

MARKET UPDATE: MARCH 2019

OVERVIEW

- Gas and electricity prices for 2019/20 have fallen sharply since the end of January, continuing the sustained downward trend from the beginning of the year
- Prices for 2020 and beyond have also fallen over the same period
- The main driver for these falls has been a continuation of the healthy supply of LNG into the UK and Europe coupled with relatively mild weather
- Oil prices have increased over the same period but have had little impact on gas prices
- The gas and electricity markets have reacted favourably to current Brexit negotiations and the diminished risk of the UK leaving without a deal

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-19	44.35	-10.10	54.39	62.30	44.35		Apr-19	37.58	-14.13	44.27	49.30	37.58	
May-19	43.45	-9.75	51.03	58.30	43.45		May-19	37.12	-13.34	43.74	48.37	37.12	
Jun-19	44.10	-7.30	48.08	51.30	44.10		Jun-19	36.87	-11.98	43.09	46.99	36.87	
Winter 19-20	54.35	-6.03	58.04	60.28	54.35	15.45%	Winter 19-20	51.57	-9.06	57.36	59.75	51.57	7.90%
Winter 20-21	52.78	-3.73	55.02	56.65	52.78	20.22%	Winter 20-21	52.00	-5.52	56.07	57.65	52.00	13.19%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$67.16	\$7.23	\$65.19	\$67.55	\$61.51	1.43%

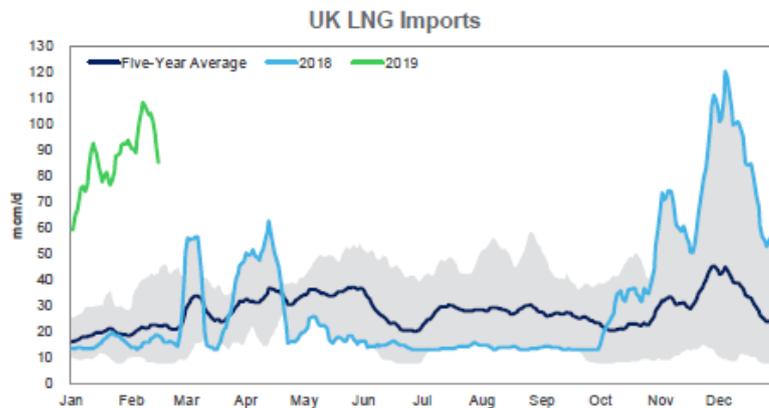
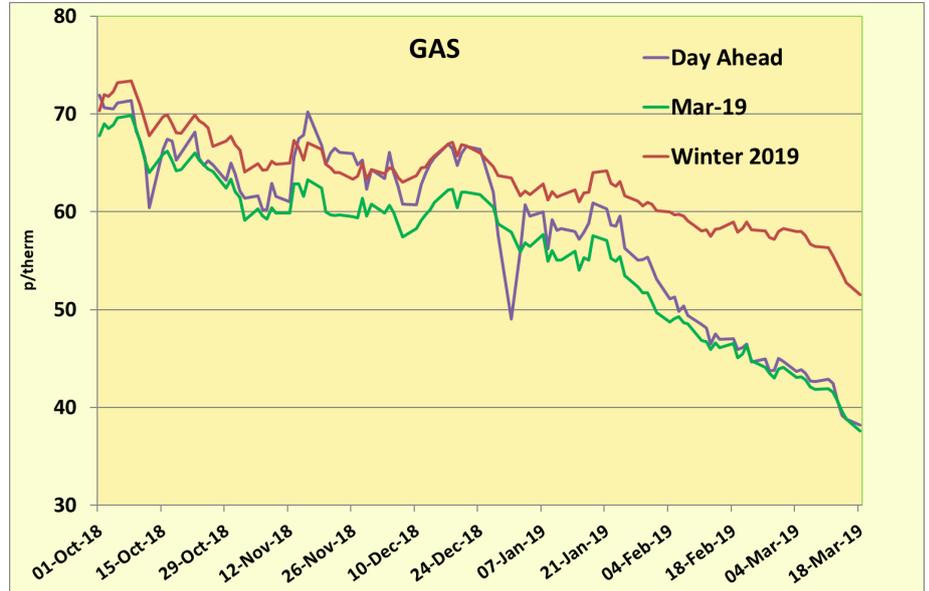
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- 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
- Domestic and global economic indicators
- Carbon Prices
- European and Asian gas prices

IN DETAIL

Gas and electricity prices have lost considerable value over the last month and are currently in a pronounced downward trend which began at the beginning of the year. This in spite of the potential uncertainty surrounding Brexit negotiations.

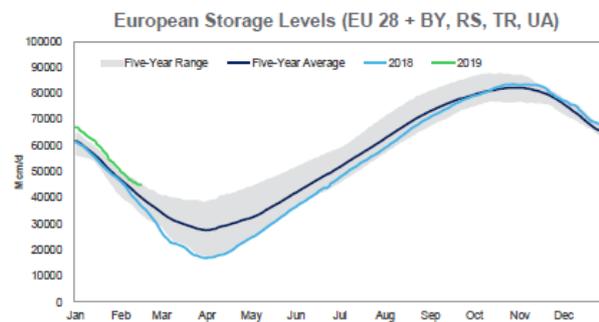
As can be seen from the graph on the right, Day Ahead gas prices have fallen from the 60p levels that we saw during January and are now trading below 40p. Whilst we would expect Day Ahead prices to fall as we approach Spring and milder weather, these falls have been more pronounced than normal. The main reason for these falls has been a general over supply of gas in relation to demand stemming from high levels of imported gas along with a sustained increase in LNG shipments into the UK, with demand subdued due to a relatively mild winter. These falls in Day Ahead prices have been reflected in falls in prices for longer dated contracts.



The biggest single factor in the falls in gas prices in the last month and over the course of the winter in general, as alluded to above, has been the high level of LNG (Liquified Natural Gas) imports. At the beginning of March Britain's terminals had taken delivery of 65 cargoes since 1 October 2018, an increase of 51 compared with the same period in 2017/18. This is largely due to weakness in demand for LNG from Asia throughout the winter due to relatively mild weather, and also to an increase in global LNG production. The dramatic increase in supply supply can be seen from the graph to the left which shows UK LNG imports since January 2018.

During the summer of 2018 imports were relatively low, contributing to the increases in gas prices that we saw from April 2018. From October onwards flows have far exceeded the five year average and redefined the upper range of supply. As a result LNG has consistently contributed approximately 25% of UK daily gas supply throughout the winter. With each cargo representing between 35 and 45 percent of the capacity of the LNG terminals, gas has continued to flow in order to accommodate the next shipment. Supply has therefore been driven by necessity rather than reacting to price.

As a result of a relatively mild winter throughout Europe, European gas storage levels are relatively full compared with previous years, as demonstrated by the graph on the right. This shows a similar picture to the LNG graph with storage levels above the five year average and at the top of the range. As a result demand for gas to replenish storage levels this summer is likely to be weaker than previous years and substantially lower than last year which could impact on gas prices.

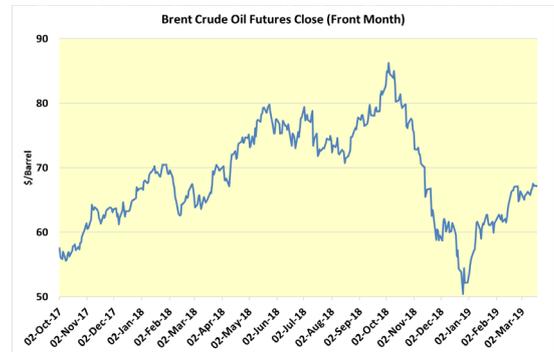


The falls that we have seen in gas prices in the last month have been mirrored in falling electricity prices with strength in carbon prices providing limited support. As can be seen in the graphs below these falls in gas and electricity prices have fed through to 2020/21, although to a lesser extent resulting in a diminishing in the gap between 2019/20 and 2020/21 prices.



No report would be complete without a mention of Brexit and although the chances of an imminent deal being reached for the UK's departure from the EU appear slim, events have gone according to market expectations, with the likelihood of leaving without a deal having apparently diminished in the short term. As a result currency levels have remained relatively strong and much of the risk associated with Brexit has started to come out of gas and electricity prices, contributing to the downward trend.

Oil prices have continued to gain in value in recent weeks as OPEC production cuts find high levels of compliance with members. Disruptions with supply, notably from Iran and Venezuela, have supported these increases. US production continues to rise, however, offsetting the OPEC cuts to some extent. OPEC ministers are scheduled to meet on 17th April to determine whether to extend its current production cuts in response to booming US shale production, which could provide support to oil prices in the coming weeks.



SUMMARY

In the short term the LNG supply outlook remains strong with a further 8 cargoes potentially arriving into the UK before the end of the month. Again, to put this in perspective, only 14 cargoes were received during the whole of last winter. This suggests the possibility of further falls in gas and electricity prices, although having fallen sharply in recent weeks we could see buying support at these relatively low levels. In addition any developments in respect of Brexit may also impact on the markets.



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