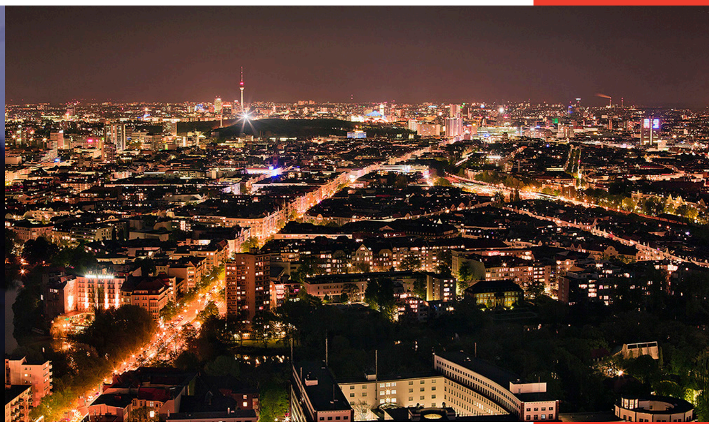
Monthly Market Report

February 2018



Market summary for January 2018

Gas
Gas prices give up previous gains amid milder weather

Power
Weak fuels put pressure on power prices

Oil
Oil breaches multi-year high as U.S. inventories continue to decline

Carbon
Carbon price rise despite bearish energy complex

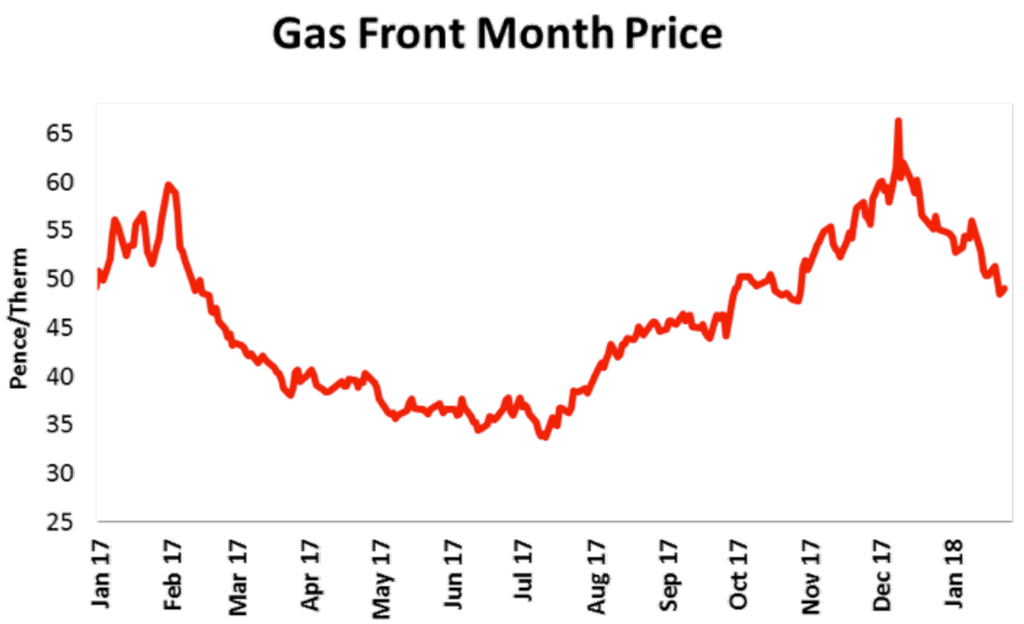
Direction of commodity prices
(December 2017 to January 2018 & January 2017 to January 2018)

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

Movements based on Front Month

Gas

Gas prices give up previous gains amid milder weather



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

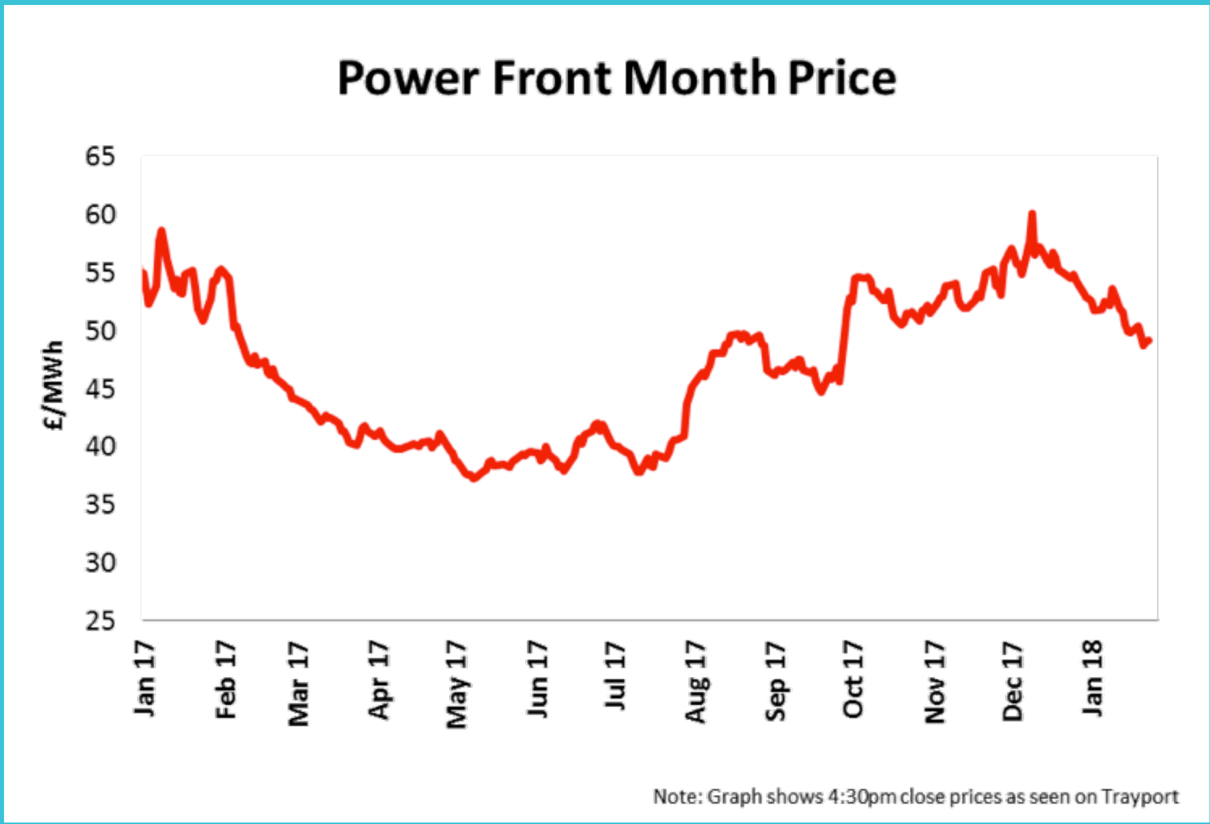
The UK gas prices dropped in January, erasing most of the risk premium gained through the last quarter of 2017. With the exception of a short-lived cold spell after the Christmas period, temperatures in the UK have mostly stayed around seasonal normal. This mild weather in conjunction with very strong imports from the continent pressured the front month. Further bearish pressure, especially for far dated contracts, was added by sterling's appreciation against the euro which was triggered by optimism around the Brexit negotiations.

In the middle of the month, Centrica received permission from the UK authorities to produce approximately 1.6bcm of gas from its Rough storage site in 2018. This has added to the well supplied picture for the coming months.

Despite the afore-mentioned bearish factors, the price downside has been limited by news around a possible reduction in production from the Groningen field after an earthquake in the area.

Power

Weak fuels put pressure on power prices

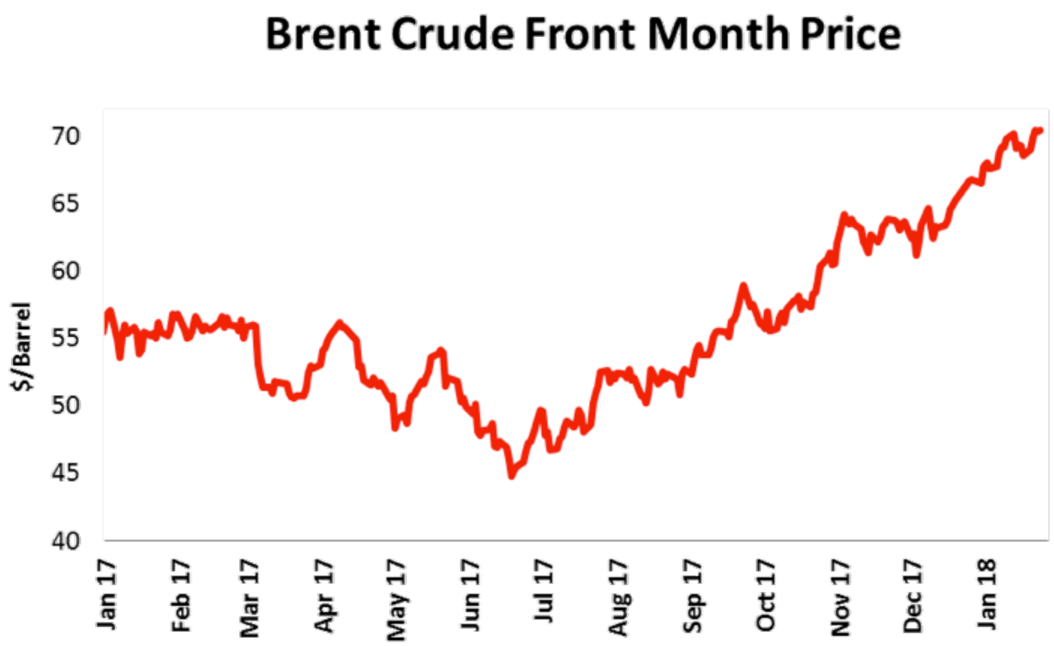


The UK power curve registered losses during the first weeks of 2018, tracking a similar downward movement in the UK gas prices. Weather forecasts indicating mild temperatures have been a crucial bearish factor for the UK energy commodity prices. Strong wind generation this winter, even during cold spells, has contributed to the healthy margins observed so far.

Moreover, coal prices dropped in January after months of being on a bullish run. Reduced demand due to mild weather has been the main factor pushing coal prices lower. Weakness in coal has a bearish impact on power prices as coal is competing with gas in power generation especially during peak hours.

Oil

Oil breaches multi-year high as U.S. inventories continue to decline



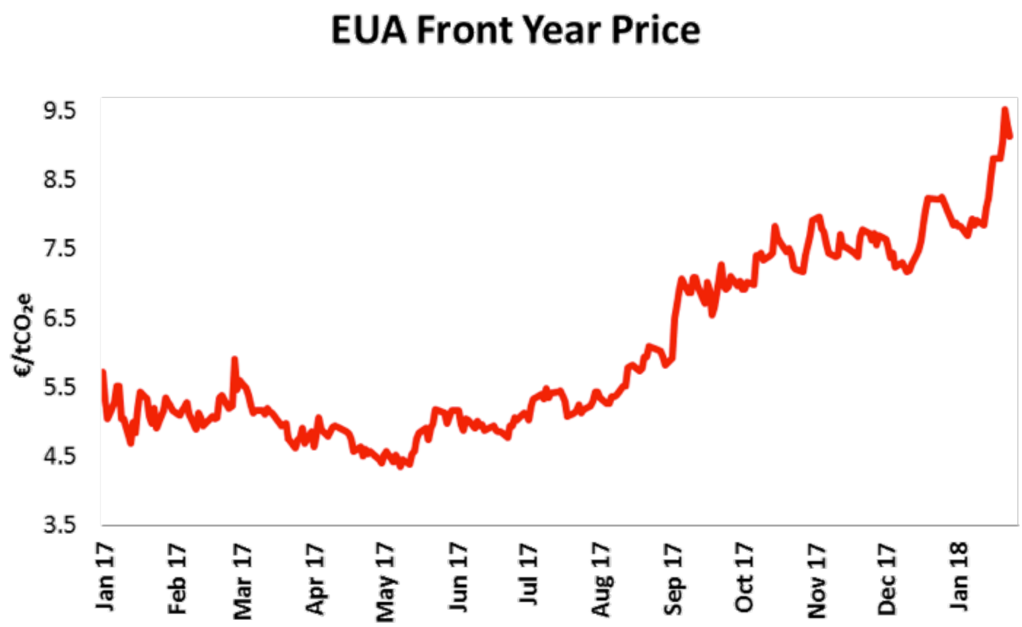
Oil prices increased last month and reached a three-year high amid signs of strong global demand. Extended production cuts by OPEC and Russia have tightened supply with U.S. crude oil inventories declining for ten consecutive weeks. Within the month, concerns over Nigeria's and Libya's production provided further support to the prices.

Another significant bullish factor for oil prices this month was currency. The U.S. dollar weakened on the back of news that China would slow down its purchases of U.S. government bonds and contrasting comments from U.S. officials.

However, U.S. weekly crude production has started picking up and remains close to a record, offsetting some of the support from the tenth consecutive drop in domestic supplies.

Carbon

Carbon price rise despite bearish energy complex



Carbon prices rallied in January climbing to €9.46/tCO2e on Thursday, a new five-year high. Bullishness in the wider energy complex added support to carbon prices in the last couple of months. But within January, energy commodities eased whereas carbon continued to rise showing little correlation with the rest of the energy complex.

Moreover, this month the European Parliament decided on 2030 targets as part of the Clean Energy package. The plan calls for renewable energy's share of energy mix to increase to at least 35%, and for there to be energy efficiency savings of 35%.

Things to watch out for in February

As we are still in the winter trading season, weather remains the key factor to monitor. In January, temperatures have been around seasonal average and, at the moment, weather forecasts indicate a cold spell at the beginning of February. If temperatures below seasonal normal persist and if the continent is also colder than normal, this could lead to a faster decrease in European gas storage levels.

LNG availability is another factor to watch. There are no confirmed cargoes expected to arrive in the UK in February but market analysis suggests that there should be at least one delivery. If there are no deliveries within February that would probably push gas prices higher.

Last but not least, on the 1st February, the Dutch energy production regulator will publish its opinion in regards to the output from the Groningen field. This will not be the final decision but any piece of information indicating the extent of production cuts to be implemented on the field can have a significant impact on the UK gas curve.

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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