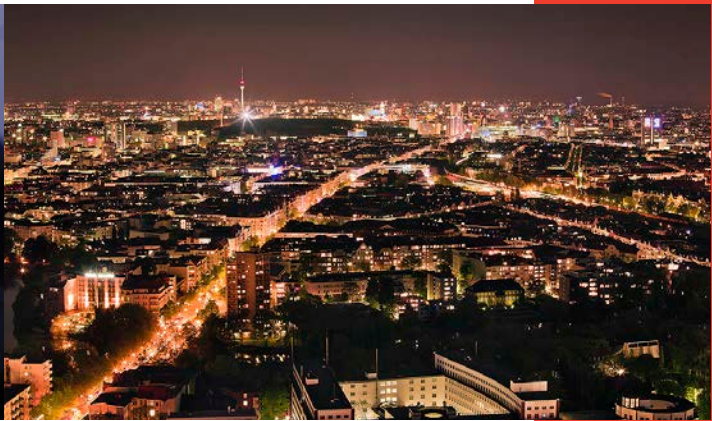


A nighttime photograph of a city skyline. The left side shows a tall, illuminated skyscraper with a distinctive top. The right side shows another large building with many lit windows. In the foreground, there are blurred light trails from traffic, including a prominent yellow light trail from a car.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

*e-on*

# Monthly Market Report

June 2018



## Market summary for May 2018

### Gas

Outages and firm fuels lift the gas curve

### Power

Firm gas prices push the UK power curve higher

### Oil

Renewed Iranian sanctions keep prices firm

### Carbon

Sustained rally pushes prices to a new seven-year high

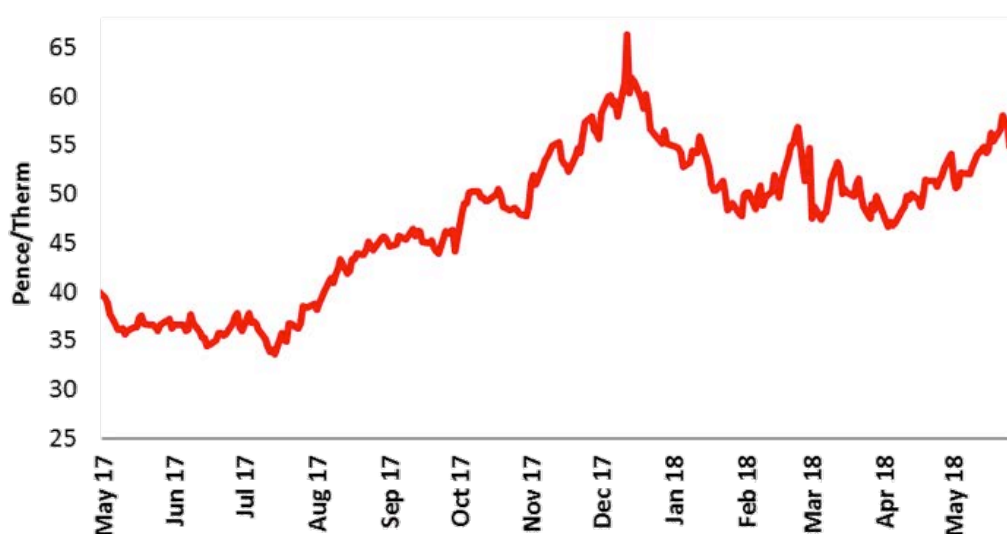
#### Direction of commodity prices (Apr 2018 to May 2018 & May 2017 to May 2018)

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

Movements based on Front Month

## Outages and firm fuels lift the gas curve

### Gas Front Month Price



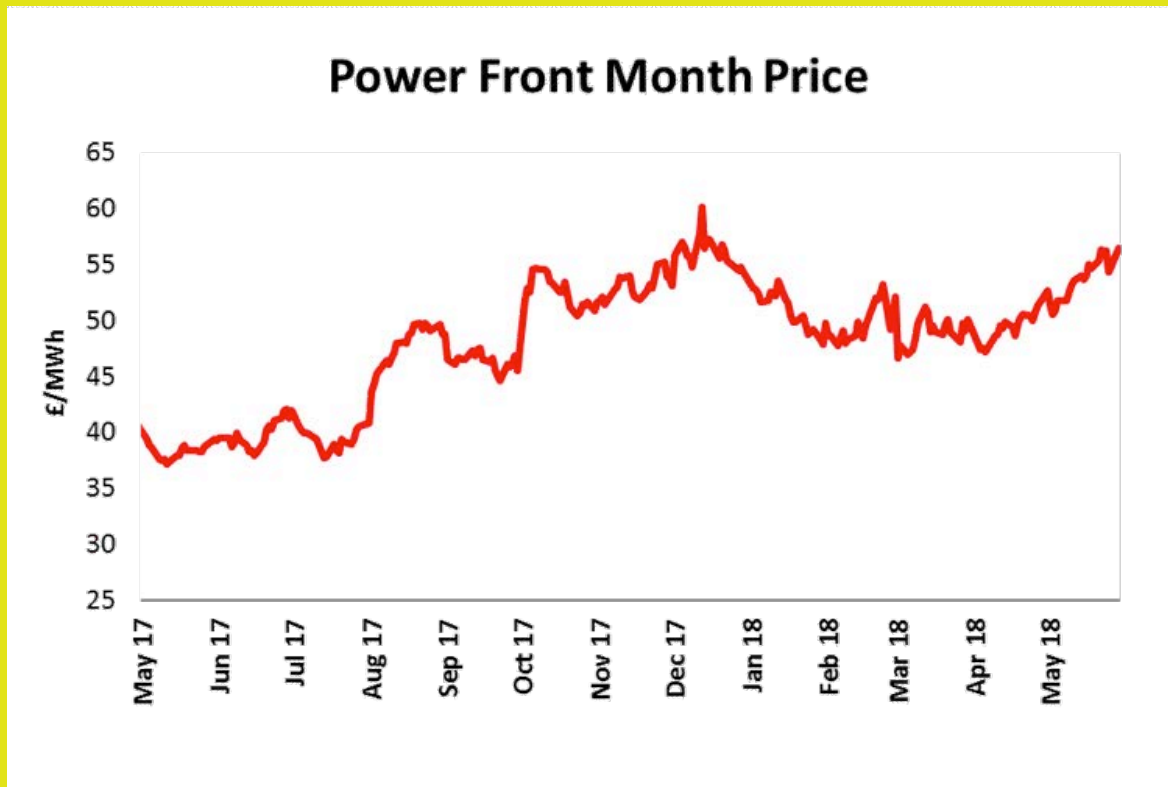
The UK gas market continued to rise in May after finding support in the strength of European fuels, particularly with the rally in oil supporting gas prices along the curve. Several planned and unplanned Norwegian outages have restricted flows to the UK in May, causing system tightness and firm spot results. During the month, spot prices were lifted as temperatures dipped below seasonal average and wind power production was quite poor. High exports to the continent were also supporting prices since withdrawals from medium range storage

were needed to balance the gas system.

Another bullish factor for the UK gas curve within May was the sterling's weakness after the Bank of England kept interest rates unchanged and reduced its growth forecast. A weak currency attracts buying interest from traders who normally deal in euros. Finally, low LNG deliveries to UK terminals reinforced the upward movement.

# Power

Firm gas prices push the UK power curve higher

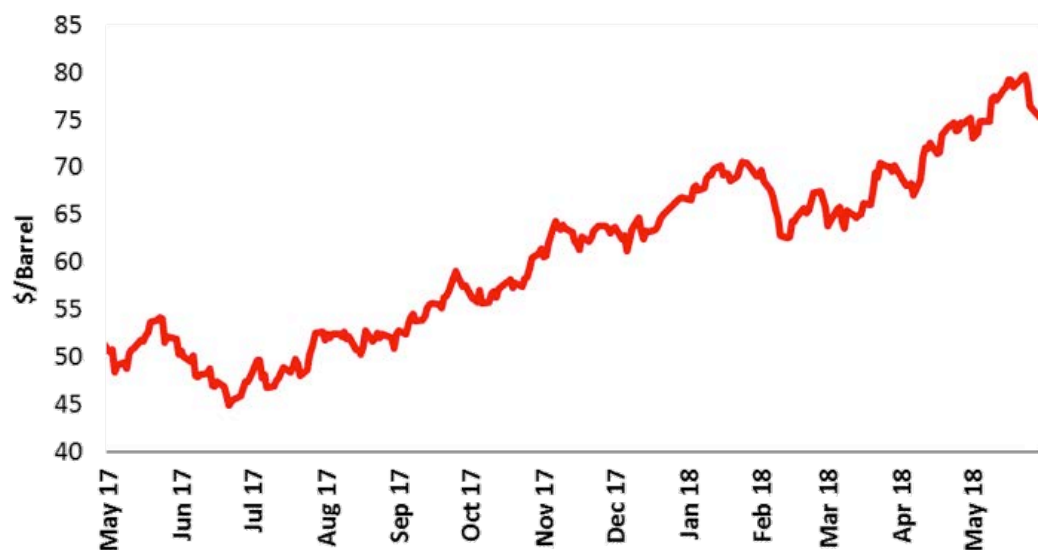


Power prices increased in May, finding support in firm gas and coal prices. Strong gas prices for short term delivery filtered through to the power curve with low wind generation adding further price upside. The rise in carbon, which reached seven-year highs, has also offered support to the power market.

At the beginning of May, news about an EDF nuclear power plant, Hunterston B, expecting to remain offline over the summer after cracks were found in the bricks of one of the reactors made traders nervous with the French nuclear fiasco of winter 2016 still fresh in people's minds.

## Renewed Iranian sanctions keep prices firm

### Brent Crude Front Month Price



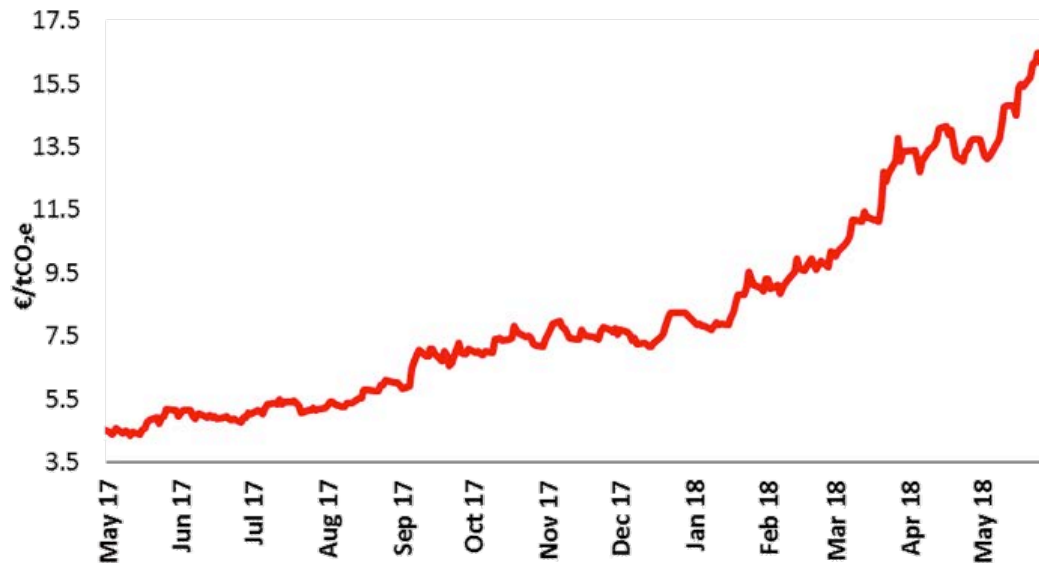
Oil was the centre of attention within the commodities market in May as the volatility observed in April due to several geopolitical risks continued. The US President Donald Trump announced at the beginning of the month that the US will withdraw from the Iran nuclear agreement, causing supply concerns in the market. Iranian exports are estimated to fall by one million bpd by the first half of 2019 in an already tight market as most of the supply glut has been eradicated by the OPEC production cuts. Tightness in the market in conjunction with an unexpected drop in US crude oil inventories supported the oil price which briefly breached \$80/bbl.

However, the oil price has softened towards the end of May as market analysts expect OPEC and Russia to agree on a production increase to cover for supply shortfalls from Iran and Venezuela. Another increase in the US oil rig count and record US production have added further downward pressure to the price.

# Carbon

Sustained rally pushes prices to a new seven-year high

## EUA Front Year Price



Carbon prices have been steadily rising during May. In a month with several public holidays, which led to reduced liquidity and less auctions, the Cal-18 contract reached a new seven year high as it breached and closed above the €16/t price level. The rally in oil and coal offered support to carbon prices, but even after oil's rally lost steam, carbon continued its upward movement.

In the middle of May, the European Commission published the total number of allowances in circulation. 16% of the oversupply will be withheld from auctions from January to August 2019 and put into the Market Stability Reserve.

# Things to watch out for in June

In mid-June the UK-Belgium interconnector (IUK) will undergo maintenance for two weeks, disconnecting the UK gas system from continental hubs. Prices could be impacted if the UK gas system became under or over-supplied.

OPEC's next meeting will take place on 22 June. It is expected that members will discuss supply issues in Venezuela and the upcoming sanctions on Iran's exports. Market analysts also expect members to decide on a gradual increase in production to lessen tightness in the market.

In the US, the Fed could increase interest rates in June as macro-economic data have been upbeat and the latest job growth and unemployment data point to a rapidly tightening labour market conditions which could stir concerns about inflation. An increase in US interest rates is expected to have a global impact.

## Jargon buster

<b>CCGT:</b>	Combined Cycle Gas Turbine
<b>LDZ:</b>	Local Distribution Zones
<b>LNG:</b>	Liquefied Natural Gas
<b>MCM:</b>	Million Cubic Meters
<b>MEP:</b>	Member of the European Parliament
<b>NBP:</b>	National Balancing Point
<b>NTS:</b>	National Transmission System
<b>OFGEM:</b>	Office of Gas and Electricity Markets
<b>OPEC:</b>	Organization of the Petroleum Exporting Countries
<b>EIA:</b>	<b>Energy Information Administration</b>
<b>RO:</b>	Renewables Obligation
<b>CPI:</b>	Consumer Price Index
<b>ILO:</b>	International Labour Organisation
<b>UKCS:</b>	UK Continental Shelf
<b>IMF:</b>	International Monetary Fund
<b>IEA:</b>	International Energy Agency
<b>IUK:</b>	Interconnector UK
<b>EUA:</b>	European Union Allowance
<b>EU ETS:</b>	European Union Emissions Trading System
<b>BoE:</b>	Bank of England

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