

OPEN MARKET REPORT

UK GAS & POWER

The insight behind our Open Performance Fund

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ENERGY MARKET

WEEKLY REVIEW & FORECAST - 01 FEBRUARY 2019

We continue to be cautiously long (we think the price is going up) on the seasonal UK gas and power contracts. But as pricing has refused to comply with our wishes thus far, it is time to start selling some volume back just in case. If the market is about to fall off a cliff, it should become more apparent in the coming days.

Time will tell if we have just been too early with our forecast of a price bounce. However, being right but early may be the same as being wrong! Our Summer'19 gas fund performance remains where we want it to be : 3.7% below the market average price since April last year. For power, we are currently 1.7% above the Summer'19 average price and we need to capture the next market move (up or down) to get back where we belong - below the average price.

> FORECAST FOR THE WEEK AHEAD

Economics

Stock markets bounced this week as the US Fed left rates unchanged and US-China trade talks seemed to move the two countries nearer to a trade deal. Hopefully, the formal request by the US to extradite the Huawei CFO from Canada is just a Trump bargaining tactic. The improved sentiment from stock markets was only moderately supportive of oil pricing this week. In Europe, Italy fell into recession, but the single currency rose against the dollar regardless.

On the Brexit front; Theresa May received the backing of MPs to remove the current Northern Ireland backstop from the Brexit agreement and negotiate with the EU to hopefully replace it with something better. However, initial soundings suggest the Europeans aren't going to play ball. But the UK government figures seem convinced the EU will relent leading up to the Brexit deadline rather than risk a hard Brexit. Currency markets aren't convinced the EU will cave and sterling is off 1% against the euro on the week. The sterling weakness is not as yet supporting gas and power prices.

Oil

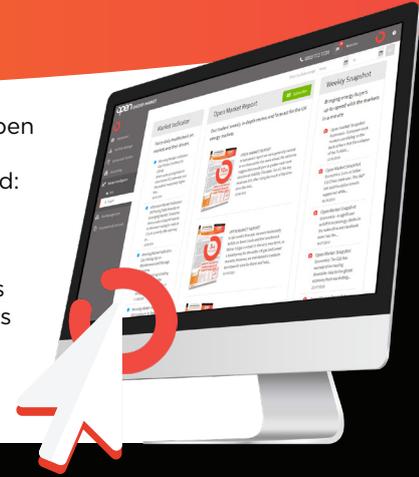
Front month Brent crude has moved roughly sideways between \$60 and \$63 a barrel since the start of January. As mentioned above, there isn't sufficient economic (stock market) enthusiasm as yet to lift oil prices in the face of surging US oil production. The weekly EIA inventory report in the US showed falling imports of Saudi oil as the Kingdom continues to restrict oil flows to the US in order to try and reduce the country's oil inventories.

Instability in Venezuela has been in focus since last week but the current regime remains in place and oil production unimpeded for the moment, so traders began to take profits late this week. Anti-regime protests continue to spread in Venezuela but for the moment, President Maduro continues to have the army onside which is proving the key to his survival.

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Gas & Power

The correlation between oil and gas/power markets remains weak. Recent sterling weakness has proved insufficient to put any floor under gas/power price falls. The UK has experienced some of its coldest nights since 2012 in recent days. But the gas system has coped admirably and remained noticeably oversupplied throughout. An extrapolation of current high level fundamentals paints a continued bearish picture, with a moderating two week temperature forecast, the continued arrival of LNG cargos to the UK and healthy pipeline imports from Europe.

From a chart analysis perspective, we would caution the pricing for some of the seasonal gas/power contracts, as they look "uncomfortable" at current lows. Also, European gas storage levels have fallen slightly below the levels they were at, this time last year. From early February last year, the pricing began to go pear shaped (pushed up) off the back of low storage and unseasonably cold weather. As stated above, we are cautiously bullish on the UK seasonal gas and power contracts for the moment, while giving ourselves some exposure to any further potential price downside.

> PRICE EVOLUTION

	24/01/2019	31/01/2019
Brent Crude	\$61.09	\$61.89
Front Month Coal API2	\$81.25	\$79.13
Dec'18 EUA (carbon)	€ 24.07	€ 22.30
February'19 NBP	57.57p	54.06p
Summer'19 NBP	51.822p	49.048p
Winter'19 NBP	61.661p	60.103p
February'19 UK Baseload	£60.75	£56.97
Summer'19 UK Baseload	£54.71	£52.13
Winter'19 UK Baseload	£61.74	£60.01

This report compiled by Cathal O'Dalaigh,
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Weekly Market Snapshot

Start your week with a 60-second summary of the latest drivers in global energy markets.

