Energy Market Update

Quarterly Update | ISSUE 109

Welcome to our Spring 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

Price volatility remains the key underlying theme in the UK's wholesale energy markets, with prices having fallen consistently from January through to March, before increasing sharply by 12% at the start of April. Factors driving market price fluctuations include:

- **LNG Arrivals:** Liquefied Natural Gas (LNG) vessel arrivals into the UK and North-West Europe have gone from strength to strength in 2019. Imports to the UK were 3.7 times higher this winter (Oct-Mar) than the same period last year.
- **Gas Storage:** The 'Beast from the East' heavily drained the UK's gas storage facilities in March 2018. In stark contrast, 2019 has been characterised by mild temperatures, leading to lower gas demand in the UK. Gas stocks are currently well above seasonal normal levels as a result.
- **Oil:** Having fallen by over 40% in Q418, oil prices have been resurgent thus far in 2019. An improvement in US/China trade tensions, increased OPEC-led supply cuts as well as US sanctions on Iran have all combined to push market prices up to 6-month highs of $74/barrel.
- **North Sea Gas Imports:** European markets were spooked by a sudden drop in North Sea gas flows in April. This sparked a period of renewed volatility on the UK's energy markets, with uncertain Norwegian export behaviour likely to be a key price driver over the coming summer months.

Energy Commodity Market Prices (2018/19)

Source: Bloomberg

Market Outlook

BULLISH FACTORS

WHAT COULD PUSH PRICES UP?

- **Carbon:** European carbon allowances are a key cost component of generating electricity through pollutable means. The cost of allowances have increased to 10-year highs of €27/tonne in April. This trend is likely to continue in the short-term, with forecasts expecting prices to reach €30/tonne by the end of Q219.
- **North Sea Maintenance:** Gas infrastructure maintenance is expected to take place in the North Sea throughout the summer. North Sea imports remain the UK's main source of gas, so any significant planned and unplanned outages will likely have a significant impact on market prices.

NEUTRAL FACTORS

WHAT FACTORS ARE CURRENTLY HANGING IN THE BALANCE?

- **Oil:** Despite a sharp increase in the cost of oil since the start of 2019, the outlook remains balanced. Prices are likely to stay between $65-80/barrel over the coming months, with the bullish drivers seen in Q119 likely to be tempered by higher US output and weak global economic growth forecasts moving forward.
- **Brexit:** The £/€ exchange climbed to 17-month highs as a long extension to Brexit negotiations was agreed in March. As a result, a no-deal Brexit now seems an unlikely outcome, which should see the pound stabilise after months of extreme volatility.

BEARISH FACTORS

WHAT COULD PULL PRICES DOWN?

- **LNG Arrivals:** Global Liquified Natural Gas (LNG) prices suggest record deliveries to the UK are likely to continue. The volume of arrivals is expected to be much greater than the same period last year, which looks set to pull gas prices down further.
- **Warm Weather:** UK temperatures hit winter-highs in Q119, with Kew Gardens in London reaching 21.2 degrees in February. Warmer weather is expected to carry through into Q219, keeping domestic gas demand below seasonal normal levels.
- **Coal:** A weak long-term demand outlook is likely to see coal prices continue to fall moving forwards. European coal prices have already fallen by 16% in 2019.