

MARKET UPDATE: JUNE 2019

OVERVIEW

- Gas and electricity prices have registered significant falls over the last month
- Healthy LNG flows, relatively low demand and falls in oil and coal prices have been the main drivers
- Oil prices have fallen significantly due to concerns regarding a slow down in the global economy
- Expectations remain of healthy LNG supplies throughout the summer although there has been a lull in deliveries during June

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
Jul-19	37.93	-4.23	40.47	43.98	37.93		Jul-19	26.55	-5.13	29.92	34.42	26.55	
Aug-19	38.10	-4.50	41.16	44.40	38.10		Aug-19	27.21	-6.62	31.65	35.96	27.21	
Sep-19	41.75	-3.85	44.70	47.65	41.75		Sep-19	31.44	-5.99	35.78	39.30	31.44	
Winter 19-20	54.55	-3.53	56.86	59.05	54.55	1.82%	Winter 19-20	49.75	-5.35	53.22	55.97	49.75	-10.33%
Winter 20-21	54.48	-1.96	55.85	57.30	54.48	7.98%	Winter 20-21	52.67	-2.72	54.68	56.19	52.67	0.98%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$61.82	-\$10.80	\$66.44	\$72.62	\$59.97	-17.66%

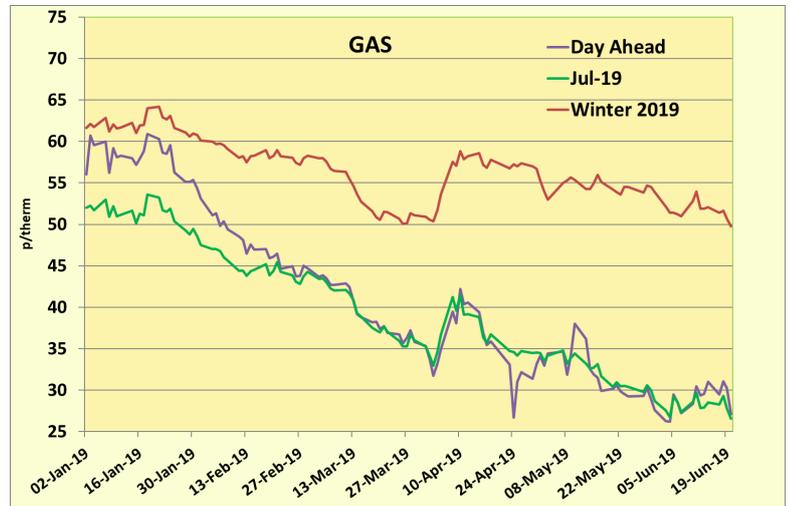
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Day Ahead gas prices
- Brexit
- Gas storage levels
- Planned outages to gas and electricity supplies due to summer maintenance
- LNG shipments into Europe and 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 for the remainder of the year have fallen significantly in the last month, mainly due to healthy supply and relatively low demand.

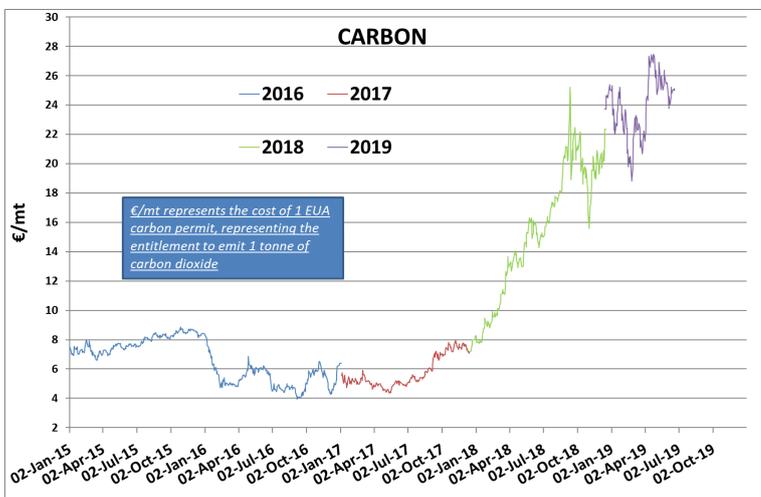
As a result, Day Ahead gas prices have traded consistently below 30p per therm as can be seen from the graph on the right which also shows how prices for July and winter 19 have followed. Day Ahead gas prices represent the price of gas for the following day and are therefore a true measure of the market whereas prices for July and winter 2019 represent the market view as to where prices will be. As such Day Ahead gas prices will have a stronger influence on the summer months but will also influence prices for winter 2019.



As we approach winter the gap between Day Ahead and winter 19 prices will close - this could be as a result of Day Ahead prices increasing, winter 19 prices falling, or a combination of both. This highlights the potential for winter

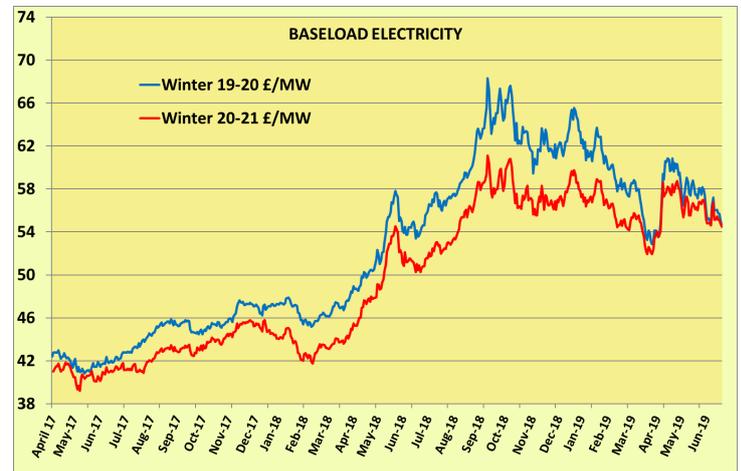
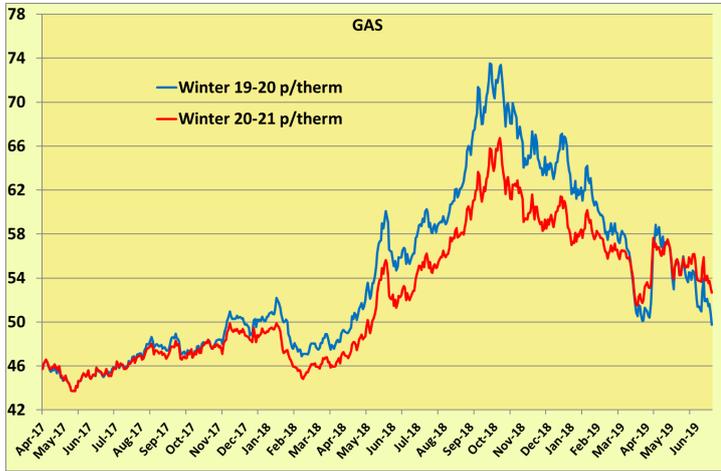
The main drivers in the gas and electricity markets in recent month have been the high volume of LNG shipments arriving into Europe, and carbon prices.

LNG shipments into the UK were particularly high throughout May which necessitated gas flows at full capacity from the LNG terminals to create space for each subsequent cargo. Consequently LNG flows frequently accounted for as much as 30% of daily gas supply. As a result of these flows the gas system was frequently over-supplied resulting in falls in the Day Ahead gas prices in order to balance the system. There has been a marked decline in shipments in June with British terminals having received just one cargo to date. A further three are expected to arrive before the end of the month, however, and expectation levels remain high for Europe to continue receiving a high level of cargoes throughout the summer. Coupled with higher than average European gas storage levels which are likely to subdue gas demand during the summer months, gas prices could remain at these relatively low levels in the coming weeks.

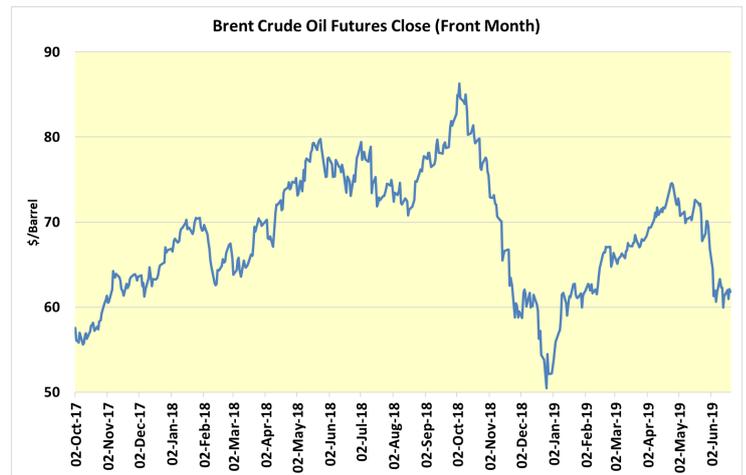


Carbon prices have been less volatile in the last month than in previous months and consequently have had less impact on gas and electricity prices. The current Conservative party leadership campaign could be seen as limiting any increases in the carbon market with a number of candidates advocating leaving the EU on 31 October with or without a deal. A no deal would mean the UK automatically leaving the EU ETS allowance trading scheme, theoretically bringing 100 million UK allowances back onto the EUA market, significantly pressuring the price of carbon allowances. Carbon prices can be seen as a tax on electricity and gas generation with any increase in price impacting on gas and electricity prices.

As can be seen from the graphs below, gas and electricity prices for 2020/21 have also fallen during the last month, driven by the falls in oil and also coal prices, and from market sentiment resulting from the falls in prices for 2019/20.



Oil prices fell sharply at the beginning of June as the trade war between the USA and China intensified, heightening concerns regarding global oil demand. Additional concerns regarding US tariffs on Mexico also contributed to the falls, along with Indian tariffs on US goods, threatening to escalate the trade war further. Supporting prices has been a continuation of the OPEC production cuts and, in recent days, concerns regarding an escalation in tensions between the US and Iran with particular concerns regarding shipping through the Strait of Hormuz through which 20% of global oil supply pass each day.



SUMMARY

As discussed above, carbon prices and LNG supplies are two of the main drivers for gas and electricity prices currently. If carbon prices remain at their current levels or fall, and if the LNG outlook remains favourable then there is the potential for further falls in gas and electricity prices. The markets have largely ignored the recent lull in incoming LNG cargoes but this view is unlikely to persist. Unless we see an increase in LNG cargoes in the coming weeks it is likely that gas and electricity prices could find support, particularly for the summer months.



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