Energy Market Update

Quarterly Update | ISSUE 111

Welcome to our Autumn Energy Market Update.

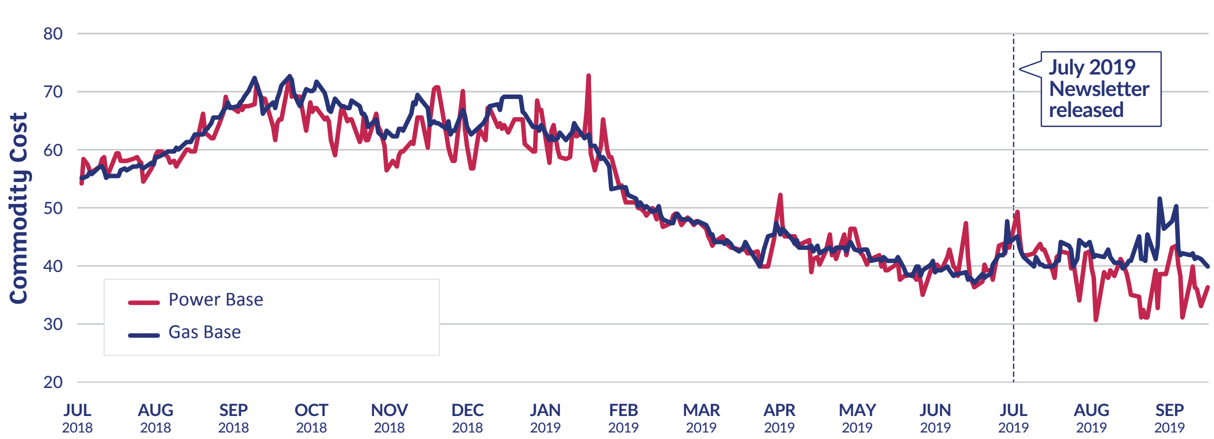
MARKET UPDATE

Volatility remained high over Quarter 3 2019, as multiple geopolitical factors have impacted the markets. We have seen a significant number of high differential price spikes throughout the quarter, however, a bearish run has prevailed across all gas, power and further commodity prices. The major fundamentals are highlighted below:

- **LNG:** In September, the UK experienced record LNG deliveries hitting our shores. This was due to low demand in the Asian markets pushing spot prices down. As a result, the UK now has record levels of medium range gas storage for this stage of the year, around +90%.
- **Oil:** Has been heavily effected by events such as the Saudi drone attacks, tanker seizures in the Strait of Hormuz, US/Iran sanction, US-China trade wars, anti-government protests in Iran, along with political disruption with Brexit and the Trump impeachment. However, Oil has maintained a bearish sentiment throughout and the price has fallen by 10.45% from Q2, reaching lows near the $56/bbl price.
- **Gas Maintenance:** We saw a very heavy period of Gas maintenance, both planned and unplanned. The main disruption was due to the closure of Easington, one of the UK's largest gas terminals, receiving gas directly from Norway and the North Sea fields. This was down for 2 weeks and resulted in 70 MCM (Million Cubic Meters) of capacity coming offline.
- **Climate:** Over the past 3 months, the UK has seen temperatures averaging 1.47 °C above the seasonal average, specifically, 73 days were above average temperatures and only 19 days were below. This had a large impact on demand, as much less gas was needed for electricity generation.
- **Gas:** the gas industry has taken some major hits over Q3, the main two being Groningen and Opal. Firstly, Groningen is one the world's largest onshore gas fields in the Netherlands, however, it has seen major seismic activity in its recent history, forcing the site to be closed down 8 years earlier than previously planned, in 2022; greatly reducing European supply. Secondly, the Opal pipeline into Europe is subject to an ongoing dispute between Russia and Ukraine over a transit deal which has been completely scrapped.

Gas and Power Day Ahead Prices (2018/19)

Source: Bloomberg



Market Outlook

BULLISH FACTORS

WHAT COULD PUSH PRICES UP?

- **Electricity Generation Margin:** this is our ability to meet power demand through the grid. Forecasted to fall below the 10 GW safety boundary throughout Q4 and Q120. Furthermore, renewable generation is expected to fall due to less sunlight and more volatile wind conditions.
- **Geopolitical:** many of the same factors are in play going into Q4 as in Q3, especially surrounding Brexit, as we once again come close to leaving the EU. There are also ongoing issues in the US surrounding none other than, Donald Trump. He is currently amid trade talks with China, an impeachment enquiry, Iran sanctions and now a Turkish economic turf war.

NEUTRAL FACTORS

WHAT FACTORS ARE CURRENTLY HANGING IN THE BALANCE?

- **LNG Availability:** LNG has hit record low spot prices in October due to a huge oversupply in the market. However, these prices and the availability of LNG is highly dependent on Asian markets. For example, South Korea have just recently revealed they are to close 14 coal-fired power plants largely reducing their coal demand and subsequently increasing their demand for LNG.
- **Climate:** temperatures are currently forecast to remain on and close to average over the coming month, meaning it is likely that demand will remain around seasonal average levels. However, we are always susceptible to cold spells like the 'Beast from the East', where day ahead prices rose to over 100p/th for gas, compared to current levels of nearer 30p/th.

BEARISH FACTORS

WHAT COULD PULL PRICES DOWN?

- **Economy:** if global economies begin to slow at an increasing rate, demand for energy falls. We are therefore likely to see falling prices as we slip deeper into another global economic slowdown.
- **Gas Demand:** throughout Q3 we have seen a far below average demand for gas supplies. The average over Q3 has been 151 MCM, however the long-term 10 yr average demand sits at 222MCM. If this trend continues into winter, we are likely to see bearish sentiment in both gas and power markets.
- **Gas storage:** as with the previous quarter, we have seen record storage levels in the UK and Europe. This sets us in a very strong position with winter on the horizon. It is crucial that levels remain high, as it allows us to maintain supply even if there are major supply issues in the UK and Europe (Groningen and Opal) or sizeable demand rises due to cold spells.
- **Wider Fuels Mix:** the current coal and carbon prices are on a long bearish-run. Carbon has fallen almost €8/t from its projected price of €30/t for this period, whereas coal has fallen from \$100/t in October 2018 to just \$65/t currently.
- **Oil:** the price continues to fall amongst all the geopolitical noise that has surrounded it. US/China trade talks are currently ongoing and if negative news prevails, the oil price is likely to follow a bearish sentiment.