

MARKET UPDATE: JULY 2019

OVERVIEW

- Gas and electricity prices are higher than those of a month ago after a period of increased volatility
- Lower LNG flows combined with a reduction in gas imports due to planned and unplanned maintenance has provided support to prices
- Carbon prices have provided further support to gas and electricity prices, reaching new 11 year highs
- European gas storage levels are currently 45% higher than last year which could see reduced gas demand later in the summer which could limit any increases in gas prices

WEEKLY PRICE MOVES

ELECTRICITY PRICES (BASELOAD) £/MWh							GAS PRICES p/therm						
	LAST NIGHT'S	WEEKLY	30 DAY	30 DAY	30 DAY	Annual		LAST NIGHT'S	WEEKLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change		CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Aug-19	40.05	-0.50	40.14	45.48	37.63		Aug-19	27.67	-1.41	29.04	35.83	25.65	
Sep-19	41.20	-1.75	43.20	47.65	41.20		Sep-19	28.69	-2.96	32.28	38.04	28.69	
Oct-19	46.25	-1.15	47.79	51.55	45.75		Oct-19	35.99	-2.71	38.25	43.66	35.60	
Winter 19-20	56.68	-0.56	56.47	60.85	54.23	-1.05%	Winter 19-20	51.00	-1.15	51.33	56.17	48.13	-13.56%
Winter 20-21	56.85	-0.05	56.54	59.28	54.48	7.42%	Winter 20-21	55.52	0.02	54.87	58.17	52.67	-0.27%

	LAST NIGHT'S	WEEKLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$63.39	\$1.46	\$64.20	\$67.01	\$60.94	-14.26%

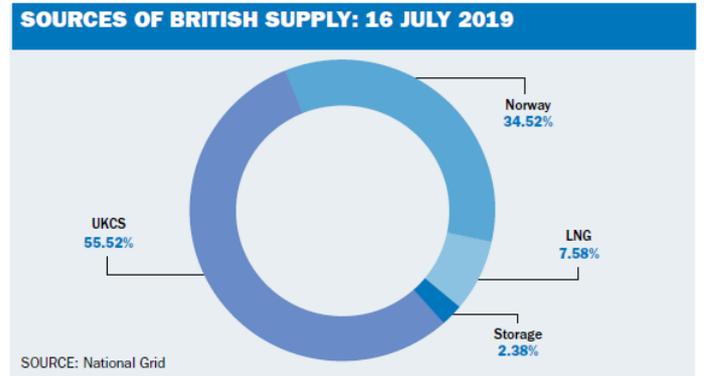
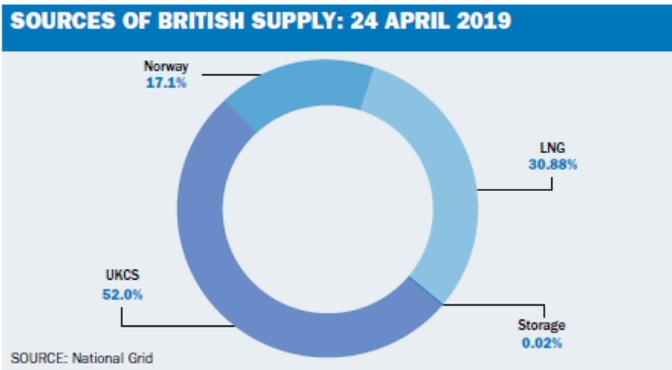
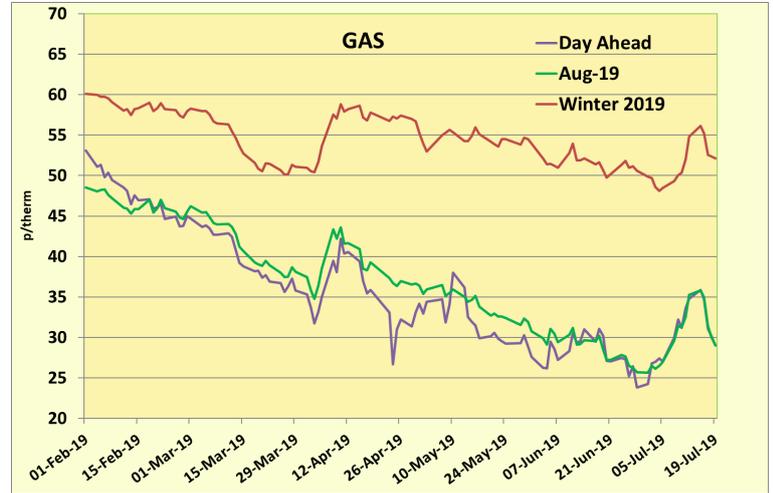
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- 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

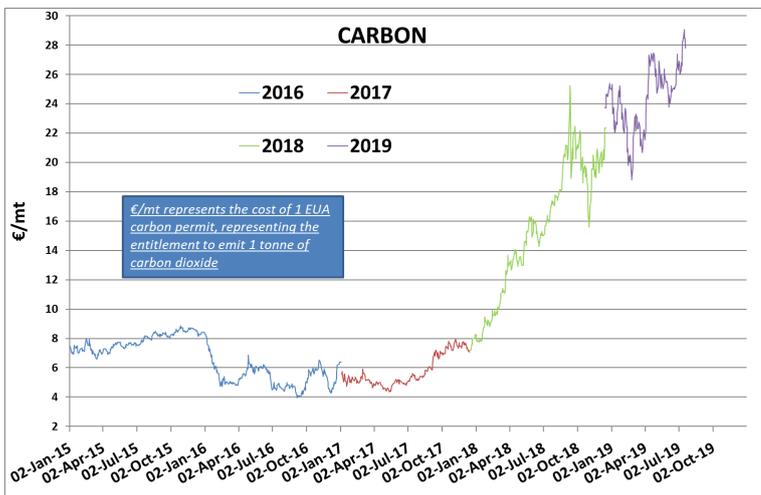
IN DETAIL

After a period of volatile trading, gas and electricity prices have increased over the last month having initially continued on their previous sustained downward trend.

As can be seen from the graph on the right, Day Ahead gas prices reached a low point of 25p per therm at the end of June, with prices for August and Winter 19 also reaching relative lows. Prices increased sharply at the beginning of July, however, with Day Ahead gas prices increasing by 40% before falling back in recent days. One of the drivers for this increase was a concern regarding the availability of imports from Norway at a time when LNG flows had decreased significantly.

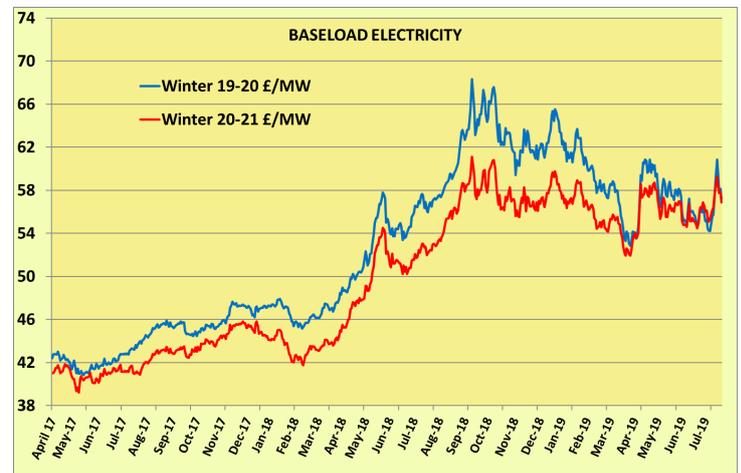


This decrease in LNG flows can be demonstrated by the charts above which illustrate the sources of supply for UK gas. As can be seen, LNG flows as a percentage of overall supply have fallen from 30% on 24th April, a figure which was typical for spring and early summer, to 7.5% currently. As a result the reliance on Norwegian imports has increased substantially. Any threat to the continuation of these imports, therefore, could result in an increase in prices for gas. At the beginning of July there was news of a two month extension to maintenance to a key Norwegian gas processing plant which resulted in increases to gas prices which was exacerbated by buying interest.

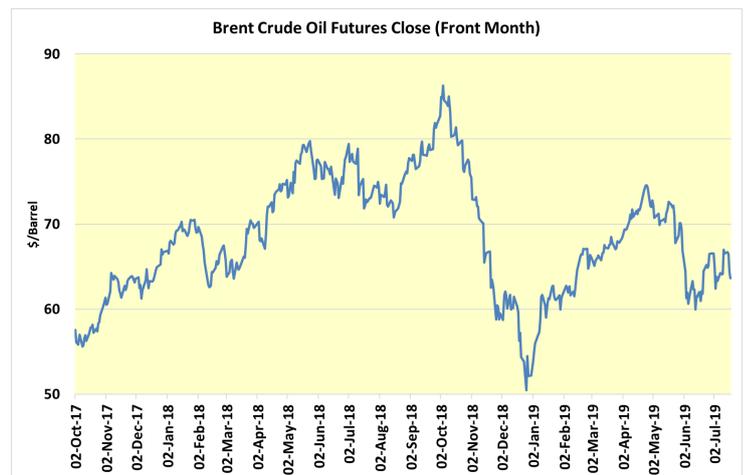


In addition to these supply concerns, gas and electricity prices drew further support from an increase in carbon prices which reached new 11 year highs in early July, partly as a result of speculation regarding the possibility of Germany withdrawing permits from the market which would impact on future supplies. Carbon prices represent a tax on the generation of electricity and any increase has a direct impact on price.

The volatility in prices which has impacted on the current year has also applied to gas and electricity prices for 2020/21, as illustrated in the graphs below, partly driven by the increases that we have seen in carbon prices, and in coal prices which reached six weeks highs in early July.



Oil prices have also traded with volatility over the last month, threatening to push up towards \$70 per barrel on two occasions, mainly as a result of ongoing tensions with Iran. On both occasions prices have fallen back towards \$60 per barrel as concerns regarding global economic growth resurface. Overall prices are unchanged from those of a month ago and have had limited impact on gas and electricity prices.



SUMMARY

After the recent spell of increased volatility gas and electricity prices remain susceptible to further volatility as concerns regarding supply are fully assessed. Any significant move on carbon prices will also have an impact, as will a potential drop in market liquidity as we enter the holiday season. The outlook for LNG shipments into Europe remains strong although less so for the UK. Any increase in LNG supplies into Europe should also benefit the UK, however, as it could reduce the demand for exports to refill European gas storage sites. With these storage levels already 45% higher than last year this suggests the potential for a drop in demand later in the summer which could see further downside for gas and electricity prices in the longer term.



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