

Energy Market Update

Quarterly Update | ISSUE 107

Welcome to our Autumn Energy Market Update.

Throughout this issue you will find recent news concerning the energy sector and information beneficial in understanding your energy prices and market changes.

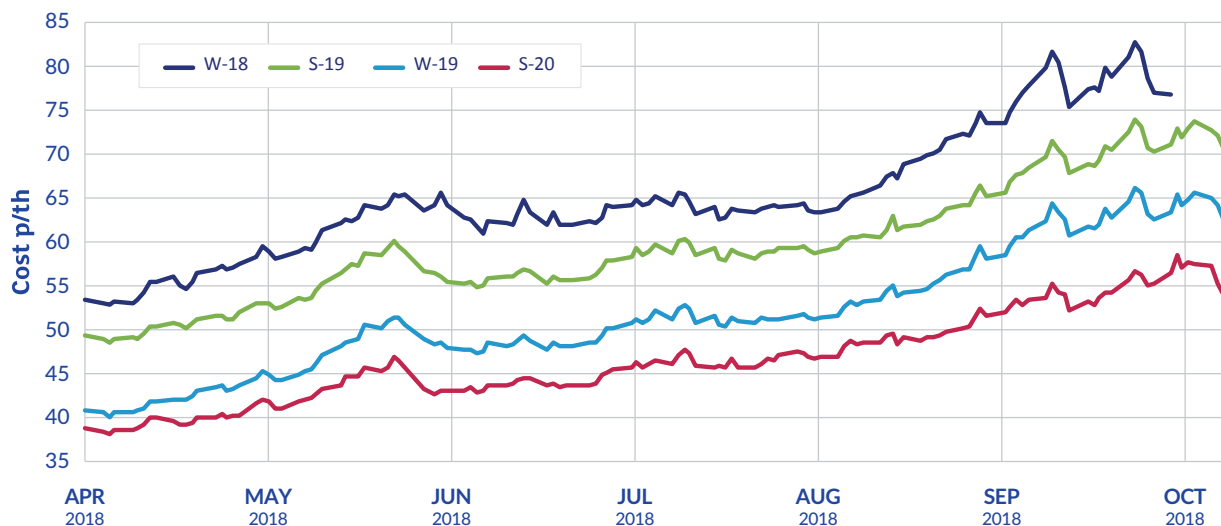
MARKET UPDATE

Extreme price volatility in the UK's gas and power markets has continued in Q318, causing prices to increase to 10 year highs in September. A few of the key drivers over the last 3 months have been:

- ◆ **Carbon and Coal:** The price of carbon allowances have increased by 67% in 6 months, while coal prices are currently near 6-year highs. Both factors have been the key driver of power market prices in Q318.
- ◆ **Oil:** Oil prices reached 4-year highs of \$86/barrel in October as a result of US trade sanctions restricting 2 million barrels per day of Iranian oil from the global market.
- ◆ **Value of the pound:** The pound fell from 12-month highs in April to 12-month lows in August, making energy imports more expensive.
- ◆ **Gas system maintenance:** System outages in the North Sea and Europe heavily restricted flows to the UK this quarter, in turn causing numerous problems with the UK's system balance.

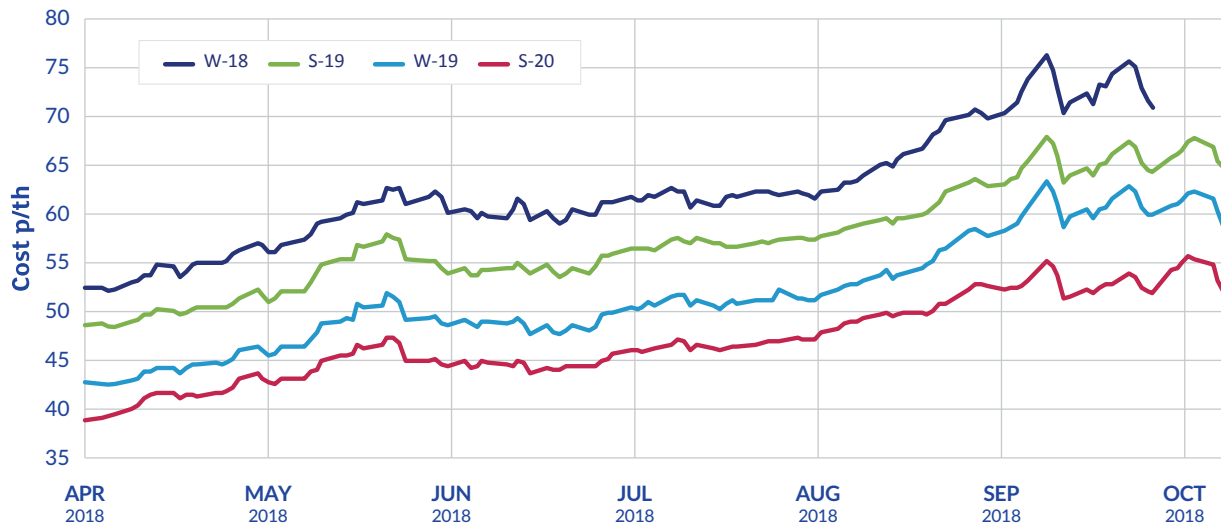
GAS prices over the last 6 months (Apr 2018-Oct 2018)

Source: Bloomberg

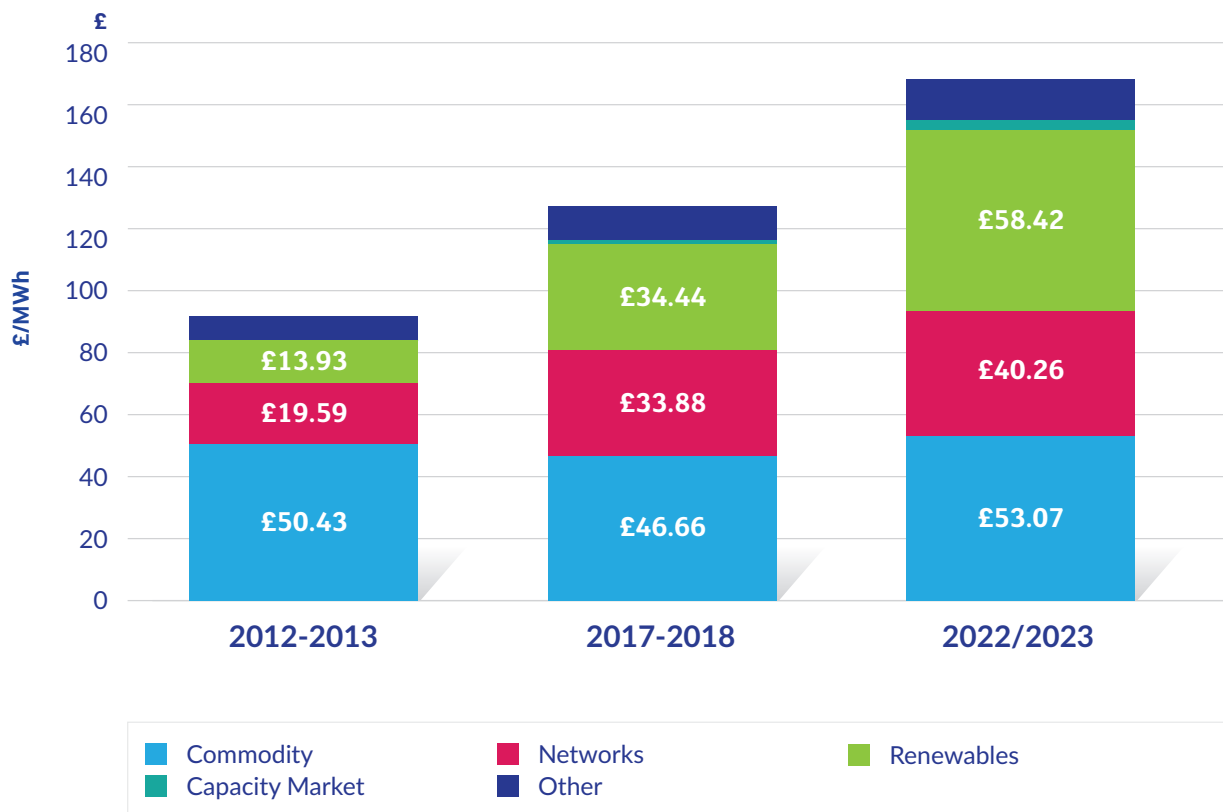


POWER prices over the last 6 months (Apr 2018-Oct 2018)

Source: Bloomberg



Electricity Cost Stack in £/MWh: Five Year Intervals



Delivered energy prices in the UK continue to rise due to a combination of higher energy commodity prices and increasing third-party charges. The graph above shows average delivered electricity and gas prices from 2017 to 2020. Please note that the above percentage price changes are an estimate, and are therefore subject to change. Increases may also vary based on consumption volumes, consumption patterns and geographical location.

BULLISH FACTORS

WHAT COULD PUSH PRICES UP?

- ◆ **Oil:** US sanctions on Iran are expected to come into effect in November. When introduced, oil prices will likely increase further, which will feed through into UK energy prices.
- ◆ **Carbon and Coal:** Wider fuels mix prices look set to continue to increase in the longer term. Forecasts suggest carbon prices could increase by another 60% in the next 6 months, while coal prices are being pushed higher by robust Asian demand.
- ◆ **Belgian Nuclear Output:** Belgian Nuclear is expected to operate at roughly 50% of capacity this winter due to extended outages. This could result in a greater reliance on UK energy exports.



NEUTRAL FACTORS

WHAT FACTORS ARE CURRENTLY HANGING IN THE BALANCE?

- ◆ **Temperatures:** A milder winter could see prices fall as a result of lower demand. Likewise, a cold spike as seen in March 2018 could push prices back up to historic highs.
- ◆ **Brexit:** A “soft” Brexit could see the value of the pound increase, causing energy prices to fall. A “hard” Brexit will cause the pound to fall dramatically, and could also undermine the UK’s security of energy supply moving forwards.
- ◆ **LNG:** Arrivals into the UK have been poor this year due to high Asian spot prices. Asian prices are now falling, which could see more LNG vessels arriving in the UK over the winter.



BEARISH FACTORS

WHAT COULD PULL PRICES DOWN?

- ◆ **Gas system maintenance:** The North Sea maintenance schedule has come to an end, with gas imports from Norway and the UK continental shelf improving drastically. A well supplied system could cause prices to fall in the short term, however any severe unplanned outages over the winter will almost certainly be bullish for prices.
- ◆ **Electricity Generation Capacity:** Generation margin, the excess of installed generation over demand, have been healthy in 2018. The continuation of this trend could be bearish for power prices in the short term.

