

MARKET UPDATE; 8TH NOVEMBER 2019

OVERVIEW

- Gas prices have fallen significantly over the last month, mainly as a result of increasing supply confidence
- Electricity prices have also fallen over the same period but to a lesser extent, finding support from increasing carbon prices
- LNG flows have returned to the high levels seen throughout last winter and are a main driver in the falls in gas prices
- Gas storage levels remain high throughout Europe adding to overall supply confidence for the coming winter

MONTHLY PRICE MOVES

ELECTRICITY PRICES (BASELOAD) £/MWh							GAS PRICES p/therm						
	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual		LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change		CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Dec-19	48.55	-3.33	50.96	54.30	48.48		Dec-19	42.50	-5.87	46.06	50.57	42.31	
Jan-20	51.33	-3.72	54.23	58.10	51.33		Jan-20	44.78	-6.68	48.86	53.37	44.78	
Feb-20	51.75	-3.55	53.82	57.30	51.05		Feb-20	45.53	-6.69	49.67	54.37	45.53	
Winter 20-21	52.83	-1.40	53.94	55.58	52.83	-6.59%	Winter 20-21	49.55	-3.85	51.71	54.19	49.55	-17.24%
Winter 21-22	50.93	-1.58	51.98	53.05	50.93	-1.31%	Winter 21-22	50.11	-3.07	51.75	53.75	50.11	-12.29%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$62.29	\$3.97	\$60.17	\$62.96	\$57.69	-13.57%

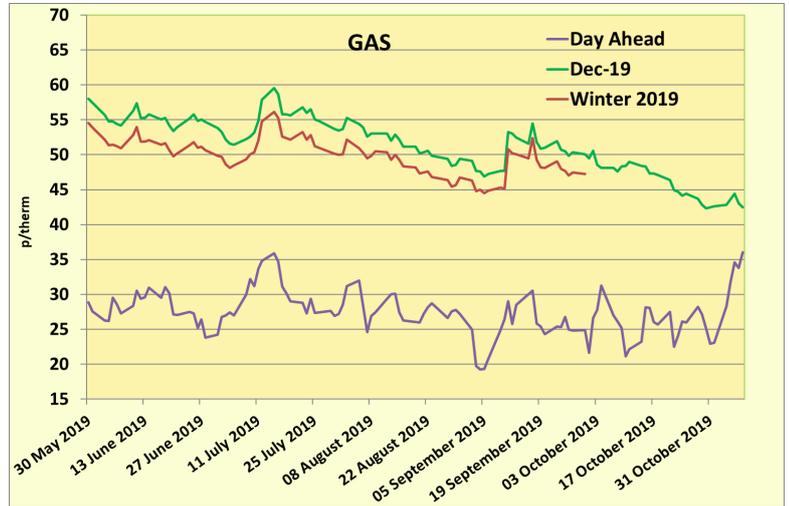
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Day Ahead gas prices
- Brexit
- Gas storage levels
- UK General Election
- LNG shipments into Europe and the UK
- Market sentiment
- Weather forecasts for early winter
- Currency exchange rates
- Coal prices
- Oil prices
- Domestic and global economic indicators
- Carbon Prices
- European and Asian gas prices

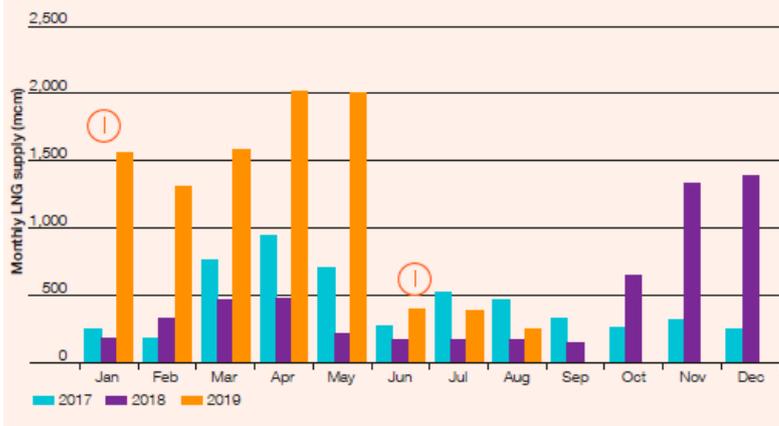
IN DETAIL

Gas prices have lost value consistently over the last month, despite a recovery in Day Ahead prices.

During October the gap between Day Ahead gas prices (the price of gas for delivery on the following day) and December gas prices reached as much as 27p. In recent days this gap has narrowed significantly as Day Ahead prices have risen sharply, partly due to a fall in Norwegian imports and partly due to the approach of colder weather. The reduction in imports appears have been a commercial decision by the Norwegian producers and a reluctance to supply at the low Day Ahead prices seen throughout Europe. This suggests that there may be a floor to prices during winter, below which Norwegian imports are reduced.

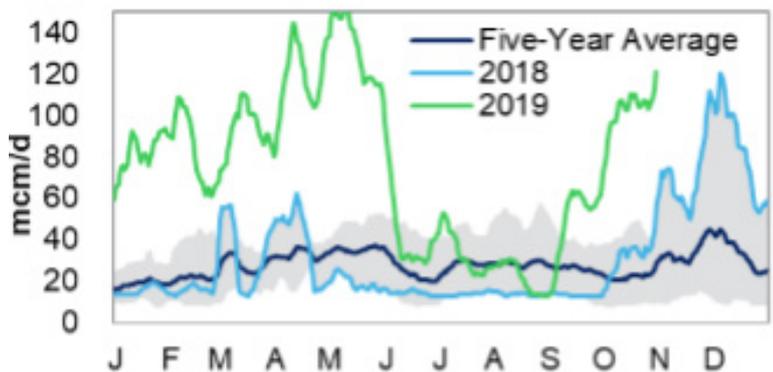


Monthly LNG supply for the last three years



As stated above, gas prices for winter and beyond have fallen in the last month despite the recovery in Day Ahead gas prices. The main driver for these falls has been a continuation of the high levels of LNG flows seen in recent weeks and a healthy LNG outlook for the short term. The extent of the increase in LNG in the last twelve months can be seen in the chart on the left showing LNG supply up to September this year which illustrates the dramatic increase in the early part of the year compared with previous years.

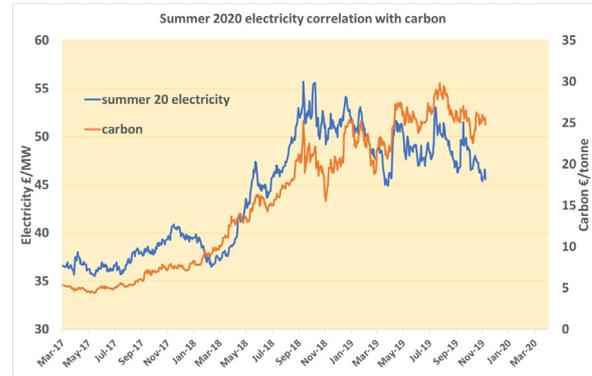
As can be seen in the graph on the right, LNG flows have picked up again from the beginning of September following increased deliveries and are already exceeding the levels seen at the same time last year. This increase helped to offset the fall in Norwegian exports last week and maintained overall confidence in the ability of supply to meet demand this winter. Current indications suggest a continuation of the increase in LNG shipments heading into Europe. When the costs of shipping are factored in, Europe remains the favoured destination for LNG cargoes, particularly from the USA. LNG can contribute in excess of 30% of UK daily gas demand demonstrating its relative importance.



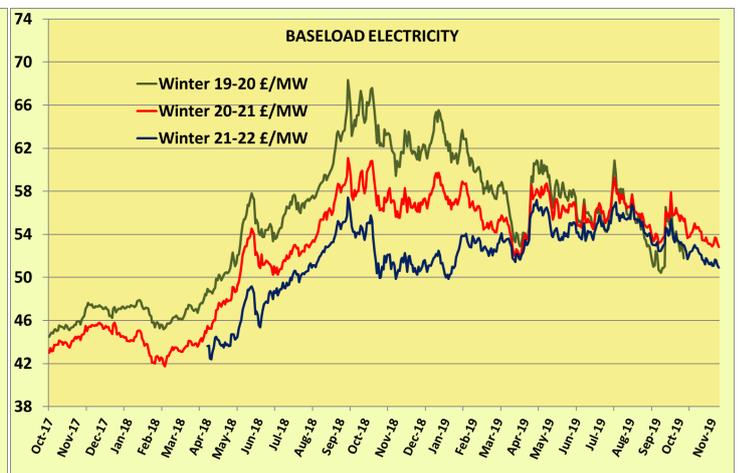
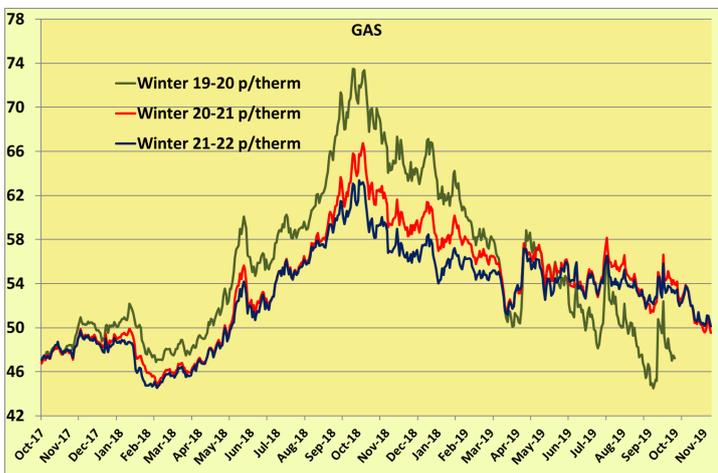
UK LNG Sendout

Source: Bloomberg, Schneider GR&A

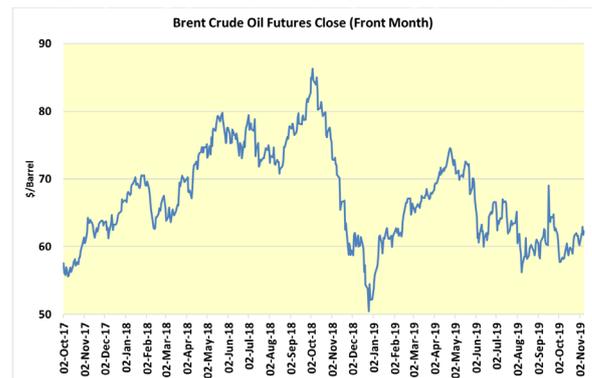
Electricity prices have also fallen in the last month but have found support from increasing carbon prices which have risen by 10% from their relative lows of mid-October. Carbon prices represent a tax on electricity generation and the correlation between carbon and electricity prices can be seen in the graph on the left. This demonstrates that electricity prices for Summer 20 have largely moved in line with carbon prices since March 2017.



As can be seen in the graphs below gas prices have fallen for future years and are now at their lowest levels since May 2018. Electricity prices have also fallen but remain above the lows of May 2018. Whilst there remains the potential for gas prices to fall to their low point of February 2018 electricity prices are unlikely to do so given the current level of carbon prices.



Oil prices are higher than a month ago but are trading within a relatively narrow band around \$60 per barrel. Tensions in the Middle East continue to offer support to oil prices along with speculation regarding additional cuts in OPEC production to be announced next month. Trade tensions between US and China along with concerns regarding the global economy are currently providing a cap to any increases. Traditionally oil prices had a direct effect on gas prices due to index linked contracts in Europe. Whilst this has diminished in recent years oil prices remain influential in determining market sentiment.



SUMMARY

The recovery in Day Ahead gas prices suggests a limit to any further substantial falls to winter gas and electricity prices in the short term. The longer term outlook remains favourable with European gas storage stocks near capacity and indications of a continuation in the high level of LNG cargoes into Europe.

As ever at this time of the year weather forecasts will help to drive the markets with indications of colder weather throughout Europe in the short term. This may help to support prices along with buying interest as prices remain at relatively low levels.