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MONTHLY MARKET ANALYSIS EUROPE SUMMER 2017

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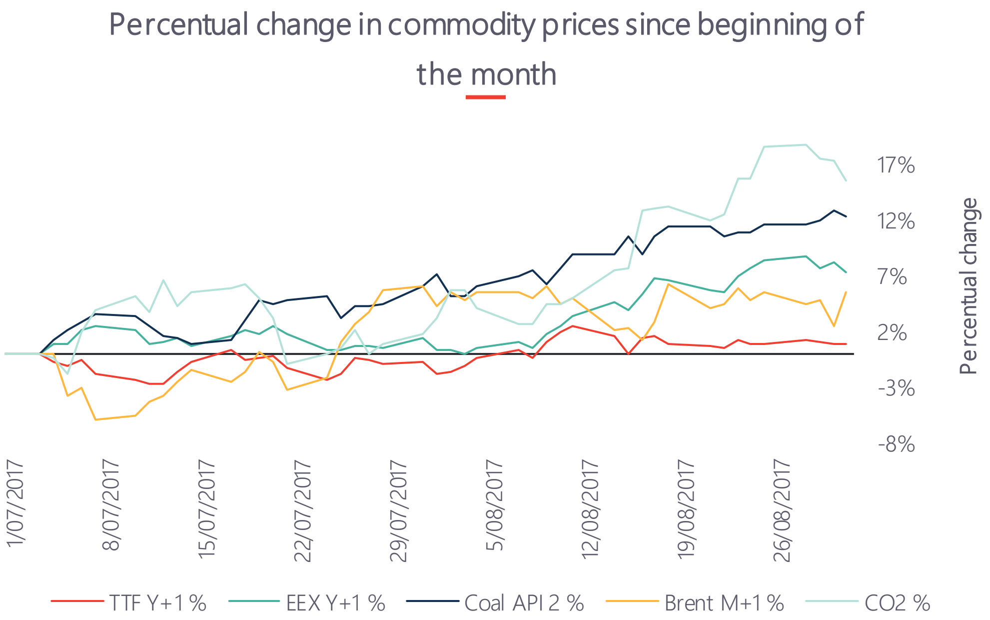
INTRODUCTION

Many people within the energy sector define the months July and August as a typical summer lull, a period of quiet or a lack of activity due to summer holiday vacations. Near the middle of this summer period this was mostly true as the number of transactions declined as most people are out of office. However, the last couple of weeks of August can hardly be described as a lull. The energy market evolution had more the likes of a summer blockbuster movie with multiple events happening across the board. Power prices went through the roof and record highs were broken on a daily basis. Tight markets, buying sprees and speculation kicked in on the back of revised production, better exchange rates or statements launched by both nuclear authorities and traders in the market.



OIL

The oil market regained moment and throughout the summer there were signs of a further price recovery but the situation is far from balanced as there are still factors offsetting each other and influencing the day-to-day price setting. What first was considered a new bull run in July tended to ease a bit towards the end of August.

Crude prices rebounded at the beginning of July with the front month Brent price surpassing the 50 dollars per barrel threshold. The market continuously traded between a range of 48,49 to 52,69 dollars per barrel. On average the Brent price for one barrel of crude oil was 50,51 dollars. The WTI evolution was similar with prices fluctuating between 45,10 dollars and 49,88 dollars per barrel, with an average price of 47,33 dollars per barrel.

The oil market tightened up due to several factors. First of all, there was price support by OPEC's ongoing commitment to keep crude oil production limited. The compliance rate was at 95% in July according to Reuters OPEC production cut survey. Compared to June the compliance rate was 1% higher. In total a production cut by 4,01 million barrels per day was achieved. Overproduction dropped to a mere 0,19 million bpd.

On the 24th of July OPEC and non-OPEC members met in St. Petersburg to review the June 2017 report and the first six months of the Declaration of Cooperation issued in November 2016. The outcome of the meeting was very positive with the OPEC and non-OPEC members very pleased with the current track record in terms of compliance. Between January and June 2017 participants adjusted production downwards by an estimated volume of 351 million barrels. Despite the positive atmosphere the participants acknowledged the fact that there still is room for improvement. At the end of the summit all participants re-expressed the importance of rebalancing the oil market and urged each other and non-OPEC countries to achieve full compliancy. Saudi-Arabia immediately set the tone by stating it would lower its export figures for the month of August by 6,6 million barrels per day. (1 million less than planned.) The UAE was one of the other countries to pledge to adhere its production adjustments for the remaining period. Most surprisingly was the voluntary commitment by Nigeria to establish production adjustments similar to OPEC as soon as its recovery hit a sustainable volume of 1,8 million barrels per day.

OPEC oil production down 351 million barrels the first half year in 2017

A second factor adding to the tightness in the oil market was the fact that inventories were in decline. OECD commercial oil stocks have fallen by 90 mill barrels for the period from January to June 2017. Due to a narrowing contango situation the floating stocks have also been in decline since June of this year. On a US side inventory levels were in a downward spiral over the summer. Data of the US Energy Information Administration shows a drop by 4,08% between the week ending on the 30th of June and the week ending the 25th of August.

On top of the declining inventories the slowdown of production added to the tight market situation. In the US the rig count was plateauing at the 950 units mark at the end of June and during the entire month of August the rig count was negative with the count finally settling at 940 units in the week ending on the 1st of September. In all fairness, the current level is still more than double of what we saw last year but the recent evolution added to the upward price pressure. Towards the end of August Hurricane Harvey was mostly to blame for the reduced output as production and refinery activities were forced to shut down. The tropical storm also had a price lowering effect as a lot of shale drillers were building up stocks. Shipments were disrupted as key oil ports were out of order leaving a lot of volume without any destination.

Oil production slowdown as rig count drops 4 consecutive weeks

In Libya the revival of the oil production was stopped. In July the country's crude production was at a four year high and thus offsetting cuts done by OPEC-members. However due to maintenance of the Zawiya refinery and the declaration of force majeure to the pipelines of the Sharara oil field, Hamada and El Feel (a.k. a. the Elephant) after armed militant groups shut down production, output levels came back down.

Finally, the weaker dollar position compared to other currencies and the potential sanctions of the US government against both Venezuela and North Korea. provided additional boost to the oil price. The exchange rate of 1 USD to EUR was around 0,857 during the entire summer period, with a low at 0,830 USD/EUR.

With regard to the sanctions against North Korea both the US and the UN are still reviewing what sanctions to take in order to put Pyongyang under pressure. Oil-linked sanctions form part of the potential countermeasures but it is not an easy situation as most North Korean oil deals are struck with the Chinese. It's too difficult to tell how much oil is being sold nowadays as China doesn't keep track of this in their customs data. Oil-related sanctions against Venezuela and president Maduro's regime on the other hand are still an option for the Trump administration but are currently not being put in place. The simple reason for that being the fact that such a threat would mean the end of the entire economic playing field in the country and such punishment could also backfire putting the US market at harm of a potential shortage of the specific type of crude oil produced by Venezuela.

Despite the tighter oil market situation price levels remain relatively low and stable. The volatility is still there but not as fierce as in previous trading sessions. This is mainly linked to the fact that if there isn't an unexpected issue such as tropical storms or a militia attack than OPEC reductions are continuously being offset by production levels from the US, Libya and Nigeria to a lesser extent. Demand for oil is only slowly picking up. In the first half of 2017 the market could still cope in terms of production worldwide. OPEC representatives expect a shift in the second half of the year but this still remains to be seen.

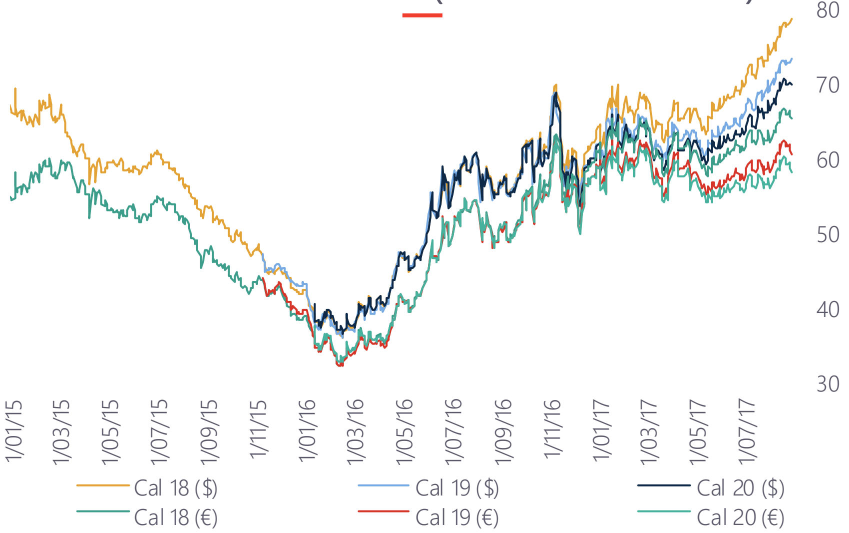
average oil prices

front month oil prices

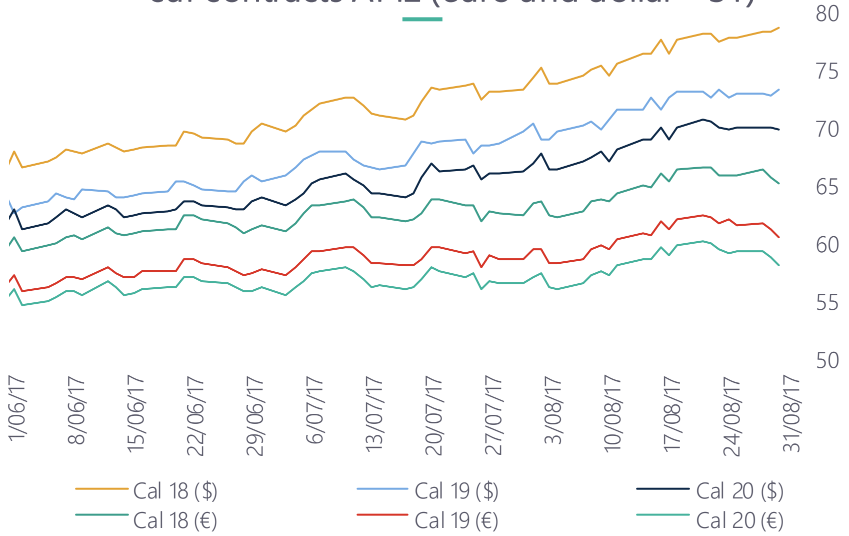
average coal prices last summer

summer 2017	summer average		summer minimum		summer maximum	
	($/t)	(€/t)	($/t)	(€/t)	($/t)	(€/t)
Cal 18	74,53	64,17	72,00	62,74	76,78	65,24
Cal 19	69,72	60,01	67,39	58,72	71,53	61,03
Cal 20	67,23	57,85	65,08	56,56	68,80	59,07

cal contracts API2 (euro and dollar - LT)



cal contracts API2 (euro and dollar - ST)



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