

E.ON Monthly Market Report

March 2017



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Market summary for February 2017





Gas: Gas prices retreated on warmer-than-normal weather.

Power: Power prices fall, caused by good power plant availability.

Oil: Oil prices were flat despite OPEC's best efforts to drive prices up.

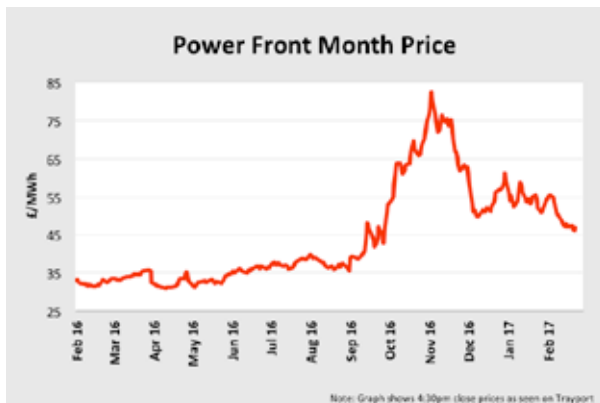
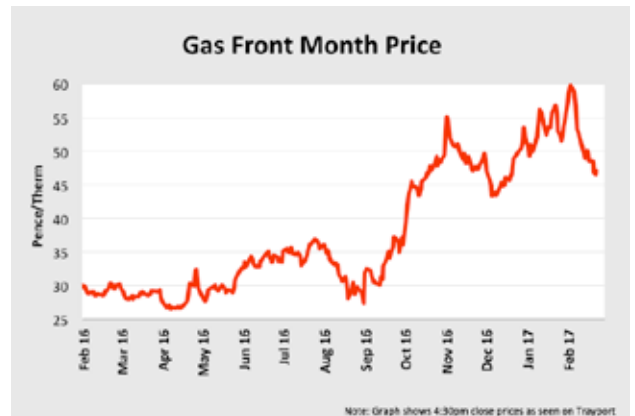
Carbon: Carbon prices fall on weaker coal support.

Direction of commodity prices (February 2016 to February 2017)

	Year
Gas price	
Power price	
Oil price	
Carbon price	

Gas prices retreated on warmer-than-normal weather

Gas prices rose slightly in the first three days of February, before sharply declining over the rest of the month. The initial increase was due to a combination of colder weather and a rise in coal prices. Front month prices then dropped on revised weather forecasts with warmer temperatures both in the UK and Europe. There were some planned and unplanned outages in both the UK continental shelf (UKCS) and the Norwegian continental shelf (NCS), but these weren't enough to stop prices falling. Imports through the Belgium bi-directional IUK pipeline fell, and the UK was exporting for a short period at the end of the month. Overall, Norwegian flows have been strong, leaving a reduced need for storage withdrawal to balance the system. Centrica's Rough storage site cannot now inject gas until at least the end of June, so there will be continued demand upon medium-range storage (MRS) sites. Liquefied natural gas (LNG) arrivals have been limited, owing to unplanned outages in Algeria and Qatar reducing the surplus supply this month. One cargo was expected to arrive at the end of February for re-loading.



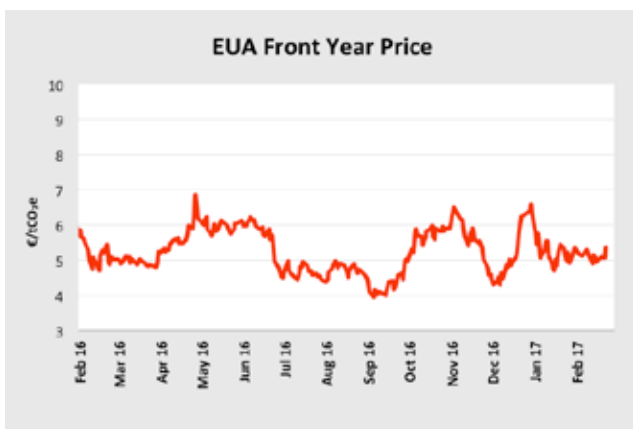
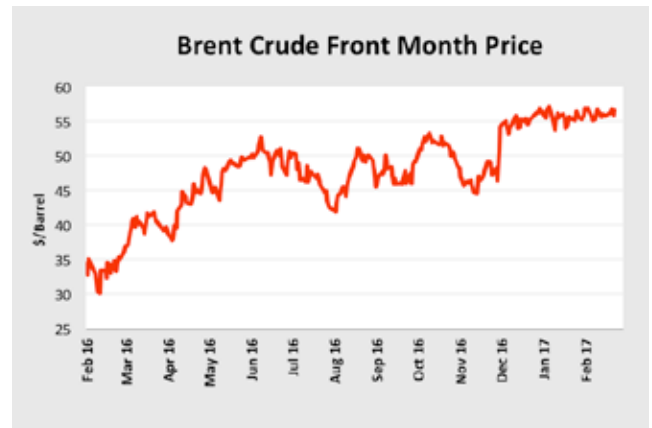
Power prices fall, caused by good power plant availability

Power followed the same trend as gas prices, increasing in early February then declining over the rest of the month. Early price increases were impacted by nervousness in the market, with

workers at several French power production sites voting to extend strikes into the beginning of February. For the rest of the month margins have been healthy, with good plant capacity availability and less power demand. Margins have remained at comfortable levels since the start of the year. January 2017 saw the highest levels of net exports from Britain into France since February 2012. The capacity market (CM) auction, which secures a certain amount of power capacity, cleared at an unexpectedly low price. Eggborough Power Station, which was previously thought to be closing down, was awarded an agreement in the auction adding to generation availability and placing the power system in a more comfortable position for delivery.

Oil prices were flat despite OPEC's best efforts to drive prices up.

Last month saw the beginning of the increasing oil production from the USA. This has continued into February and prices have fallen slightly, despite high compliance from OPEC countries on the agreement to cut production. The biggest decline was seen in early February when data from the US showed crude stockpiles rose by 14.2 million barrels the week before, which was the largest weekly gain since October 2016. By mid-February oil prices climbed nearly 1% after a surprise decline in US crude stocks. If OPEC cuts (led primarily by leader Saudi Arabia) continue at the same pace, the global oil market could move to a deficit by the second half of the year when demand is expected to be stronger. However, news of US shale producers returning to growth should keep a lid on prices and possibly reduce OPEC's market share.



Carbon prices fall on weaker coal support

Carbon prices followed fuels, dropping over the month. EUA prices were firmer at the start of the month, driven by higher auction interest but thereafter dropped. Price drivers continue to be bearish from the start of the year. MEPs voted in favour of the EU ETS phase four proposals, with several amendments. If adopted by the EU Council, it could lead to significant upward revisions to EUA price forecasts for the end of Phase III and beyond.

Things to watch out for in March

The announcement that Rough storage is unable to inject until at least the end of June has had little impact on gas prices so far. This could change if the site sees further delays with injections.

Prices for European gas and liquefied natural gas (LNG) in Asia were nearly at the same level during the past few weeks, resulting in more cargoes in Europe, particularly in the south. Two cargoes are on the way to the UK, arriving in early March, keeping LNG storage well stocked.

New measures agreed by MEPs to cut carbon emissions will gradually reduce the number of allowances available, in an attempt to push up their price and provide an incentive for industries to adopt cleaner technologies. The cap on emissions will fall by 2.2% a year until at least 2024. The highest performing 10% of factories and other installations will also get all their allowances free. The decrease in the emissions cap will affect the number of emission allowances a company can receive or buy to be traded as needed. The changes were due to be debated at the council of environment ministers on 28 February 2017.

The pound has recovered each time it has been put under pressure by news around Brexit negotiations. The bill has already been approved by the House of Commons and is undergoing debates in the House of Lords. Both houses are hoping to make amendments to avoid a 'hard' Brexit, in which case the pound could slump again.

Recently the pound hit a one-month high against the Euro amidst growing concerns that Marine Le Pen might win the French Presidency. There are fears Le Pen may follow the UK and take France out of the EU, which added further strength to the pound.

Jargon buster

CCGT:	Combined Cycle Gas Turbine
LDZ:	Local Distribution Zones
LNG:	Liquefied Natural Gas
MCM:	Million Cubic Meters
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
BoE:	Bank of England

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