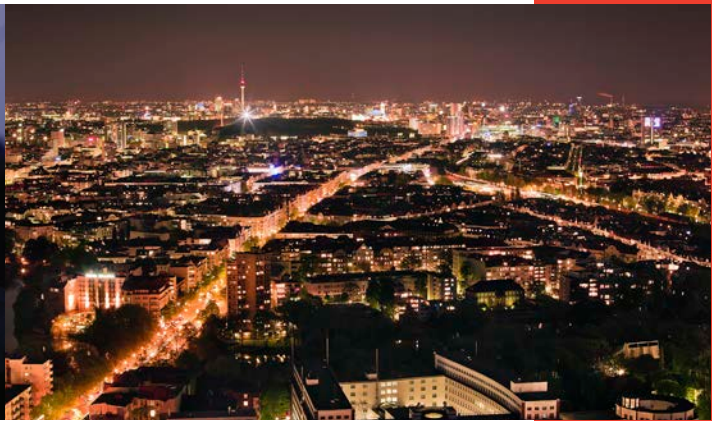




e-on

Monthly Market Report

October 2017



Market summary for September 2017

Gas

Gas prices gain value on the back of heavy maintenance

Power

Firm power prices throughout September

Oil

Oil rallies, helped by tension in the Middle East

Carbon

Carbon steps higher on political speculation and strong demand

Direction of commodity prices (August 17 to September 17 & September 16 to September 17)

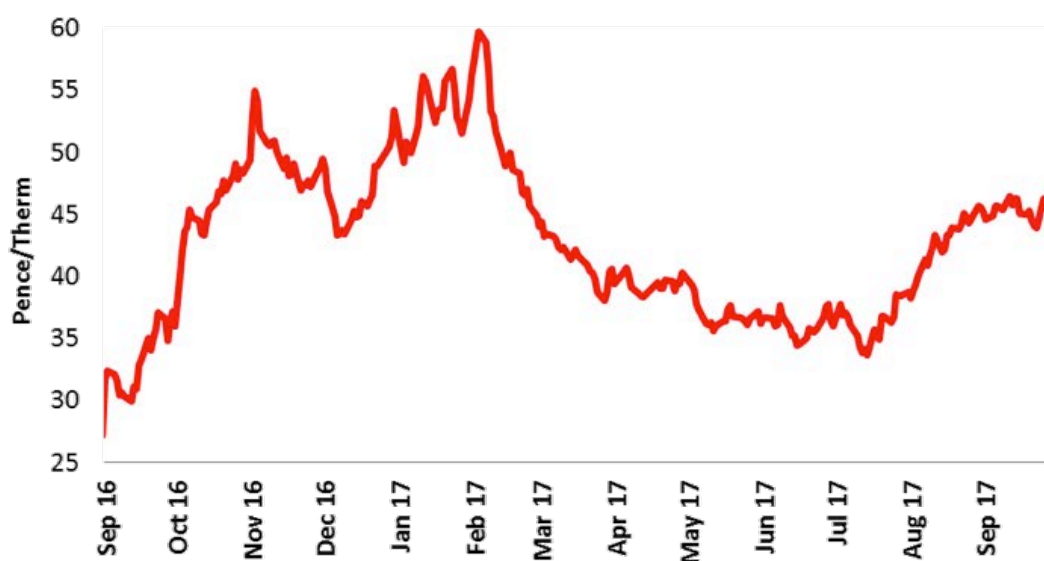
	Monthly Movement	Yearly Movement
Gas price	↑	↑
Power price	↔	↓
Oil price	↑	↑
Carbon price	↑	↑

Movements based on Front Month

Gas

Gas prices gain value on the back of heavy maintenance

Gas Front Month Price



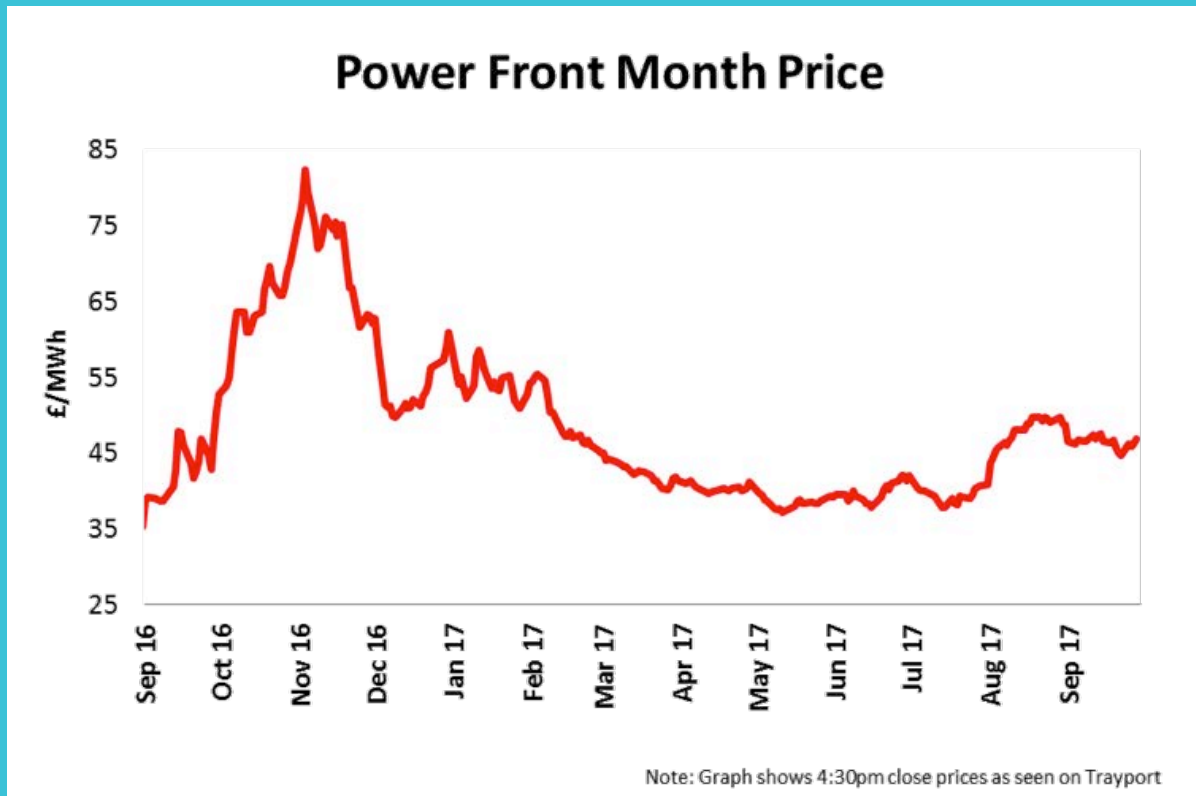
Note: Graph shows 4:30pm close prices as seen on Trayport

UK gas prices continued their bullish momentum in September. A tight supply/demand balance caused by heavy annual maintenance in the North Sea, combined with sparse LNG arrivals has supported gas prices. Strength in the oil and coal market added further support to the gas

curve. The lower-than-expected storage level in the continent and French nuclear generation availability in the winter remain as risks in the winter. However, gains have been limited by the pound's appreciation against the euro, as it recovered from the recent five-year low.

Power

Firm power prices throughout September

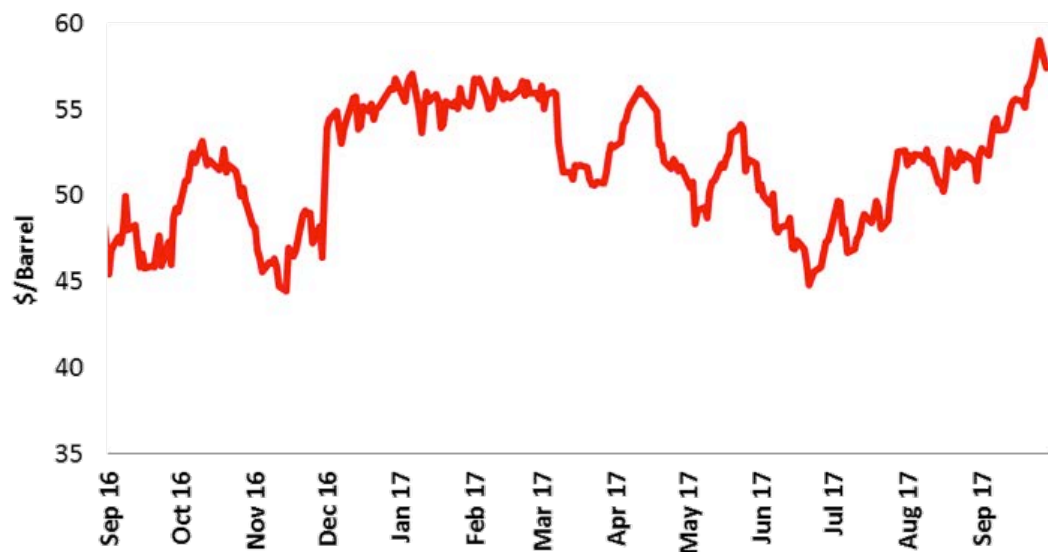


At the beginning of the month, power prices rose in response to tight margins due to limited plant availability in October. As October delivery neared, confidence grew that there would be adequate system supply, and the risk premium priced in by the market starting decreasing, because the system had avoided major spikes in September, when generation margins were at their tightest.

High coal prices also kept the forward power prices firm. One day before the October and winter 2017 contracts stopped trading, the French nuclear safety authority announced that a large nuclear power station will have to be temporarily taken offline. Prices jumped following the movement in French power prices after EDF revised its expected nuclear power output forecasts lower.

Oil rallies, helped by tension in the Middle East

Brent Crude Front Month Price

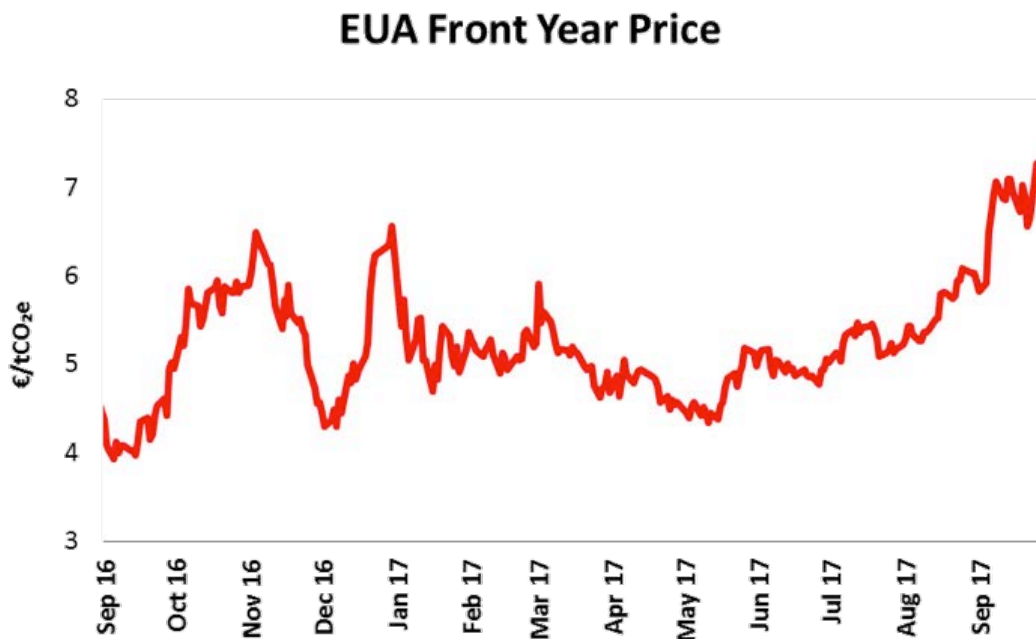


Brent oil reached its highest level since July 2015 in late September, primarily driven by the risk of supply disruption in the Middle East. The autonomous region of Kurdistan voted for independence from Iraq, however the referendum was not recognised by the Baghdad government. As tensions rose, the Turkish government threatened to stop exports of oil from Iraq via Kurdistan, which saw the oil market gain sharply.

Before the vote, crude prices had been trending upward as US refineries restocked in the wake of hurricane shutdowns. This was further supported by the IEA increasing its demand forecast and market speculation that there could be further OPEC supply cuts. The US benchmark WTI maintained a significant discount to Brent futures, an indicator that the US market is still expected to be well supplied as a result of its domestic production. Prices for crude for delivery in 12 months' time did not gain nearly as much as front month prices, an indication that traders believe that risks are primarily in the near-term.

Carbon

Carbon steps higher on political speculation and strong demand



Carbon prices surged in early September, to the highest level since January 2016. The key drivers were indications of greater alignment in Europe on carbon abatement and also greater demand for emission allowances in Germany.

In early September, the French and German environment ministers announced that they intend to gain agreement on the Emissions Trading Scheme (ETS) within the EU before a summit in November – a summit to be held in Germany, which is seen

as adding symbolic pressure to the German position. In the wake of the announcement, carbon prices rose to their highest level in 18 months.

Prices were sustained at the relatively high level because of sustained demand for EUAs, particularly in Germany. High demand for power, and relatively high gas prices, have caused there to be greater amounts of power generated by coal-fired plant. This in turn has boosted demand for emission allowances.

Things to watch out for in October

October sees an important landmark in the GB power sector; the start of the first delivery period of the full capacity mechanism, in which power plants are paid to remain available whether or not they generate power. This scheme has been designed to ensure a certain level of generation availability to meet an expected demand level and is intended to de-risk the winter power market. As October will be the first month in which it will deliver in practice, this will be closely watched.

October is the start of the winter in commodity trading terms, and it is often the case that trading strategies for major gas producers change in this month. As such, traders will be closely watching the flows of Norwegian and Russian gas.

The Bank of England governor, Mark Carney, has indicated that interest rates are expected to rise in the "near future". This could mean before the end of the year and as such, October may see moves in the strength of the pound in response to interest rate expectations. Additionally, there will be further economic data released which will give indications as to the strength of the UK economy.

Brexit negotiations will further intensify during October which will influence sentiment for the UK's economic outlook.

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
EIA:	Energy Information Administration
RO:	Renewables Obligation
CPI:	Consumer Price Index
ILO:	International Labour Organisation
UKCS:	UK Continental Shelf
IMF:	International Monetary Fund
IEA:	International Energy Agency
IUK:	Interconnector UK
EUA:	European Union Allowance
EU ETS	European Union Emissions Trading System
BoE:	Bank of England

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