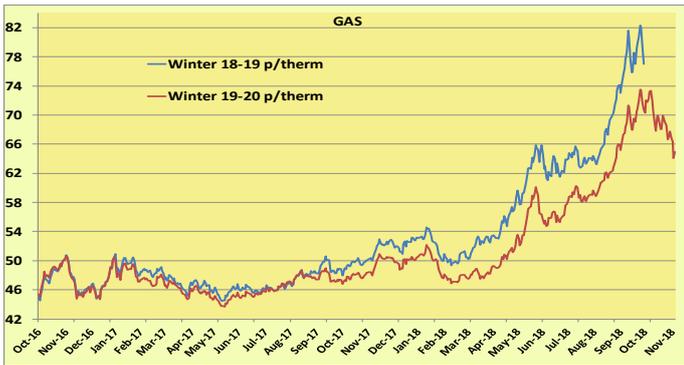


In addition to the impact of the improved supply outlook, a sharp fall in carbon prices has also contributed to the falls in gas and electricity prices in the last month. Carbon prices have fallen by approximately 32% since their highs of mid-October. As can be seen in the graph on the left there remains a strong correlation between carbon and gas and electricity prices. Part of the reason for the falls in carbon prices has been plans outlined by the UK government to introduce a replacement carbon tax of £16/tCO₂e if the UK drops out of the European carbon trading scheme in the event of a no-deal Brexit. The UK exiting the scheme could potentially flood the market with an additional 60m allowances, suppressing prices. Carbon prices represent a tax on electricity generation - any fluctuations in carbon prices have a direct impact on electricity prices.

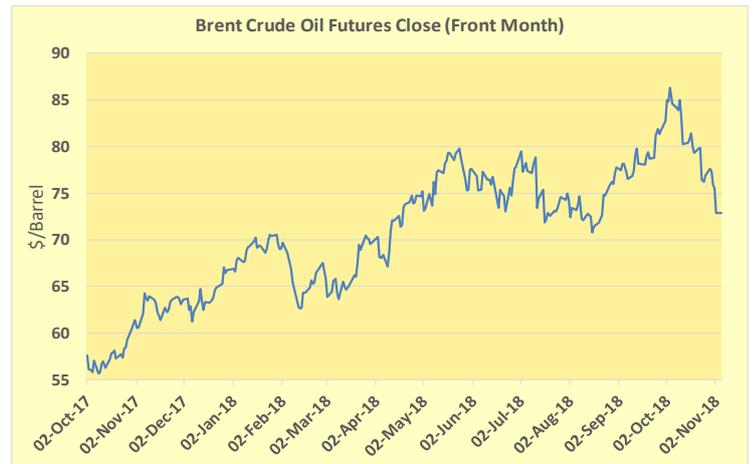
Another factor in the falls in gas and electricity prices in recent weeks has been an increase in the number of LNG shipments arriving into Europe in general and specifically into the UK. At the end of October European LNG flows were set to reach their highest monthly total in over six years, mainly due to a fall in Asian LNG prices resulting in an increase in the volume of shipments heading to Europe. Low Asian LNG premiums and high vessel charter rates suggest arrivals and flows will remain high into November.

In addition to the general influx of shipments arrivals into Europe, the UK has benefitted further from a relaxation on regulations applied to the South Hook LNG terminal in Milford Haven. Energy regulator Ofgem approved a modification to the British network code allowing the terminal to take a wider variety of vessels. A more stringent oxygen limit previously imposed on the site had only allowed shipments from Qatar to unload. As a result South Hook took delivery of its first non-Qatari cargo on 31 October. The UK has also received a number of shipments from the US, benefitting from Chinese sanctions on US LNG which have made the UK and Europe more lucrative destinations for shipments.

Whilst the impact of the improved LNG outlook along with relatively mild weather and an increase in imports of gas from Norway has mainly impacted on prices for the current winter, gas and electricity prices for summer 19 and beyond have also registered significant falls in recent weeks, as demonstrated in the graphs below. The main drivers for these price fall have been the falls in carbon prices discussed above, along with falls in coal and oil prices.



Oil prices have lost value in recent weeks having peaked at the beginning of October, since when they have fallen by approximately 15%, supporting the falls we have seen in gas prices. Fears over the impact of US sanctions on Iran have receded after an announcement that 8 countries would be granted sanction waivers, and the markets are focusing more on the impact of ever increasing US oil production on the global markets.



SUMMARY

Short term weather forecasts suggest a return to warmer weather after a short cold snap, with forecasts for November relatively benign. Coupled with a continuation in the increase in LNG shipments arriving into the UK, with a further four cargoes due in the next week, this could signal a continuation in the downward trend in gas and electricity prices in the short term. Prices have fallen significantly in recent weeks, however, and could spark more buying interest supporting gas and electricity prices ahead of what remains a potentially volatile winter with the influence of Brexit likely to become stronger.



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