



***e-on***

# **Monthly Market Report**

**May 2018**



## Market summary for April 2018

### Gas

Gas prices increase amid system tightness

### Power

Strong energy complex supports power prices

### Oil

Geopolitics push oil up to 4-year high

### Carbon

Technicals driving the carbon market

#### Direction of commodity prices (March 2018 to April 2018 & April 2017 to April 2018)

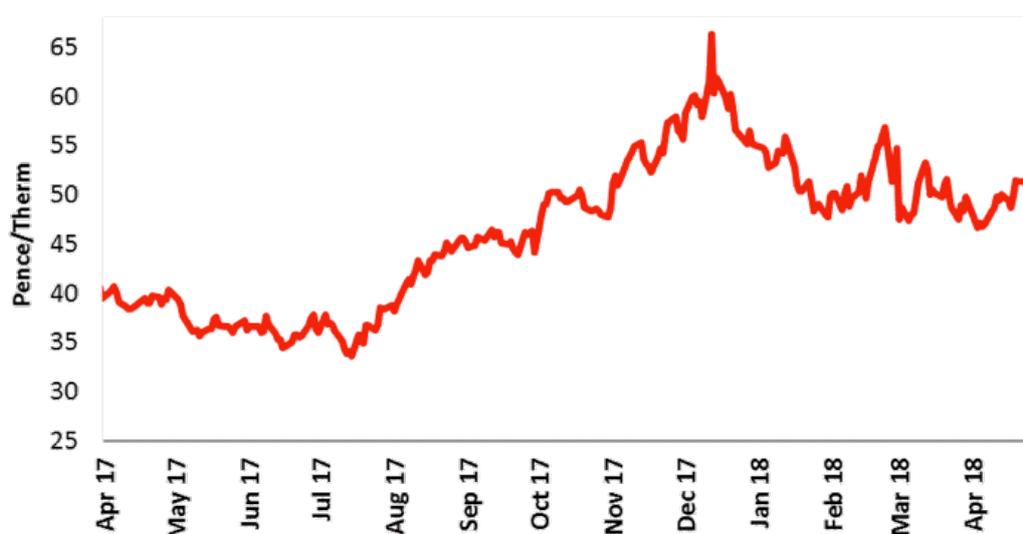
	Monthly Movement	Yearly Movement
Gas price	↑	↑
Power price	↑	↑
Oil price	↑	↑
Carbon price	↑	↑

Movements based on Front Month

# Gas

Gas prices increase  
amid system tightness

## Gas Front Month Price

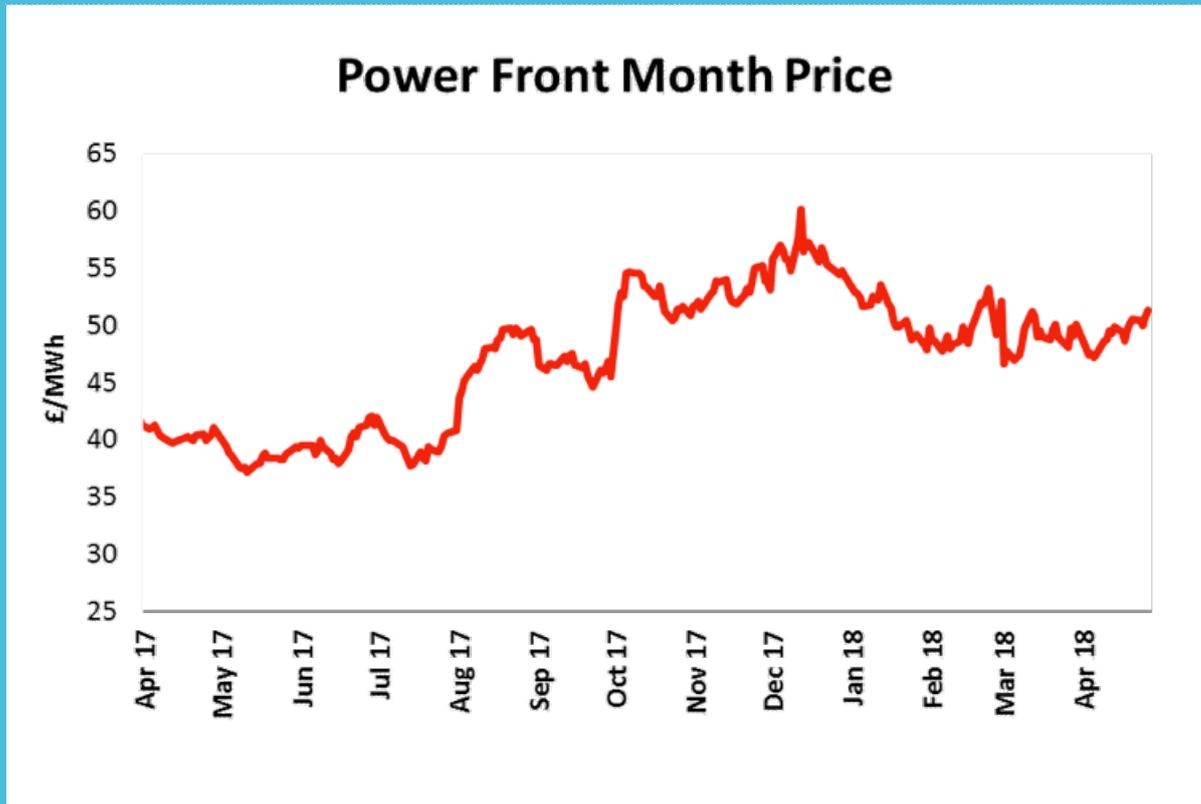


The UK gas market had a bearish start to the month as mild temperatures and high wind generation pressured prices lower. An improved LNG outlook added further downward pressure as UK terminals had received six cargoes by the middle of April. But later in the month, several planned and unplanned outages affecting

Norwegian fields reduced supply to the UK causing tightness to the gas system and pushing prices higher. Additionally, a drop in wind generation and higher than expected consumption added more support to the gas curve. Firm oil and coal prices added to the bullish sentiment.

# Power

Strong energy complex supports power prices

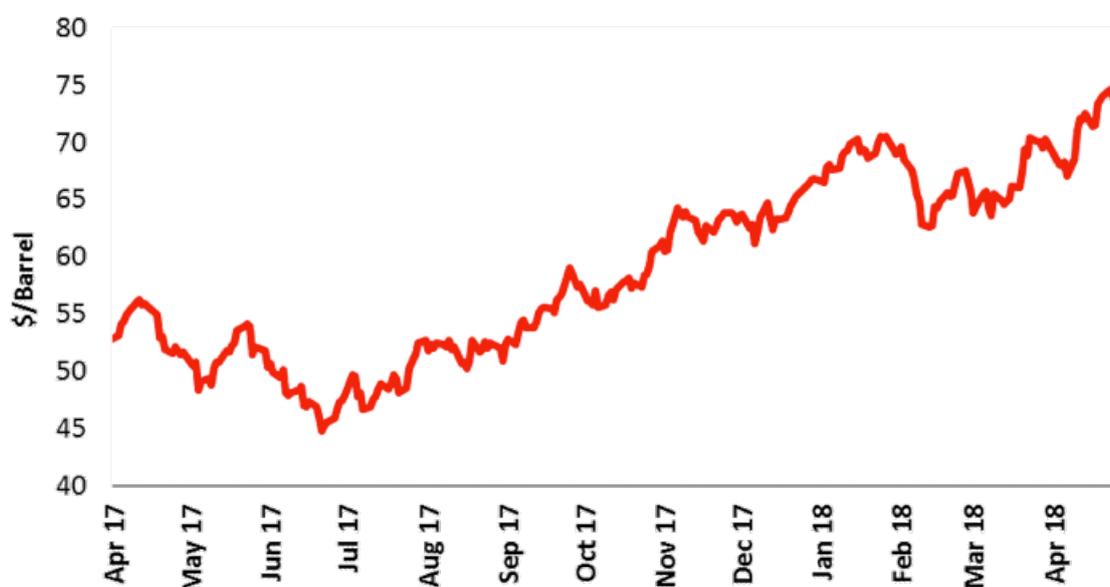


Power prices rose month-on-month tracking the upward movement in the gas market. With coal plants being out of the money, CCGT plants are predominantly the source of marginal supply which means that the power market is highly driven by the gas prices. Within April, several instances of strong gas spot settlements pushed power prompt contracts higher.

Moreover, an increase in coal and oil prices driven by geopolitical risks provided support to contracts at the far end of the power curve. Firm EUA allowances added to the bullish sentiment.

## Geopolitics push oil up to 4-year high

### Brent Crude Front Month Price



Oil continued its bullish momentum through April finding support more in geopolitical risks and less in fundamental drivers. Brent crude has been steadily increasing and has been trading just below \$75 for the last few days of the month.

At the beginning of the month, the market was concerned that the conflict in Syria could escalate and cause supply disruptions. These concerns, in conjunction with easing tensions between a potential trade war between the US and China, pushed the oil price higher.

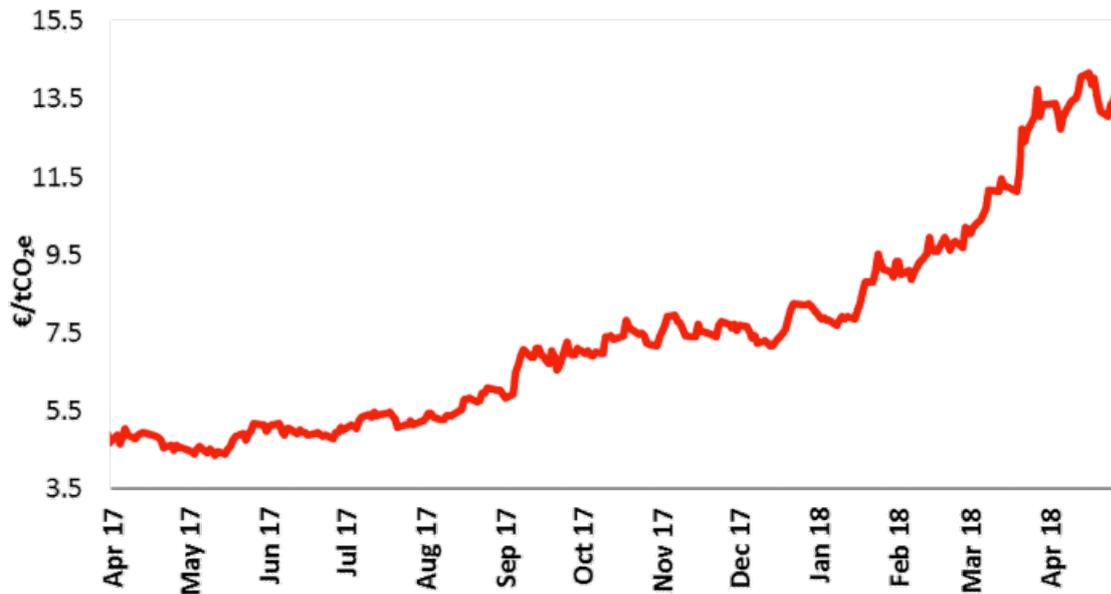
Another factor offering support to the oil price was the drop in US crude oil inventories and OPEC's compliance to the agreed production cuts. After an OPEC and non-OPEC ministerial meeting that took place on 20 April, the Saudi Energy Minister emphasised the need to continue with the production cuts as the drop in inventories is still away from their target.

A strengthening US dollar and an increasing oil rig count failed to put pressure on prices.

# Carbon

## Technical drivers driving the carbon market

### EUA Front Year Price



Carbon rose again this month and traded briefly above the €14/tCO<sub>2</sub>e level. Earlier in April, weak auction results pressured the carbon price lower. However, at the time of writing, the EUA Dec-18 contract is slightly higher compared to the start of the month, finding support in the strength of the wider energy complex. During April, technical drivers played a crucial role in the carbon market due to the lack of fundamentals.

On the policy side, member states energy ministers met in Sofia to discuss Energy Union Governance, ACER (Agency for the cooperation of Energy Regulators), and more generally, whether to increase the EU's renewable energy target. The European Parliament wants to set it at 35%, whereas a majority of member states wants a less ambitious target. The Commission wants to ramp up the ambition. Climate Commissioner Miguel Arias Cañete said there is movement among the member states towards inching up above 27%, but he warned the remaining negotiations will be difficult as the Council will most likely not come anywhere close to the Parliament position of 35%.

# Things to watch out for in May

European storage stocks reached a record low at the end of this winter season due to the exceptionally cold spell which affected most of the continent. Thus, storage sites need to inject bigger volumes during the summer compared to the previous years in order to fill before October, and this has supported prices for contracts delivering the remainder of this summer. Market participants will be closely monitoring storage injection rate through May to gain confidence in storage situation.

Oil has had a significant impact on gas and power prices in April and this is expected to continue for at least the next couple of weeks. With geopolitics driving the price of oil, volatility is expected to persist. The US President is expected to make a decision on Iran sanctions and, depending on the result, this could have a big impact on prices.

Finally, the Bank of England's next policy meeting is in May. Until the middle of April, market has priced in a very high probability of an interest rate hike. But since then, disappointing data on GDP and retail sales, as well as Carney's comments, have caused concerns and probabilities dropped from 70% to 40%. The BoE's decision could have an impact on sterling which could affect longer-term gas contracts.

## 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>	Energy Information Administration
<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

### Legal disclaimer

All rights (including, without limitation, copyright and other intellectual property rights) in and to this report and its contents (the report) are owned by us or are licensed to us by the owner of the rights. You may not copy, adapt, modify, sell, license, distribute, transmit, display, publish or create works derived from this report or any part thereof without our prior written consent (except as permitted under applicable law). Unauthorised use of this report may give rise to a claim for damages and/or be a criminal offence.

This report has been prepared in good faith for general information and interest only and may be subject to change without notice. Although we have taken all reasonable steps to ensure the accuracy of this report, we are not responsible for any inaccuracies and make no representation and give no warranty as to the report's accuracy.

Nothing in this report purports or is to be construed as purporting to provide any financial, investment or professional advice or other advice or recommendation and nothing shall be taken to constitute the provision of financial, investment or other professional advice in any way. If you are unsure of any contents of the report, you should seek independent financial advice.

This report is provided to you at your own risk and we do not accept liability whether in contract, negligence, tort or otherwise for any damage or loss (including direct, indirect or consequential loss, pure economic loss, loss of profits, loss of business, depletion of goodwill and like loss) howsoever caused.

### **E.ON UK plc.**

Registered office: Westwood Way, Westwood Business Park, Coventry CV4 8LG  
Registered in England and Wales No. 2366970