

May 2016 Newsletter



Dear Customer

Wholesale UK gas and electricity prices remained extremely stable up until the final week of April where lower than average temperatures and rising oil prices led to a dramatic and sudden acceleration in prices. Oil had been steadily climbing from the start of the month before hovering around \$45 (70% higher since early February).

Main Drivers

- Financial Speculation & Trading Activity
- Plant Maintenance & Outages
- UK Coal Fired Power Station Closures
- UK Distribution & Transportation Network Upgrade
- UK Government Green Taxes (RO / FiT / EMR CfD & CM)
- Geopolitical Tensions in the Middle East & Eastern Europe
- Global Oil & Coal Prices
- UK & European Carbon Prices
- Seasonal Supply and Demand Balance

General Comments

The gas market reacted to news in the last week of April that the demand was over 90mcm (60%) higher than the average for the time of year meaning storage was being called upon to back up the system at a time it would normally be used for injections. Low temperatures across northern Europe strengthened demand and coupled with outages at Norwegian gas fields in the North Sea gave traders the chance to force a rise in prices.

Stronger demand and rising European carbon prices gave the electricity markets strength in addition to the rise in gas prices. Gas powered generation now regularly accounts for over 40% of the entire electricity generation picture, any strain on the gas system would make electricity prices more reactive.

Oil prices climbed steadily throughout April after strong buying, based around Chinese stock markets brought speculators to the table, even oil stocks in the USA hitting 1929 levels failed to stop prices from climbing. Experts have mixed views on the future direction of oil prices; some believe the global economy will be the major factor while others believe reduced production levels from non-OPEC nations are a sign of balance returning to the market.

EU carbon prices rose by 32% in April on the back on new initiatives reduce the number of free permits across the EU. France are also exploring the possibility of introducing a carbon price floor to reduce their own emissions in accordance with the recently signed Paris agreement, the UK already has a separate carbon tax for high polluters such as coal fired power stations.

Electricity

Annual Forward Baseload Price (Flat Cost)



Gas

UK October Gas Year Price (Flat Cost)



Oil

Front Month Price (Brent Crude)



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Note: All information was obtained from wholesale market data sources. Energy Services accepts no liability for the accuracy of any third party market information.