

A nighttime photograph of a city skyline. The left side features a tall, illuminated skyscraper with a distinctive top. The right side shows another large building with lit windows. In the foreground, there are blurred light trails from traffic, including a prominent yellow light trail from a car. The background is a dark blue night sky.

e-on

Monthly Market Report

February 2019



Market summary for January 2019

Gas

Healthy supply and mild weather weigh on gas

Power

Power prices give up gains on milder weather forecasts

Oil

Trade talk optimism lifts oil prices

Carbon

Weak energy complex weighs on carbon

Direction of commodity prices (Dec 2018 to Jan 2019 and Jan 2018 to Jan 2019)

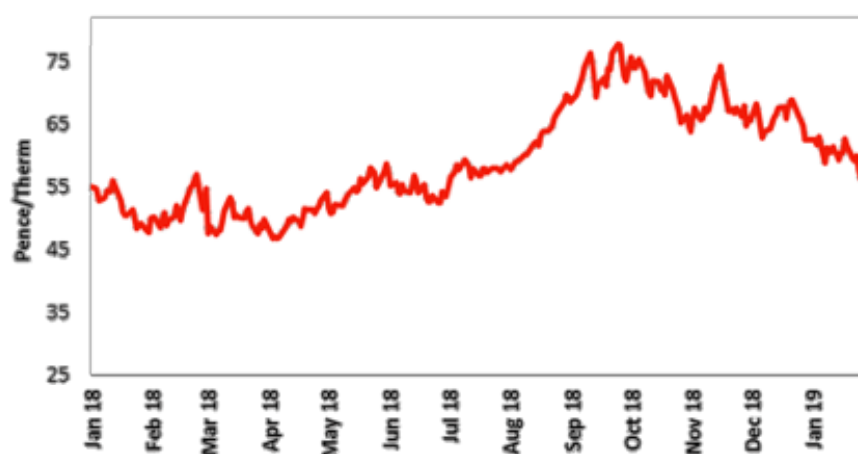
	Monthly Movement	Yearly Movement
Gas price	↓	↑
Power price	↓	↑
Oil price	↑	↓
Carbon price	↓	↑

Movements based on Front Month

Gas

Healthy supply and mild weather weigh on gas

Gas Front Month Price

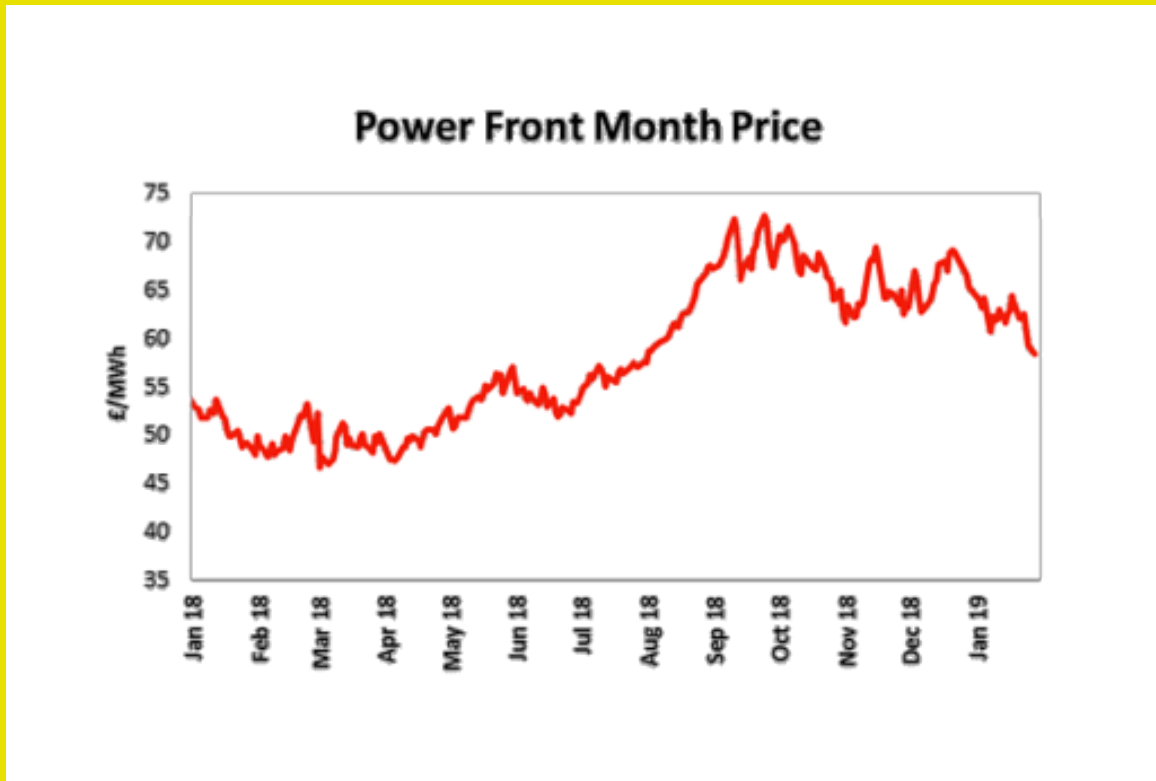


UK gas prices gained value in December due to increased risk of a cold spell during January, but after Christmas this risk was significantly reduced causing a drop in prices, which continued until the first days of January. The UK gas system has been consistently well supplied this winter as Norwegian imports continued at almost maximum capacity and LNG send-outs have been at record high. Mid-month, weather forecasts turned colder as they indicated below seasonal average temperatures until the end of February. This revision in forecasts provided support to gas prices.

Expectations over increased demand for thermal generation also boosted other European fuels, which in turn added to the price upside for gas contracts. Volatility in weather forecasts continued during January and soon started revising temperatures upward putting downwards pressure to gas prices. Finally, a strong appreciation in the value of the pound against the euro and the US dollar has been another bearish factor for contracts along the curve.

Power

Power prices give up gains on milder weather forecasts

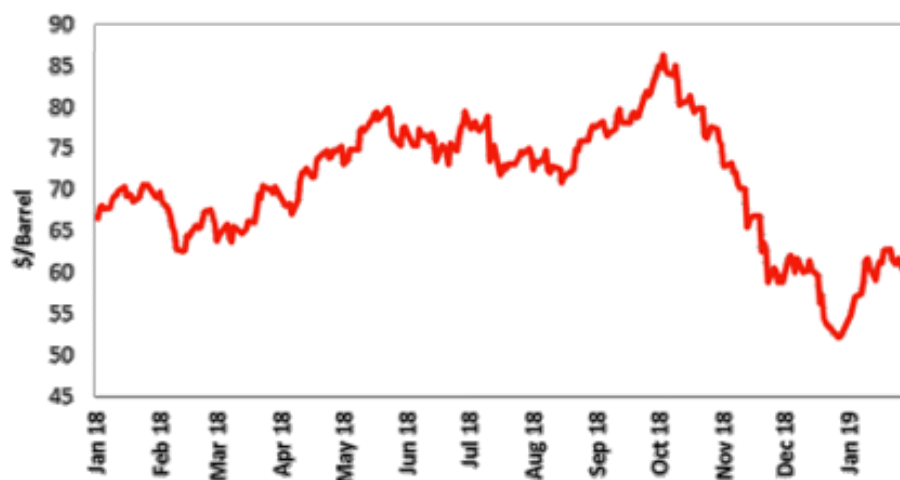


Power prices lost value in January, with weather being the main driver. At the start of the month, prices started on a softer note, pressured by weakness in the gas market due to mild weather forecasts and healthy supply fundamentals. However, towards the middle of the month temperatures were revised downwards, offering support to gas and power prices. A rise in coal and

carbon prices on the back of increased demand for fossil fuel generation added to the price upside. At the same time, margins were looking tight for power as lower wind and nuclear availability in France due to industrial actions reduced capacity. The risk of the colder spell though did not last as forecasts turned milder putting downwards pressure on the energy complex.

Trade talk optimism lifts oil prices

Brent Crude Front Month Price

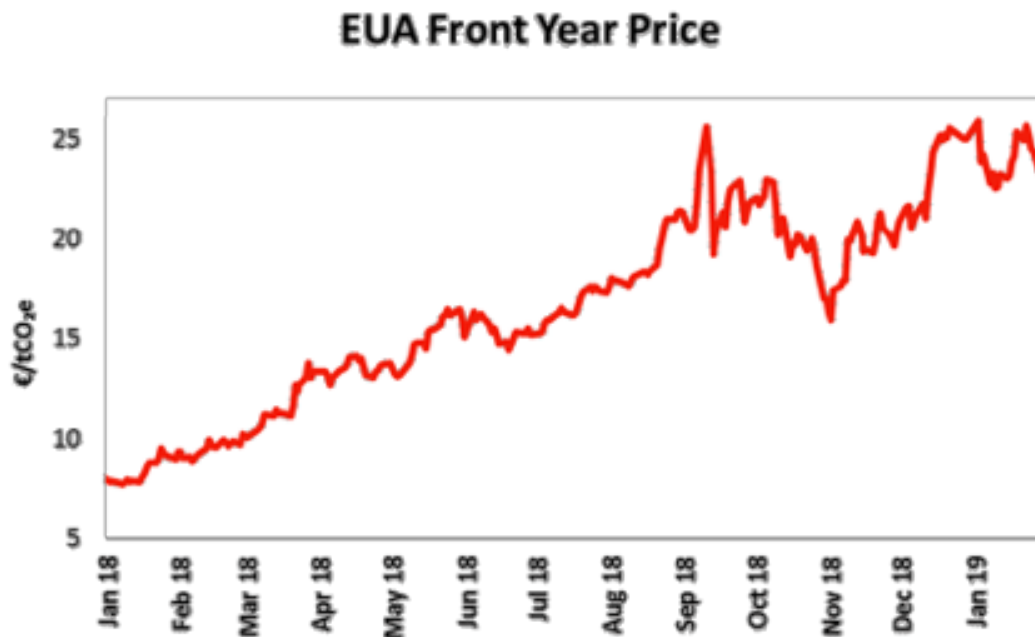


Oil prices rose \$7/bbl across January, with the largest movements being at the start of the month. Brent crude prices rose at the beginning of January as talks began to progress between the US and China. This provided optimism for a resolution between two of the world's largest economies, alleviating the potential for a slowdown in global economic growth. Further support throughout the month came as China announced stimulus measures through cuts and taxes to help ease concerns surrounding the impact of a trade war.

However, a number of builds in US stocks for crude, distillates and gasoline products limited the price upside as record exports from the US continued to support supply. Despite positive progress with trade talks, uncertainty and concerns around global economic growth were still visible, weighing on oil prices and limiting too much upwards movement. Towards the end of the month, new sanctions on Venezuela in an attempt to restrict crude oil exports for political reasons helped support prices.

Carbon

Weak energy complex weighs on carbon



Volatility in the European carbon market continued into the new year. Carbon prices started January at around the €25/t level, after having traded sideways for a couple of weeks, but they soon started to lose value. Weakness in the wider energy complex, due to a reducing risk of colder weather, weighed on carbon prices. Around the middle of January, however, weather forecasts indicated colder temperatures than previously anticipated and have also extended the duration of the cold spell until the end of February, boosting gas and power prices.

The impact filtered into the carbon market amid expectations of increased fossil fuel burn for power generation and prices almost reached its previous September high at €25.6/t. In the last few days, carbon shed value due to an upwards revision in temperature forecasts.

During January, Brexit concerns after the MPs rejected Theresa May's deal on 15 January and nervousness around Germany's coal phase-out decision caused uncertainty in the market.

Things to watch out for in February

As we are entering the coldest month of the winter, weather will be the crucial factor to monitor. At the time of writing, weather forecasts are not causing concerns as despite predicting temperatures below the seasonal normal there is no indication of extreme cold spells or events. However, weather forecasts can change very quickly and any downward revision in temperatures or prediction of an extreme cold could cause a rise in gas prices.

Germany's coal phase-out commission is expected to reach to a decision at the beginning of February when it will publish its final report with a concrete timeline. This in conjunction with developments on Brexit are expected to impact European carbon prices with the impact possibly filtering into the gas and power markets.

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 Organization
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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E.ON UK plc

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