

## MONTHLY MARKET UPDATE: MARCH

### OVERVIEW

- Gas and electricity prices have risen over the last month, partly as a result of supply concerns and partly as a result of increases in the price of input fuels such as coal and carbon
- Oil prices have risen back above \$70 per barrel in recent days in response to increasing geo-political risks
- LNG stock levels have improved as a result of a number of shipments arriving into the UK in the last month, but flows remain relatively low
- Gas storage levels are low throughout Europe, which will require high levels of injection back into storage during the coming months

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
May-18	49.45	2.72	46.63	49.55	43.25		May-18	49.25	1.99	46.52	49.95	43.15	
Jun-18	47.90	3.40	44.69	47.95	41.65		Jun-18	46.64	2.69	43.38	47.11	40.14	
Jul-18	48.50	3.80	45.12	48.50	42.20		Jul-18	46.99	3.04	43.85	47.48	41.01	
Winter 18-19	54.10	2.37	51.65	54.10	49.15	23.52%	Winter 18-19	55.17	1.81	52.80	55.47	50.20	18.49%
Winter 19-20	49.75	2.37	47.73	49.85	46.13	17.47%	Winter 19-20	50.26	1.84	48.58	50.52	47.47	10.05%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
<b>Brent oil</b>	\$72.02	\$7.07	\$67.41	\$72.06	\$63.61	28.93%

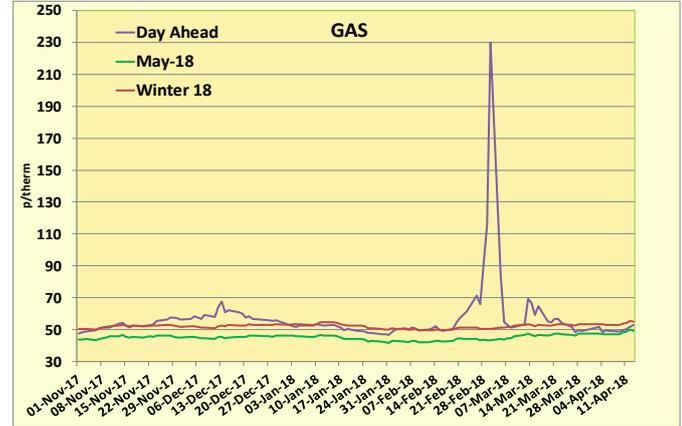
### LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- European gas prices
- Day Ahead gas prices
- The level of gas imports from Norway, Belgium and Holland
- Carbon prices
- Coal prices
- Oil prices
- The volume and frequency of LNG shipments into the UK
- Currency exchange rate fluctuations
- Domestic and global economic indicators

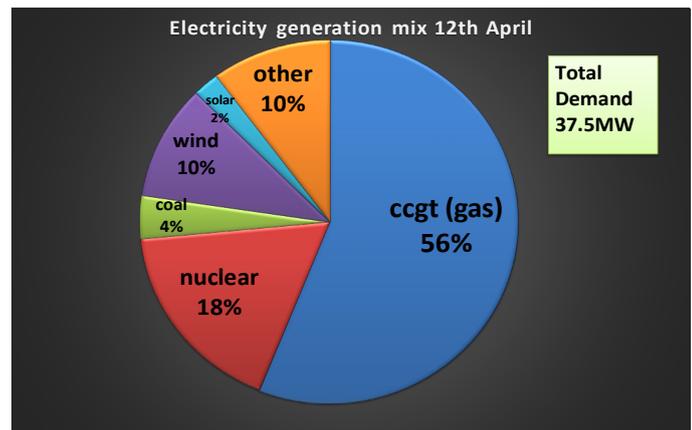
## IN DETAIL

Gas and electricity prices had been relatively flat over the last month up to the beginning of this week, since when prices have risen steadily due to the impact of a combination of factors.

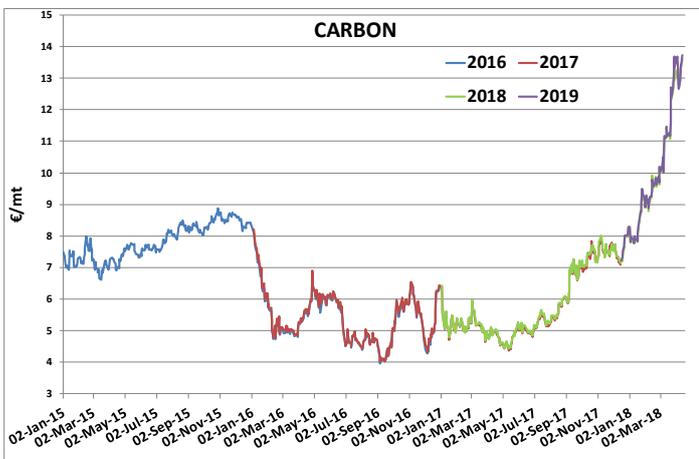
As can be seen from the graph on the right, Day Ahead gas prices have fallen back to the levels that they were trading at prior to the dramatic price spikes that we saw at the beginning of March. In recent days they have found support from relatively high levels of gas demand and a number of supply concerns relating to outages impacting on Norwegian imports. As can be seen from the graph on the right the increase in Day Ahead gas prices that we have seen in recent days has been mirrored by increases in prices for May and winter 18.



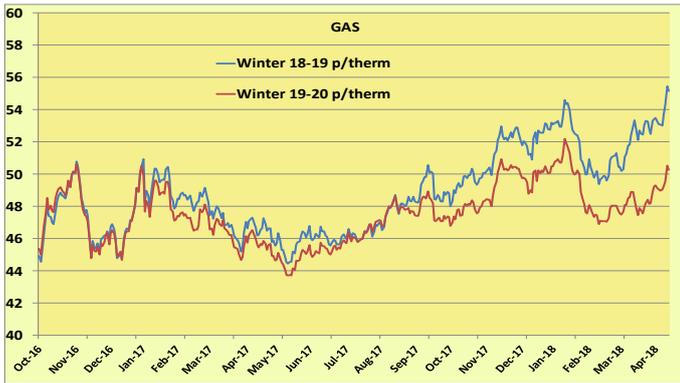
One reason for the relatively high level of demand for gas that we are seeing currently is the high demand for gas for electricity generation. Currently gas is accounting for more than 50% of generation as shown in the chart alongside which shows the generation mix yesterday. This reliance on gas is partly due to low levels of availability of renewable energy and partly due to the high cost of coal generation. Another reason for this high level of overall gas demand is due to the low gas storage levels across Europe which has seen an increase in export demand from the UK for injection purposes. In order to limit gas exports UK gas prices will need to rise relative to European gas prices to disincentivise exports, which helps to explain the increases in summer UK gas prices that we have seen in recent days.



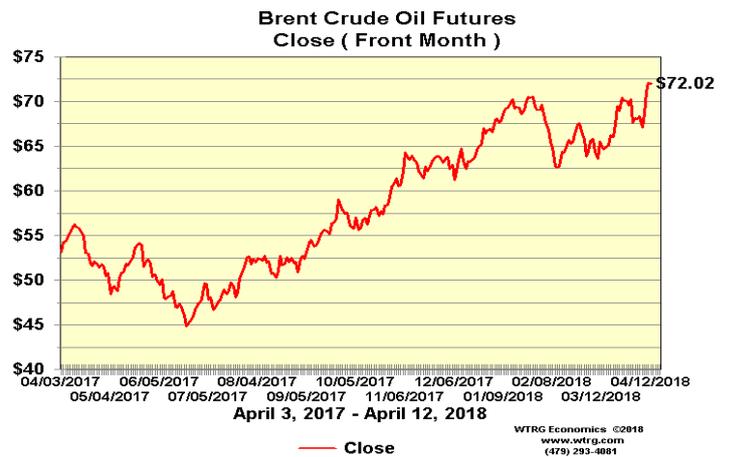
Carbon prices have risen sharply in the last few months and have now reached their highest levels for 6 years. EUA carbon permits represent the entitlement to emit 1 tonne of carbon dioxide, which is produced by both gas and coal fired power stations. Any increase in the cost of permits, therefore, will be reflected in electricity generation costs. With coal prices also increasing, coal fired electricity generation has become relatively expensive and partly explains the shift towards gas fired generation.



Gas and electricity prices for winter 18 and beyond have also risen in recent days, continuing an upward trend that began in mid-February. These increases can be largely attributed to the increases we have seen in coal and carbon prices along with increasing oil prices. They may also represent a revaluation of the future supply risk in light of the price spikes seen at the beginning of March. These increases are reflected in the graphs below with winter 18 gas and electricity prices now at 3 year highs.



Oil prices have found support in recent days from the escalation in tensions in Syria and the potential destabilising of oil production. As a consequence oil is trading comfortably above \$70 per barrel, their highest levels since July 2015. Rising oil prices can often lead to increases in UK gas prices due to the prevalence of oil indexation in some long-term supply deals which are fairly common in Europe.



## SUMMARY

Currently the gas and electricity markets are being driven by short-term fundamentals such as relatively high demand for gas coupled with supply concerns regarding imports, and longer-term fundamentals concerning increases in oil, coal and carbon prices. Unless there is a change in these fundamentals gas and electricity prices are likely to remain well – supported in the short-term.