

MARKET UPDATE: MAY 2020

OVERVIEW

- Gas and electricity prices for the summer months have fallen further over the course of the last month to new historic low levels
- Winter gas prices have also fallen although to a lesser extent, with winter electricity prices relatively flat
- The short and longer term impact of the coronavirus on global demand continues to drive the markets
- Carbon prices are relatively unchanged from the positions of a month ago and continue to offer support to longer term electricity prices
- LNG flows remain strong despite the cancellation of a number of US cargoes

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
Jun-20	23.75	-3.70	25.79	28.05	23.75		Jun-20	8.88	-6.93	13.24	16.41	8.88	
Jul-20	24.83	-4.43	27.05	29.55	24.83		Jul-20	9.23	-7.95	14.22	17.53	9.23	
Aug-20	26.35	-4.25	28.24	30.70	26.35		Aug-20	11.13	-7.53	15.83	18.94	11.13	
Winter 20-21	41.70	-0.10	41.18	42.45	39.53	-26.33%	Winter 20-21	30.76	-3.06	32.12	34.04	30.63	-44.36%
Winter 21-22	45.48	0.09	44.25	45.78	42.93	-17.05%	Winter 21-22	39.91	-0.25	38.81	40.52	37.20	-27.55%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$34.74	\$9.17	\$28.50	\$36.17	\$19.33	-50.45%

LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Evaluation of the extent and duration of the impact of the coronavirus outbreak
- Relaxation of European lock-down restrictions
- Day Ahead gas prices
- Gas storage levels
- LNG shipments into Europe and the UK
- Currency exchange rates
- Weather forecasts for early summer
- Coal prices
- Oil prices
- Domestic and global economic indicators
- Carbon Prices
- European gas prices
- French nuclear production

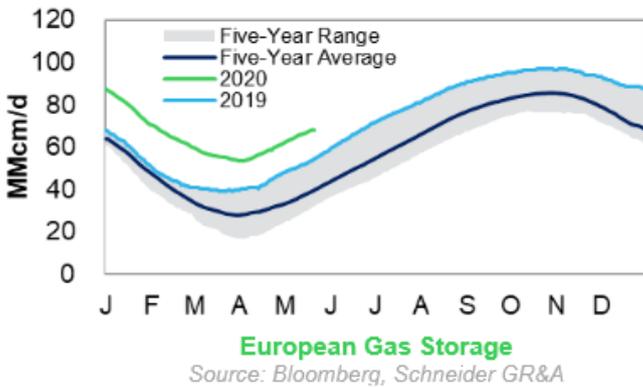
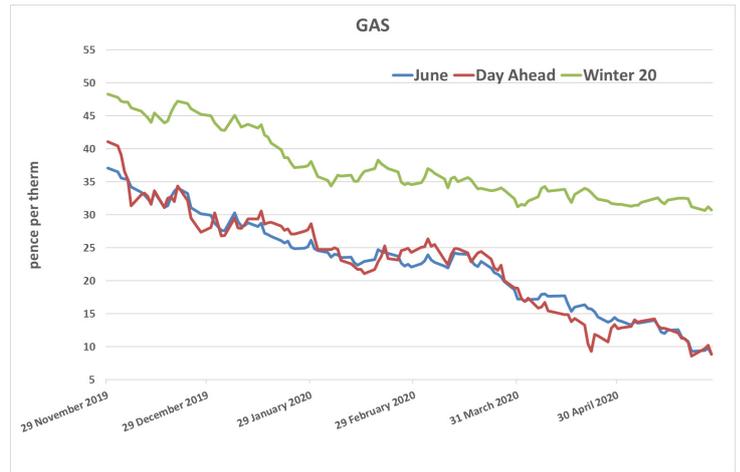
IN DETAIL

The global impact of the coronavirus on demand for gas and electricity and the scale of the economic fallout in the longer term have continued to drive the energy markets over the last month.

The impact can be broken down into short, medium and longer term timescales and it would be useful to consider these in more detail as we are seeing different trends depending on the time frame.

SHORT TERM IMPACT - SUMMER MONTHS

The short term impact can be clearly seen from the graph alongside which shows Day Ahead gas prices (the price of gas for delivery tomorrow) at their lowest levels for 12 years, falling to 10p in mid April and continuing to trade at these levels over the last month. This is due to a substantial fall in gas demand as a result of lock down measures along with high levels of LNG flows, with the UK still benefiting from the increase in LNG cargoes which we have seen over the last 18 months. As these conditions look likely to continue for the next three months we have seen a consequential fall in gas prices for this period down to the Day Ahead levels. Whilst we haven't seen electricity prices fall to the same levels currently prices for the next three month are all at historic lows.

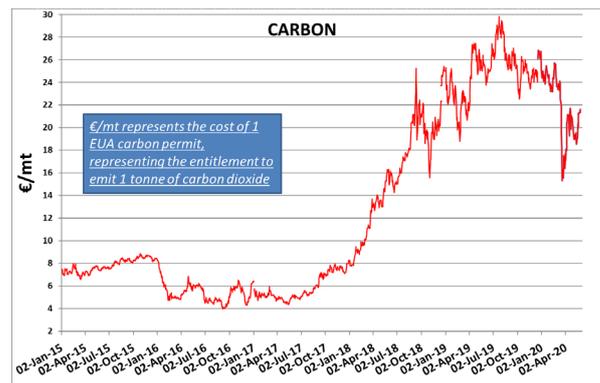


MEDIUM TERM IMPACT - AUTUMN / WINTER MONTHS

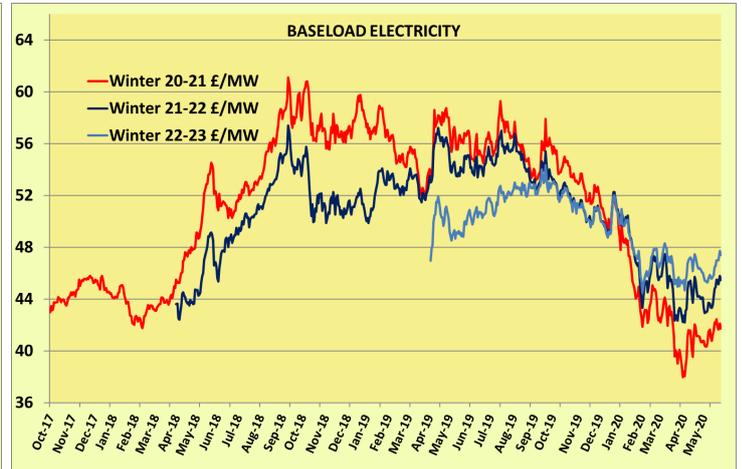
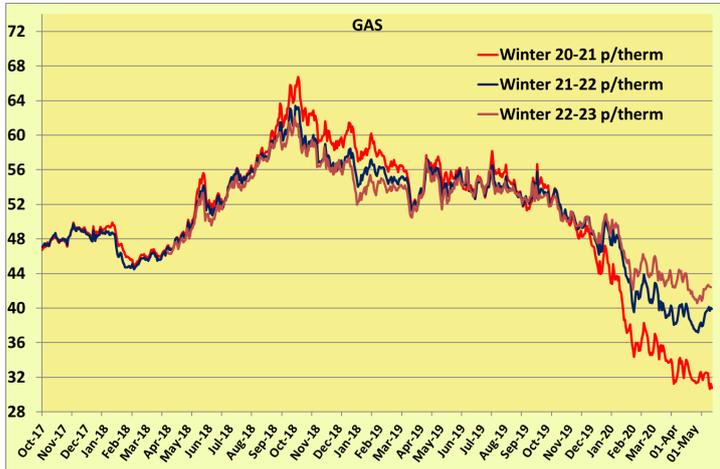
As can also be seen from the graph above, winter gas prices haven't fallen to the same extent in the past month, although they are also trading at historic low levels. The extent of the fall in demand for this period is less certain and is largely dependant on the relaxation of lock down measures and the extent to which the UK economy recovers. In addition there is less certainty around LNG shipments into the UK with the potential for improving economic conditions in China resulting in more LNG heading into Asia. European gas storage levels remain at record levels, however, as demonstrated by the graph on the left, with storage sites filling earlier than normal, taking advantage of the low gas prices. At the current rate of injections we could reach full capacity by August. Given that currently approximately 35/40% of UK gas demand is for exports into Europe, mainly for injection into European storage sites, without this demand, and with no reduction in LNG shipments into the UK or increase in gas demand, there is the potential for a significant surplus of gas in autumn which could extend into the early part of winter and which could impact on prices.

LONGER TERM IMPACT - SUMMER 21 AND BEYOND

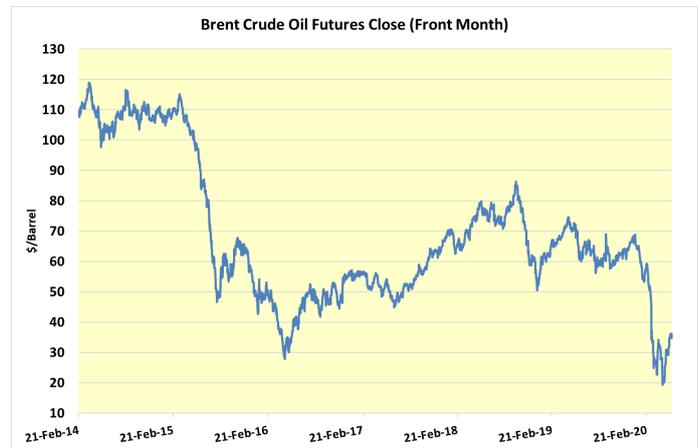
The fall in gas and electricity prices for the longer term has been less severe and prices have recovered somewhat in recent weeks. Prices for this period are more influenced by other fundamental factors such as carbon and oil prices. The chart on the right illustrates how carbon prices have recovered from the sharp falls that we saw at the end of March which coincided with the early stages of lock down measures in most European countries, and are trading at the top end of their recent range. This also helps to explain why electricity prices for the coming winter haven't fallen to the same extent as the equivalent gas price. Carbon prices represent a tax on electricity generation and carbon prices are closely correlated with electricity prices.



The support provided to electricity prices by the increase in carbon prices can be seen on the graphs below, with prices approaching six week highs. This also illustrates how the impact of the longer term effect of the coronavirus on global economies is being reassessed, with cautious optimism that a continuation in the relaxation of the lock down measures throughout Europe may see economies start to recover. The impact of this can also be seen on longer term gas prices. It should be noted that although there has been some support to prices in recent weeks they remain at relatively low levels.



As mentioned above, oil prices can also have an impact on longer term gas and electricity prices, partly due to some European gas prices being index linked to oil prices, and partly due to market sentiment - movements in key markets such as oil or equities can result in similar moves in other markets. We have seen a modest recovery in oil prices in the last month as a result of unprecedented cuts in oil production from OPEC members along with Russia. In addition, whilst the US haven't cut production specifically this has occurred naturally as a result of the very low US oil prices which has resulted in some levels of production no longer proving economically viable. This could also have an impact on LNG in the longer term with a number of US LNG projects shelved for the same reasons. The recovery in oil prices that we have seen in recent weeks can be seen as having provided some support to longer term gas and electricity prices.



SUMMARY

The message is very similar to that of a month ago. The global impact of the coronavirus is likely to drive the energy markets for the foreseeable future. The trajectory of the gas and electricity markets going forward will be defined by the speed and success of the relaxation of the current lockdowns across Europe in the near term, as well as the scale of the economic fallout in the longer term.

In the short term, low demand for gas and electricity coupled with high levels of LNG and limited storage capacity to accommodate any surplus are likely to cap any potential recovery in prices.

Gareth Maude, 28th May 2020