

OPEN MARKET REPORT

UK GAS & POWER

The insight behind our Open Performance Fund

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ENERGY MARKETWEEKLY REVIEW & FORECAST
- 22 FEBRUARY 2019

We continue to be short (we think the price will drop!) on the UK gas and power markets in the near term. The benchmark Summer'19 gas contract looks slightly overstretched to the downside but there doesn't appear to be an immediate risk of a bounce.

Despite our downward bias for gas and power prices, it is not the most comfortable trade ever. We have had to hold our nerve while oil prices continued to push higher this week. We are currently 2.6% below the market average price (calculated from April 2018) for our Summer'19 gas fund. We are 1% above the market average price for the Summer'19 power fund. If prices close tonight near current levels then this should drag the power fund pricing lower towards the market average price.

> FORECAST FOR THE WEEK AHEAD

Economics

The US-China trade talks continues as both sides discuss an extension to the March 1st deadline. At some point, US tariffs on certain Chinese goods will increase. Stock markets seem to think there will be a trade deal and the FTSE and S&P 500 have both been bullish since the start of the month, with the sentiment supporting oil prices. On a cautious note, South Korean exports often seen as a barometer of global economic health are off 12% in February, suggesting the world may be moving towards recession if there is not a trade deal soon.

It is anyone's guess on what happens next. Fitch have placed the UK's credit rating on negative watch. The Financial Times leads this morning with a piece on the potential for queues of up to 15,000 people for the Eurostar at St. Pancras in the event of a no-deal. Sterling strengthened earlier in the week against the euro, based on the possibility of the EU giving Theresa May some concessions. One pound currently buys 1.1482 euros. Currently, the typical inverse correlation between sterling and gas/power prices is negligible.

Oil

The weekly EIA inventory report in the US continues to show soaring US oil production but the oil price is pushing higher regardless. The oil market is currently focused on the recent OPEC production cut announcement. With many of the cartel's members vowing to cut production even further than agreed. The US sanctions on Iran's oil industry are coming back into focus; as the waivers against sanctions that were granted to certain countries are due to expire in the coming weeks. Venezuela (world's largest oil reserves) might get nudged over the edge today as the US encourages the opposition in that country to march to the border with Colombia, to collect awaiting aid. The Venezuelan military have been tasked with preventing any aid from crossing the border.

Chart analysis suggests oil pricing may be overdone to the upside in the very near term, but there is still further upside price potential in the coming weeks with \$73 our initial target for front month Brent. The weekly CFTC report in the US shows hedge funds becoming increasingly bullish on oil.

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Gas & Power

Oil's correlation with gas pricing remains weak and intermittent. Gas pricing will continue to give direction to power prices. The high level gas market fundamentals remain in line with previous weeks. Temperatures will be almost tropical (5 degrees above seasonal norms) through the end of the month across Western Europe. UK landed LNG pricing remains near par with competing Asian (China and Japan) pricing, although beyond the two LNG cargos expected into the UK by the end of the month, there is no visibility on future cargos. European gas storage levels are an astonishing 25% above last year's levels at this time. Some of this gas will need to be brought to the market soon, in order to allow fresh injections into storage.

The benchmark Summer'19 gas contract (as a broad proxy for the wider UK gas and power markets) has fallen to support (potential floor) at 44.5p. A break lower would open up 43p and then 41p as downside targets. As mentioned above, there doesn't seem to be an immediate risk of a price bounce. Stronger oil pricing will remain a concern but important elements of the European energy complex such as Carbon (EUAs) and calendar German power look like they could fall further and drag gas prices with them.

> PRICE EVOLUTION

	14/02/2019	21/02/2019
Brent Crude	\$64.57	\$67.07
Front Month Coal API2	\$73.75	\$74.25
Dec'18 EUA (carbon)	€ 19.78	€ 18.80
March'19 NBP	47.07p	45.05p
Summer'19 NBP	45.683p	45.148p
Winter'19 NBP	58.31p	58.203p
March'19 UK Baseload	£49.95	£48.40
Summer'19 UK Baseload	£49.10	£48.24
Winter'19 UK Baseload	£58.22	£57.78

This report compiled by Cathal O'Dalaigh,
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> Our Performance Trading Desk has out-performed the market for over two years. Find out more and view our Fund's verified, rolling results in gas and power at info.openenergymarket.com/open-performance-fund

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Weekly Market Snapshot

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

