

A photograph of two women at night. The woman on the left is smiling and looking towards the right. The woman on the right is looking down at a large, white, crumpled object that appears to be a lantern or a light display. They are outdoors, and there are blurred lights in the background, suggesting a festival or event. The image is partially obscured by a red and yellow vertical bar on the right side.

e-on

Monthly Market Report

April 2017



Market summary for March 2017

Gas

Warmer weather and a well-supplied system pushed gas prices down.

Power

Power prices fell following trends in the gas market.

Oil

Increases in US crude inventories pulled oil prices lower in March.

Carbon

Carbon prices tracked power lower.

Direction of commodity prices (Feb 17 to Mar 17 & Mar 2016 to Mar 2017)

	Monthly Movement	Yearly Movement
Gas price	↓	↑
Power price	↓	↑
Oil price	↓	↑
Carbon price	↓	↑

Movements based on Front Month

Warmer weather and a well-supplied system pushed gas prices down

Gas Front Month Price



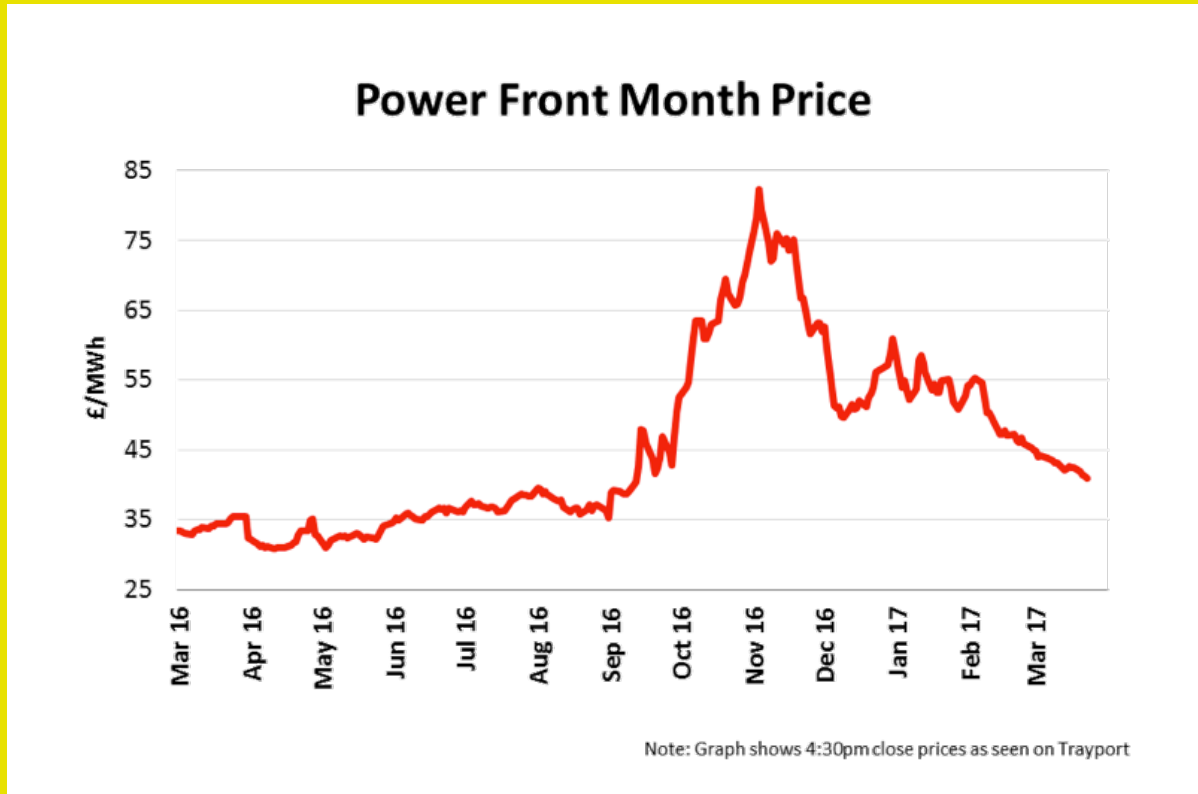
Note: Graph shows 4:30pm close prices as seen on Trayport

A well-supplied gas system throughout March saw gas prices decline. A slight upward move was seen on 15 March, due to lower Norwegian imports, but this was short-lived and prices continued their downward movement. Outages at Rough storage facility and gas processing plants didn't have much effect on the direction of prices either. Towards the end of the month, European and UK temperatures got milder than seasonal averages, further pulling down prices. March also

saw the start of the third LNG liquefaction train for the USA's Sabine Pass LNG export site. The fourth liquefaction train was also recently announced to be undergoing the start-up process. Another key driver in March has been LNG cargoes arriving in the UK which included an Algerian vessel, a Peruvian vessel and five Qatari vessels with another possibly on the way. This meant the UK LNG terminals could contribute strongly towards the gas system.

Power

Power prices fell following trends in the gas market



Power prices followed the same trend as gas, dropping overall with only a very slight uptick mid-month. The mid-month increase was due to higher gas prices, but also bullish sentiment coming from higher oil prices after US stockpiles had eased from record highs. A drop was also seen at the start of the month, after it was announced that the French power interconnector would return to full

capacity earlier than expected from its outage. For the rest of the month, prices dropped on record high wind generation in February mostly continuing into March and warmer weather than previously forecast. Higher temperatures than average impacted heating demand levels, and coupled with good power margins allowed prices to fall.

Brent Crude Front Month Price

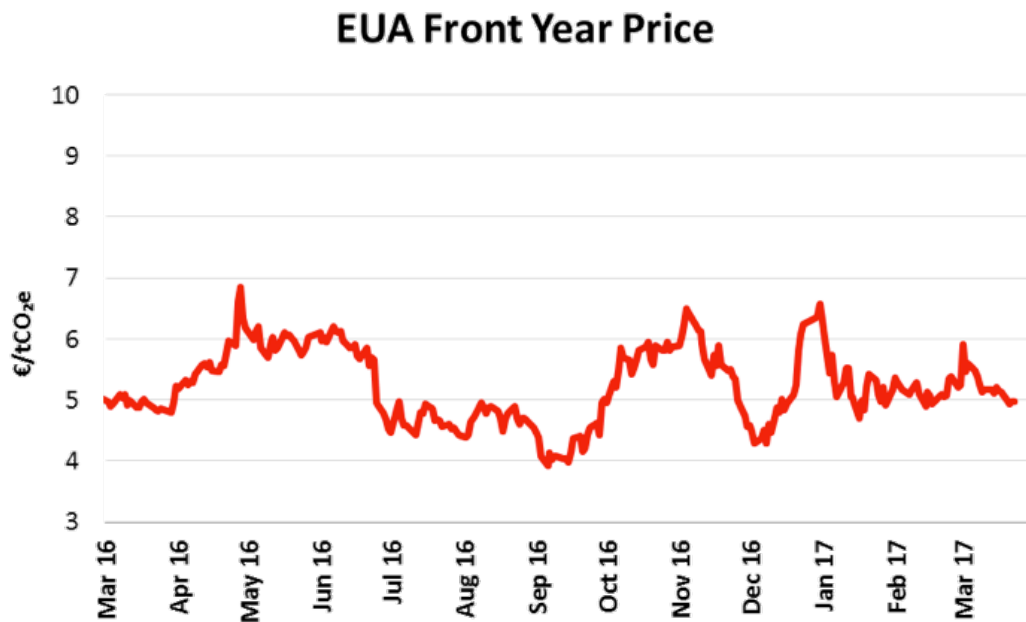


The number of US crude inventories continued to dominate oil news in March. Oil prices were flat at the start of the month, and then declined sharply until mid-March before remaining flat until the end of the month. Oil prices dropped to their lowest in three months on 13 March as US drillers kept adding rigs. The oil rig count was at its highest since September 2015. The number of US crude inventories kept surpassing analyst predictions, showing the high US growth rate. A surprise drop in US inventories in mid-March, contrary to analysts' forecasts, pushed prices up.

However, prices could not keep hold of the upwards movement and dropped lower again as Chinese gasoline imports fell. The agreement signed by the Organization of Petroleum Exporting Countries (OPEC) and some voluntary non-OPEC countries has limited the reduction in prices. At the end of March, five OPEC and non-OPEC countries met to review oil production cuts. Extensions to the agreed oil output cuts will be reviewed and discussed at the next OPEC meeting, with many contributing countries already expressing interest in extensions.

Carbon

Carbon prices tracked power lower



Carbon prices declined over the month tracking power moves. Prices climbed to the highest in two months at the start of March after European environment ministers agreed on a carbon-market overhaul aimed at reducing a glut and boosting prices from 2019. The \$48 billion cap-and-trade system created a glut of carbon permits, pushing prices down more than 80 percent since 2008 and eroding the penalty for polluting. The proposal includes doubling the rate at which surplus emission allowances would be absorbed from the market. The deal paves the way for negotiations

with the EU parliament and European commission on the final legislation. A slight increase in prices was also seen when the Chancellor of the Exchequer Philip Hammond announced his spring budget in early March. With the European Parliament and Council both having agreed on their positions, trilogue seems set to start earlier than many had expected. This would strengthen the ETS design in regards to market balance. The downward movement in prices was kept lower by news that Poland will resume auctions from 29 March, adding further allowances into the market.

Things to watch out for in April

A new carbon price floor will be announced in the autumn budget after Britain's exit from the EU ETS to give business greater clarity on what they have to pay.

One of the biggest news events in March was the green light given to Prime Minister Theresa May to invoke Article 50 of the Lisbon Treaty on 29 March. Leaders from EU countries except the UK met on 26 March to discuss Brexit on the day of the 60 year anniversary of the Treaty of Rome. On 4 April the EU parliament issued a declaration on Brexit after negotiating guidelines on Brexit. This will be followed by a series of meetings eventually resulting in a summit in Brussels to discuss Brexit on 29 April. The outcome of the negotiations will be one to watch.

Other political news having impacted prices in March included the election results in the Netherlands, the progress of the French elections and the strength of the US dollar on the back of President Donald Trump's activities. The recent defeat of the American Health Care Act in the House of Representatives was a key political test for the President. It will be interesting to see how the US dollar changes in April and the impact on oil prices.

Scotland's first minister, Nicola Sturgeon, has won the backing of a majority of MSPs for her plan to ask the UK government for a section 30 order, which would be needed to hold a legally-binding referendum on independence.

The pound had begun to increase again by the end of March as UK inflation increased to 2.3% in February, up from 1.8% in January. This was the highest rate since September 2013.

Jargon buster

CCGT:	Combined Cycle Gas Turbine
LDZ:	Local Distribution Zones
LNG:	Liquefied Natural Gas
MCM:	Million Cubic Meters
MEP:	Member of the European Parliament
NBP:	National Balancing Point
NTS:	National Transmission System
OFGEM:	Office of Gas and Electricity Markets
OPEC:	Organization of the Petroleum Exporting Countries
RO:	Renewables Obligation
CPI:	Consumer Price Index
ILO:	International Labour Organisation
UKCS:	UK Continental Shelf
IMF:	International Monetary Fund
IEA:	International Energy Agency
EUA:	European Union Allowance
EU ETS:	European Union Emissions Trading System
BoE:	Bank of England

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