

A nighttime photograph of a city skyline. The left side shows a tall, illuminated skyscraper with a distinctive top. The right side shows another large building with many lit windows. In the foreground, there are blurred light trails from cars and a street lamp, creating a sense of motion and urban energy. The sky is dark blue.

e-on

Monthly Market Report

July 2018



Market summary for June 2018

Gas

Prompt falls while forwards rise supported by oil

Power

Strong oil and gas prices lift the UK power curve

Oil

Tight supply fundamentals lift prices

Carbon

Carbon falls from recent highs due to lack of supportive fundamental drivers

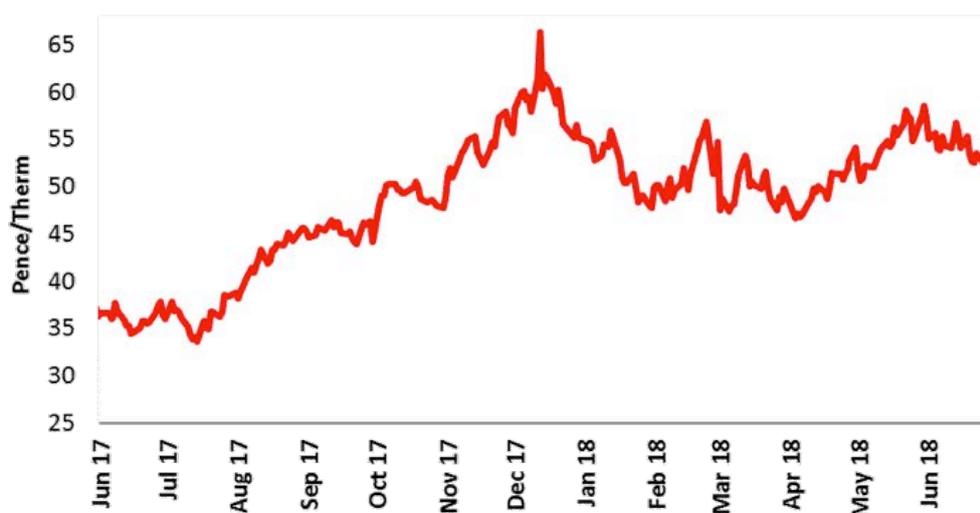
Direction of commodity prices (May 2018 to Jun 2018 & Jun 2017 to Jun 2018)

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

Movements based on Front Month

Prompt falls while forwards
rise supported by oil

Gas Front Month Price

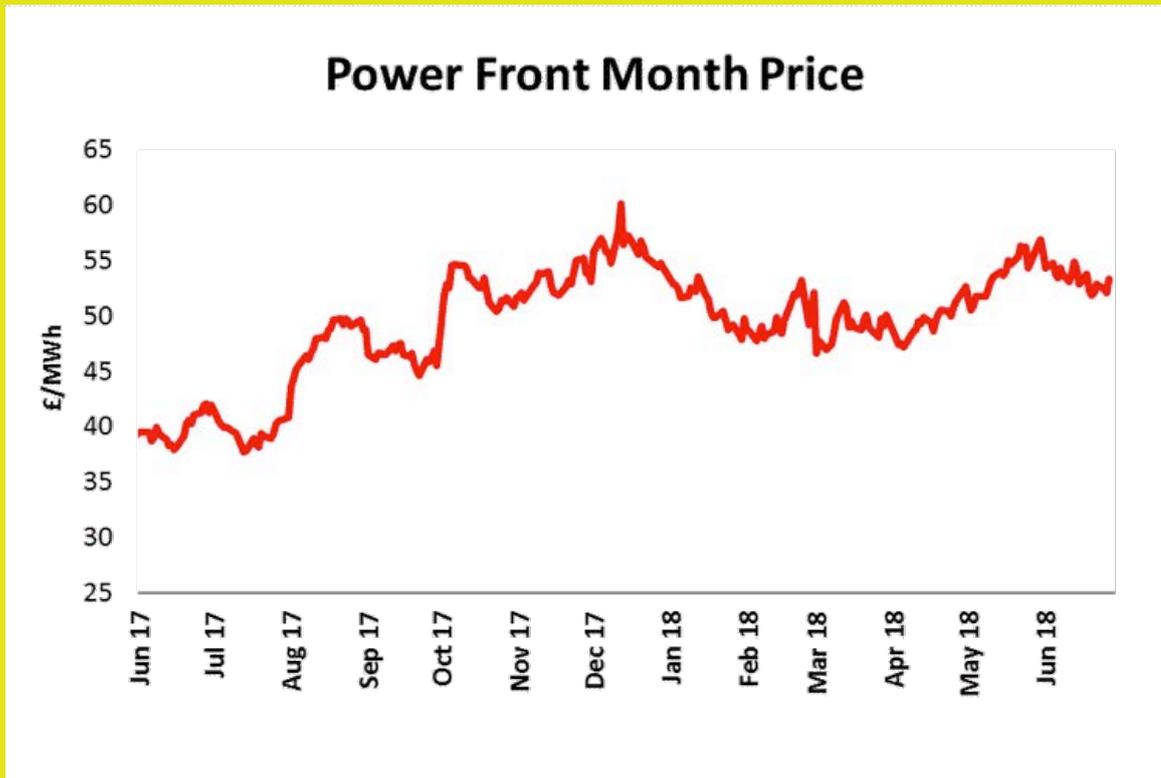


Gas prices have been very volatile in June and ended the month in mixed directions. Contracts for short-term delivery dropped despite more Norwegian outages, pressured by strong renewable generation. After the return of the UK-Belgium interconnector, the gas system showed ample supply which led to a decrease in the risk premium priced in prompt contracts.

Forward contracts registered gains in June, finding support in strong oil and coal prices. A depreciation in the value of the pound against the euro added further support to gas contracts. Moreover, news regarding Groningen output targets being as low as 12bcm by October 2022 helped lift the gas curve.

Power

Strong oil and gas prices lift the UK power curve

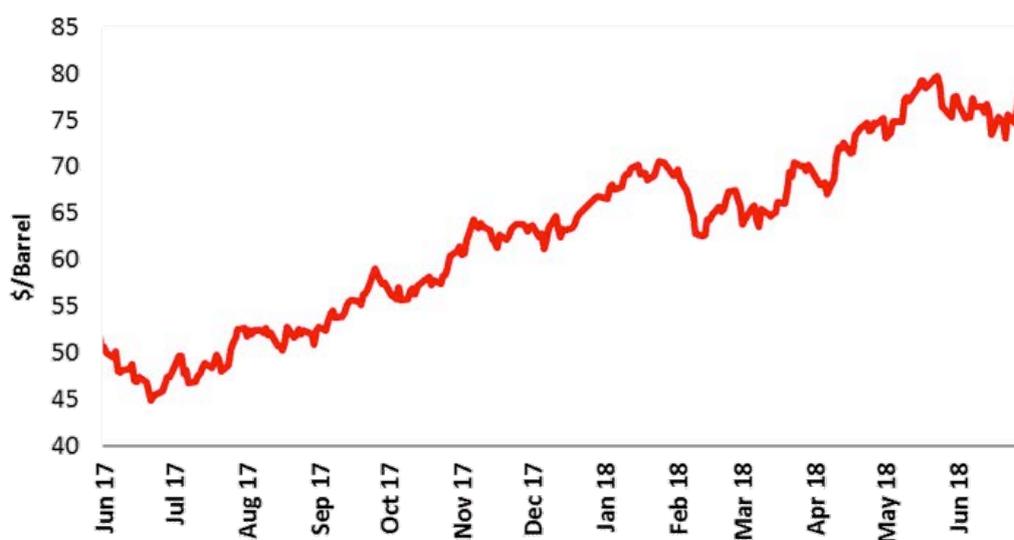


Power prices registered similar movements to the equivalent gas contracts. At the start of the month, low wind generation and strong gas spot results provided support to power contracts for short-term delivery. However, during the second half of June, wind generation picked up and the front end of the power curve ended the month lower.

Contracts for delivery from October onwards were lifted, tracking the upward movement in the gas curve. Oil's rally and strength in coal prices due to robust Asian demand pushed power prices higher. However, weakness in carbon during the second half of June limited the price upside for the power forward contracts.

Tight supply fundamentals lift prices

Brent Crude Front Month Price



The oil market has been very volatile in June, especially around the middle of the month in anticipation of the OPEC and non-OPEC meeting in Vienna. At the start of the month, Brent crude lost value pressured by another increase in US production and the number of rig counts. In addition, an official request from the US to some OPEC members about increasing their production added further downward pressure to the price.

Later in June, unexpected drawdowns in US crude oil inventories, in combination with rumours that Iran and Iraq would oppose the increase in production being proposed by Saudi Arabia and Russia, buoyed the market.

The outcome of OPEC's meeting on 22 June was initially vague and below market expectations, pushing the oil price higher. Participants agreed to increase oil output back in line with the original output cuts as OPEC's compliance to the production cuts exceeded 150% last month, but did not mention a specific number causing concerns that the agreed increase might not be sufficient to cover supply shortfalls from other members.

Carbon

Carbon falls from recent highs due to lack of supportive fundamental drivers

EUA Front Year Price



Major carbon contracts shed value in June and fell below their near recent all-time highs. The losses came during the second half of June, on the back of weakness in the wider energy complex. Market participants taking profit after the recent high carbon prices was another factor that pressured prices lower.

EU law makers revised the overall efficiency target for 2030 to 32%, but this had a limited impact on carbon prices. Strong oil prices, robust global demand for coal, and plant outages have lifted carbon prices recently which are now trading around €15/t.

Things to watch out for in July

During June, European storage have been injecting at a healthy rate. However, given the record low stock level that we reached after last winter, it's important that a healthy injection rate will be sustained through the rest summer months. As we have now entered the peak summer months, weather forecasts for Asia, and especially China and Japan, are an important factor to monitor as well above average temperatures would lead to increased demand and hence higher fuels prices.

Oil has been a major driver for the energy complex for the last couple of months. Supply issues affecting Venezuela, Libya and Canada continue. Any indication that supply will be further restricted can push oil prices higher. Prices could also see spikes in July once the driving season increases gasoline demand.

Markets have been monitoring news about the trade war between the US and other major economies. If there is any escalation on the situation, this could hit economic growth and demand for oil.

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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