Energy Market Update

Quarterly Update | ISSUE 108

Welcome to our Winter Energy Market Update.

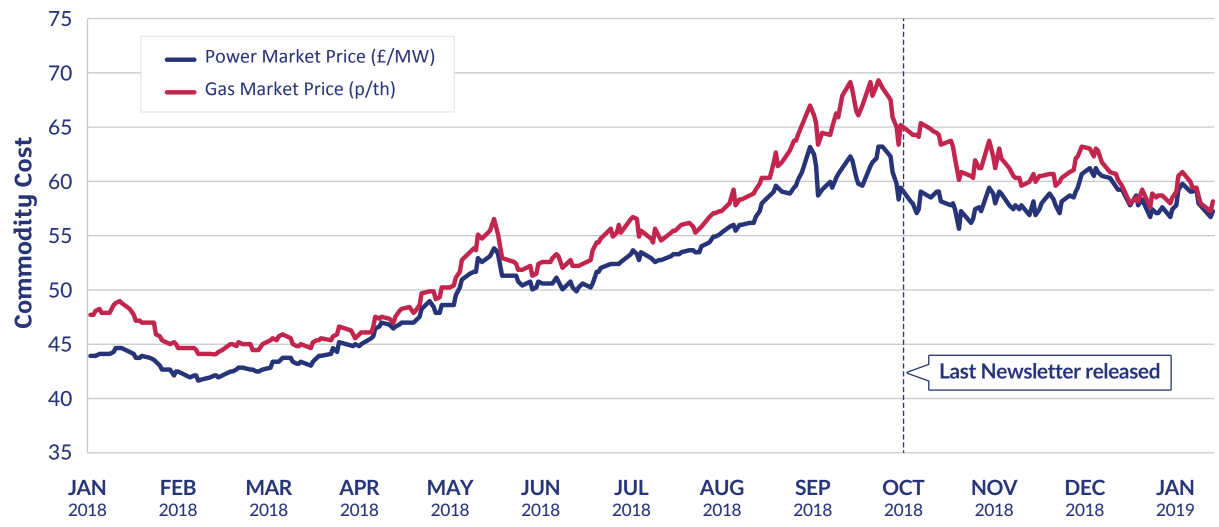
Throughout this issue you will find recent news concerning the energy sector and information beneficial in understanding your energy prices and market changes.

MARKET UPDATE

Extreme price volatility in the UK's energy markets in the latter half of 2018 has given way tolower prices as we moved inot the New Year. The current fall in gas and electricty wholesale prices marks the first sustained drop in wholesale market prices seen since 2014. A number of the key drivers behind this include:

- **LNG Arrivals:** Liquefield Natural Gas (LNG) arrivals into the UK and North West Europe hit record highs in December 2018 and January 2019.
- **Gas Storage:** The UK's gas storage position is currently well above last year's level, indictating that gas and electricity markets are likely to be well supplied for the remainder of the Winter period.
- **Oil:** Having reached 4-year highs in October, the prcie of Oil plummented by over 40% in Q418. This fall in proce has largely been driven by the US granting sanction waivers to importers of Iranian oil stagnating economic growth and a generally oversupplied market.
- **Value of the Pound:** Brexit-driven volatility in the £/* exchange has continued. The Pound is currently at 9-month highs against the Euro as the Brexit process looks likely to be extended, making energy imports less expensive.

Energy Commodity Market Prices (2018/19) — Source: Bloomberg



Market Outlook

BULLISH FACTORS

WHAT COULD PUSH PRICES UP?

- **Threat of Cold Weather:** Another "Beast from the East" would undoubtably be bullish for market prices. The winter so far has been a fairly mild one, although the UK's weather is famously prone to change at short notice.
- **Unplanned Outages:** The potential of gas and power infrastructure problems, particularly during periods of peak winter demand, remains a key threat to the UK's energy industry.
- **Brexit:** A no-deal Brexit would see the value of the Pound fall, leading directly to an increase in energy market prices. It would also lead to greater cross-boarder trading inefficiencies and threaten the UK's security of energy supplies.

NEUTRAL FACTORS

WHAT FACTORS ARE CURRENTLY HANGING IN THE BALANCE?

- **Oil:** Having fallen by over $35/barrel in Q418, the outlook for oil prices appears to be a bit mre balanced. US/iran sanction waivers are expected to come to an end in April, although concerns over slow global economic growth and an oversupplied market are likely to persist.
- **Carbon & Coal:** Both Commodities are key cost components in generating electricity, and therefore feed directly into wholesale power market prices. The cost of EU carbon allowances increased in Q418, while coal prices generally fell towards the end of 2018. This pattern is expected to continue in the short-term.

BEARISH FACTORS

WHAT COULD PULL PRICES DOWN?

- **LNG Arrivals:** LNG fundamentals remian favourable for continues deliveries to the UK and North West Europe over the coming months. The volume of deliveries is expected to be much greater than the same period last year, which should pull gas prices down further.
- **Gas Storage:** If the UK makes it through the winter peroid with high gas storage levels, energy market prices are likely to continue to fall throughout the summer of 2019.