

# MONTHLY MARKET UPDATE: DECEMBER

## OVERVIEW

- Gas prices for the winter months are lower than a month ago, mainly as a result of relatively mild weather and high levels of LNG flows
- Gas prices for summer 19 and beyond have increased despite falls in oil prices
- Electricity prices have risen back towards their highs of September on the back of a recovery in coal and carbon prices
- LNG flows have increased substantially over the last six weeks due to a consistently high level of incoming shipments

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
Jan-19	66.90	2.40	66.09	69.40	62.73		Jan-19	65.53	-2.77	67.96	74.56	62.97	
Feb-19	66.23	1.82	66.02	69.83	62.73		Feb-19	65.79	-3.14	68.49	74.72	63.83	
Mar-19	63.45	2.05	62.98	66.75	60.18		Mar-19	64.42	-1.33	66.07	71.39	62.06	
Winter 19-20	64.45	3.59	62.37	65.35	60.85	36.84%	Winter 19-20	65.71	0.80	64.92	67.33	63.02	30.82%
Winter 20-21	59.25	3.10	57.28	59.68	56.05	32.11%	Winter 20-21	60.37	0.94	59.75	61.61	58.28	23.68%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
<b>Brent oil</b>	\$56.26	-\$16.57	\$62.83	\$72.07	\$56.26	-11.28%

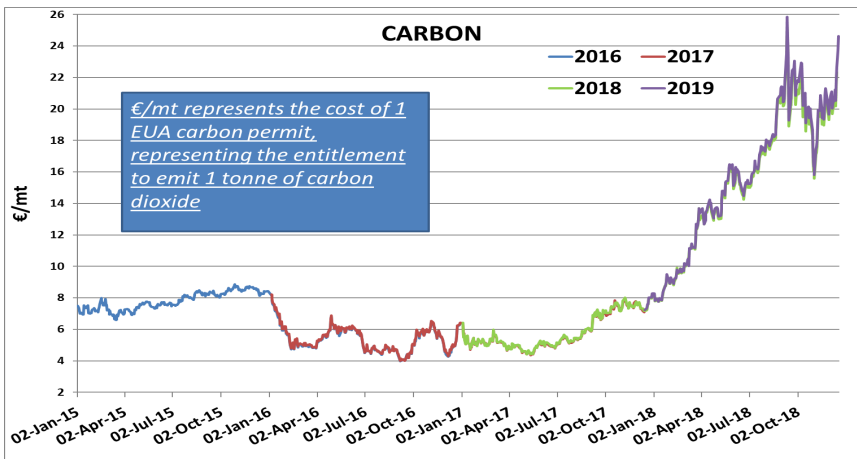
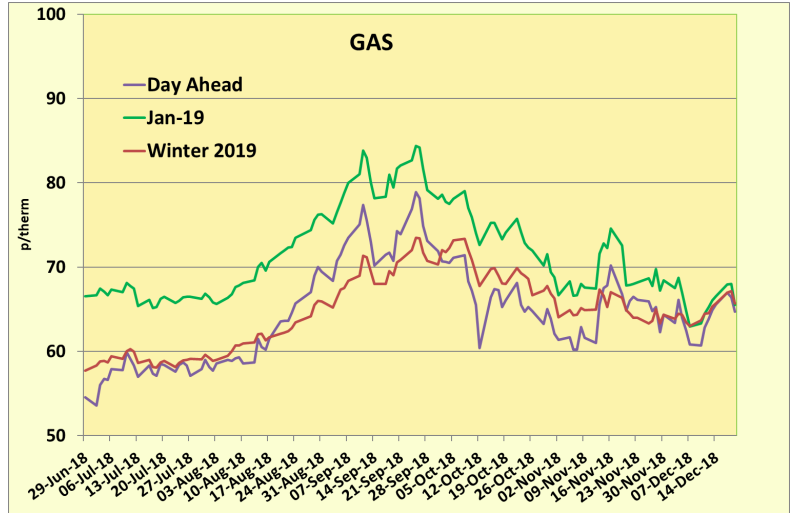
## LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Weather forecasts for the coming 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

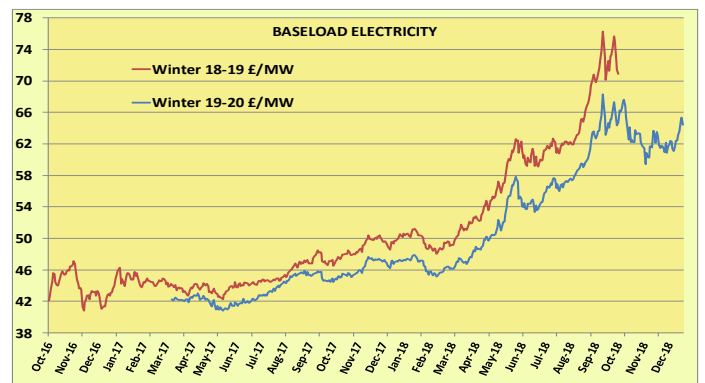
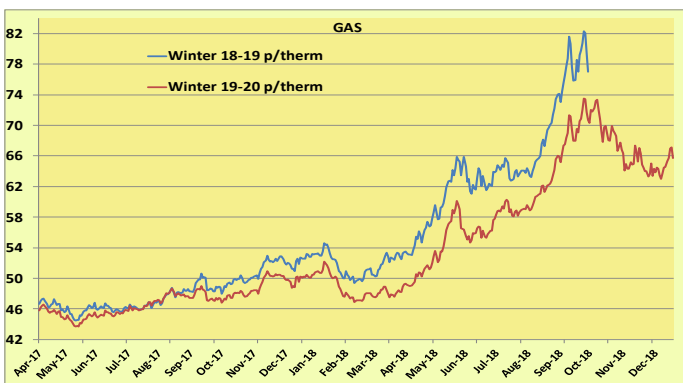
Gas and electricity prices have remained volatile over the last month and have been driven by a number of conflicting factors which has resulted in a reversal of the falls which we had seen in the previous month.

As can be seen from the graph on the right, Day Ahead gas prices continue to trade above 60p per therm despite the effects of relatively mild weather so far this winter and an increase in LNG supply. Weak Asian gas demand has resulted in an unseasonably high volume of LNG shipments heading towards Europe, with the UK in particular benefiting from an increase in cargoes. This is likely to continue in the short term with Asian LNG prices close to parity with European prices where normally they would hold a premium at this time of the year.

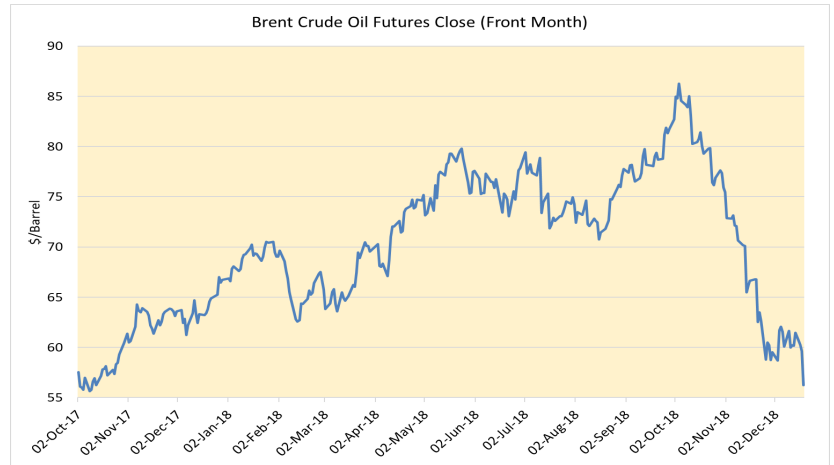


Despite the favourable short term supply outlook for gas, and falls in oil prices, electricity prices have risen over the last month as a result of a recovery in coal and carbon prices. As can be seen in the graph on the left, carbon prices have risen back towards their high levels of mid-September and are now challenging the previous support levels of €26 per tonne. Carbon prices represent a tax on electricity generation and any increase in carbon prices has a direct impact on electricity prices.

The impact of the recovery of carbon prices on electricity prices can be seen in the graphs below which show that prices for winter 19/20 have tracked the rise in carbon and are at their highest levels since September. Gas prices for winter 19/20 have also registered increases over the last month but not to the same extent, with falling oil prices helping to cap the increases. This demonstrates the conflicting factors driving the energy markets currently with rising coal and carbon prices offsetting the falls in oil prices.



Oil prices have continued on their downward trend which commenced in September losing a further \$16 per barrel over the course of the last six weeks and are at their lowest levels since October 2017. This is largely the result of increasing supply, particularly from the USA, and concerns regarding a weaker global economic outlook. Production cuts announced at the recent OPEC meeting provided a brief respite to the falls in crude prices but these cuts are not seen to be sufficient to prevent global over-supply and prices have fallen further in recent days.



In addition to the normal market fundamentals, Brexit is also having an impact on the energy markets and is likely to continue to do so in the short term. The main impact to date has been on exchange rates where a weaker pound increases the cost of imports of gas from Europe. In addition, the uncertainty over Brexit is likely to increase buying interest as market participants look to reduce their risk by increasing their hedge positions. In the longer term any disruption to trade would represent a source of market risk. This would primarily relate to the potential for new tariffs or increased bureaucracy which could slow cross-border energy trading. This would impact more on gas where the UK reliance on imports from Europe is significantly higher than for electricity. These uncertainties would increase in the event of the UK leaving without a deal.

## SUMMARY

Short term weather forecasts suggest above seasonal temperatures over the Christmas period, at a time when demand is traditionally relatively low. Given the increase in LNG flows this would suggest the potential for a fall in Day Ahead gas prices which could impact on longer term prices. Currently the markets appear to be taking direction from carbon prices, however, and with the uncertainty of Brexit which will resurface in the New Year, as ever prices are likely to remain volatile in the short term.



Author, Gareth Maude.  
Senior Energy Market  
Analyst, WME.