

MARKET UPDATE: MARCH 2020

OVERVIEW

- Gas and electricity prices are currently relatively unchanged from their positions of the end of January
- Despite the minimal overall change, there has been significant volatility in prices
- The main market driver in recent days has been concerns regarding the impact of the outbreak of the coronavirus
- Oil prices collapsed at the beginning of the week as an attempt by OPEC to push through an agreement to cut production to combat the effects of the virus failed
- LNG flows remain strong although they have suffered disruption due to high winds at the terminals

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
Apr-20	34.38	-0.42	33.05	34.80	31.85		Apr-20	24.18	0.30	22.11	24.18	20.47	
May-20	34.15	-0.80	33.30	34.95	31.90		May-20	23.87	-0.37	22.56	24.24	21.22	
Jun-20	34.60	-0.15	33.76	35.05	32.65		Jun-20	24.22	-0.35	23.30	24.71	21.96	
Winter 20-21	43.45	0.47	43.23	45.05	41.85	-18.90%	Winter 20-21	35.71	-0.11	35.85	38.27	34.08	-35.40%
Winter 21-22	45.80	1.20	45.80	47.45	43.30	-15.34%	Winter 21-22	40.71	-0.05	41.61	43.90	39.52	-25.56%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$35.79	-\$22.50	\$52.78	\$59.31	\$34.36	-46.25%

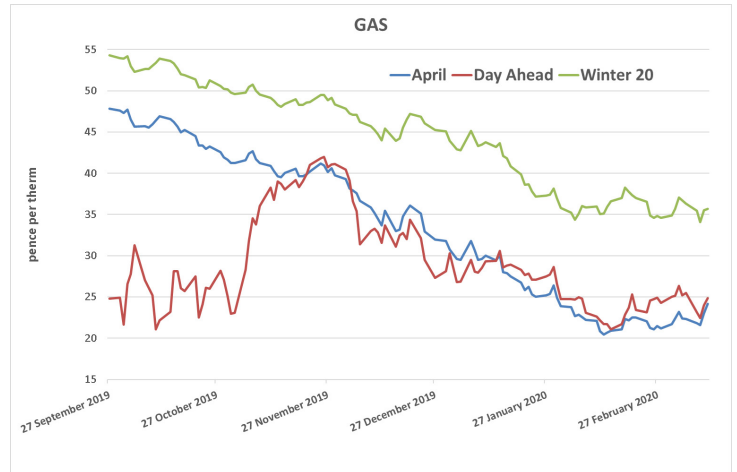
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Market reactions to the potential impact of Coronavirus
- Day Ahead gas prices
- Brexit
- Gas storage levels
- LNG shipments into Europe and the UK
- Market sentiment
- Currency exchange rates
- Weather forecasts for the remainder of winter
- Coal prices
- Oil prices
- Domestic and global economic indicators
- Carbon Prices
- European and Asian gas prices

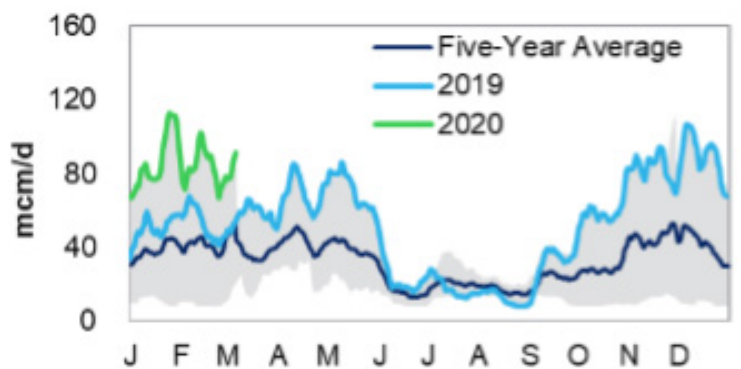
IN DETAIL

In the last month the influence of the coronavirus on the gas and electricity markets has become more pronounced as market participants attempt to gauge the short and long term impact on the global economy.

As a result, prices have exhibited considerable volatility as the markets react to the changing outlook. Up to the end of January the gas and electricity markets had been in a steady decline due to concerns regarding the impact of the coronavirus on China where the outbreak was mainly confined. Since then the markets have become more rangebound finding support from a mixture of potential economic stimulus measures and concerns regarding future supplies. In addition gas and electricity prices have found support from a number of key support levels. This can be seen from the graph on the right which shows how winter 20 gas prices have failed to break below 35p per therm, and Day Ahead gas prices have likewise failed to break below 20p per therm.



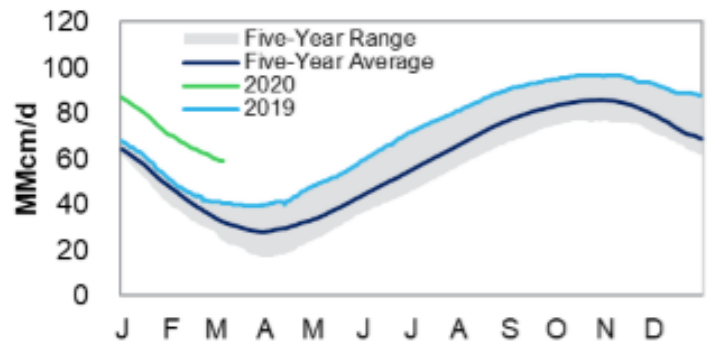
Ignoring the impact of the coronavirus, the fundamental outlook for gas and electricity prices remains largely unchanged. LNG flows in the UK remain high as can be seen from the graph on the right which also demonstrates the influence of the stormy weather which we witnessed in February which delayed some cargoes from offloading at Milford Haven where the South Hook and Dragon LNG terminals are located. This explains the uneven nature of the flows and has at times required gas withdrawals from storage to account for supply shortages. Since the beginning of the year Europe had benefited from a drop in demand for LNG in China due to the effects of the coronavirus. There is a limit to how low gas prices can go, however, whilst still attracting LNG cargoes. At some point cargoes no longer becomes economically viable due to shipping costs and that could explain why Day Ahead gas prices have failed to break below 20p per therm which could represent a price floor.



UK LNG Sendout

Source: Bloomberg, Schneider GR&A

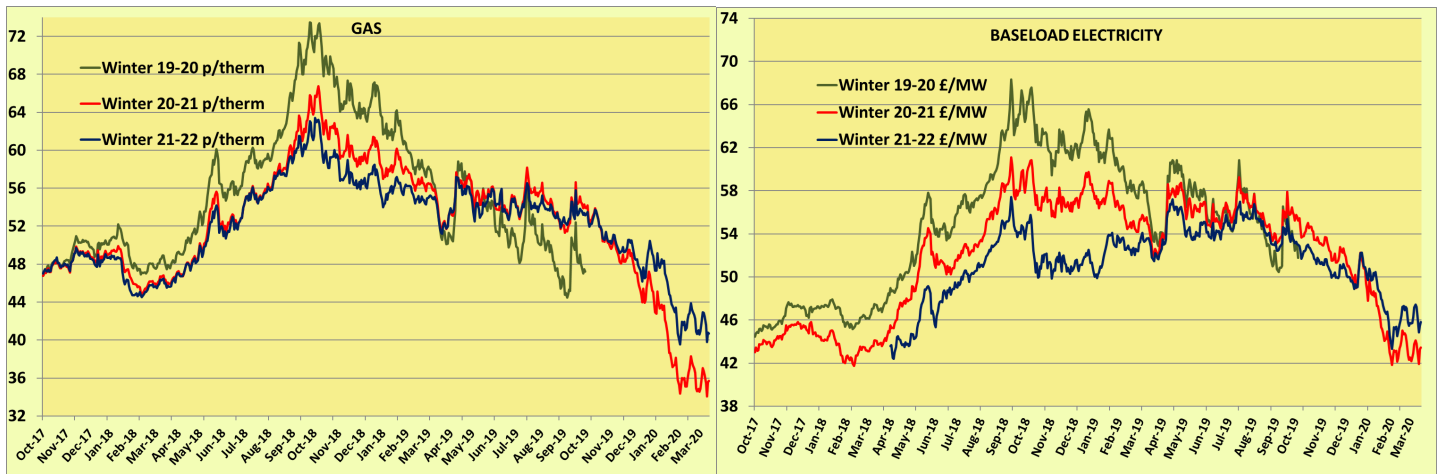
Another fundamental driver for the lower gas prices that we have seen in the last few months has been Europe's storage levels. As we can see these remain high, well above the levels of recent years and the five year average. One of the reasons for the low gas prices that we saw last summer was the relatively high European gas storage levels at the end of the previous winter. This required less gas to refill the storage sites and hence resulted in lower gas demand throughout summer. Given that storage levels are high than last year ordinarily we could expect a similar scenario for gas prices for this summer.



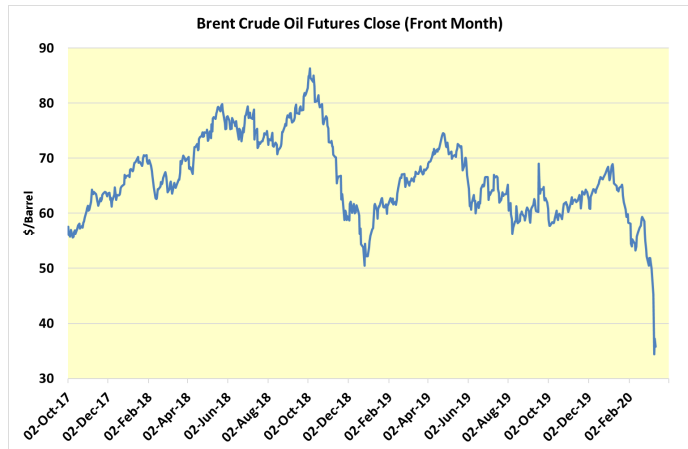
European Gas Storage

Source: Bloomberg, Schneider GR&A

The volatility that we have seen in gas and electricity prices extends to prices beyond winter 20. Here, however, there is more evidence of buying interest for these periods as seen in the graph below where gas for winter 21-22 in particular has found support which has resulted in an extension to the gap with winter 20-21 prices. It could also be said to demonstrate the impact of the coronavirus on shorter term prices.



Oil prices collapsed on Monday to trade at their lowest levels since May 2016. This was as a result of a breakdown in negotiations between OPEC and Russia at a meeting at the end of last week aimed at cutting production to combat the fall in oil prices resultant from concerns regarding the impact of the coronavirus on global demand. Russia's failure to agree resulted in Saudi Arabia announcing an increase to their production alongside price discounts, potentially flooding an already weak market. Oil prices can have an impact on gas prices due to some European gas prices being indexed linked to oil prices.



SUMMARY

In the short term the gas and electricity markets are likely to continue to be heavily influenced by the coronavirus outbreak and the extent to which it threatens future demand, and are likely to remain volatile as the impact of events are evaluated. Whilst the fall in oil prices could be seen as indicative of lower gas prices there are concerns that the lower oil prices could result in a reduction in US shale gas production as it becomes less economically viable. In turn this could result in lower LNG exports from the US in the longer term.

This helps to explain why gas prices have not fallen in line with oil prices. It also helps to explain the volatility in the markets given the complex nature of events and the need to analyse the potential impact on future prices.

Gareth Maude, 12th March 2020