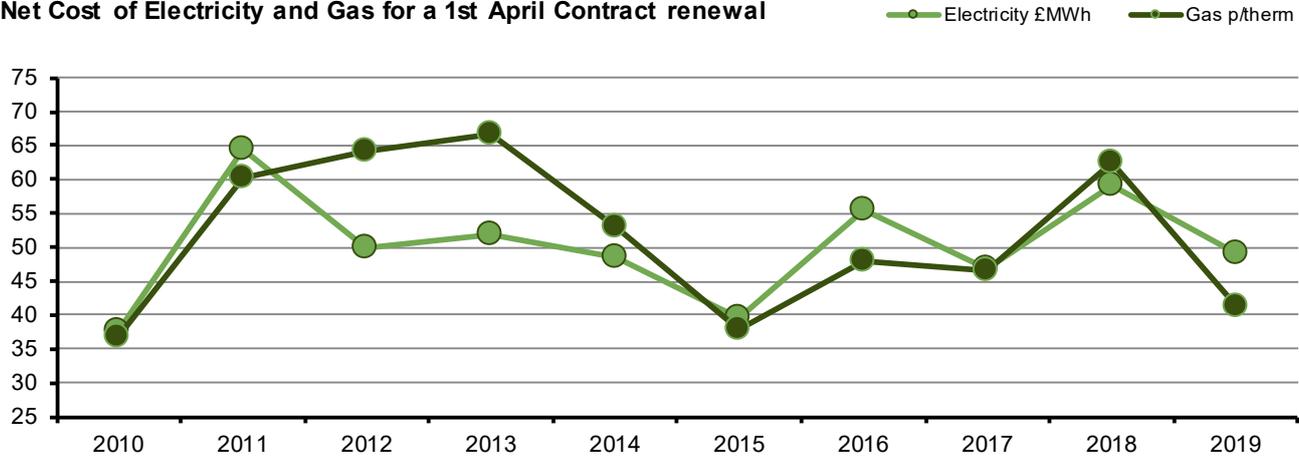


month on month marketview

Review of: October 2019

Net Cost of Electricity and Gas for a 1st April Contract renewal



Electricity: base load cost - excludes distribution, taxation and supplier margin and costs

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
37.63	64.4	47.57	51.47	50.04	42.61	51.92	48.65	69.65	50.07

Gas: core gas cost - excludes distribution, taxation and supplier margin and costs

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
36.75	60.17	62.15	65.89	55.64	40.48	48.15	47.15	63.15	44.69

▲ : Indicates that there was an upward pressure on prices.

▼ : Indicates that there was a downward pressure on prices.

October in summary

October was a fairly stable month with high storage levels and LNG sendout offsetting any increase in demand resulting from the seasonal drop in temperatures. The EU have granted an extension to the Brexit deadline until 31st January 2020. The news of a general election has also brought a halt to negotiations for now.

Market volatility

Brexit negotiations saw a deal agreed with the EU, but this was then voted down in Parliament as more time was wanted to review the document. Failure to get this through led to an election being called. US productivity slowed triggering fears of the threat of a global recession.

Weather

October saw colder air quickly spread from the north followed by a transient ridge of high pressure, low pressure and associated fronts returned by the 4th. Until the 20th the weather was unsettled with frequent low pressure systems and rain belts crossing the country, and the jet stream was further south than normal, resulting in frontal systems especially affecting the south and east of England. There was a quieter interlude from the 21st to 23rd, and then after a very wet spell on the 24th to 26th. The weather turned cold, dry and sunny for most of the country from the 27th to 30th, although the far south-west remained very wet at times.

Gas, Storage and LNG News

Prompt gas prices generally traded in the opposite direction to the rest of the market in October. Colder weather and fewer daylight hours boosted near-term contracts. However, prices softened further out in reaction to excess supply, weakness on wider fuels and strength of the Pound. Norwegian flows saw a drop at the start of the month due to maintenance which caused some system undersupply, although strong storage levels and LNG sendout offset the supply shortfall. Flows from the UK to Belgium fell to 0 on Tuesday 2nd as booked capacity for October lowered. The markets moved higher on the prompt prices as a result of the lack of imports, causing Norwegian flows to increase as gas was rerouted from the British Isles to mainland Europe.

Suggestions of colder weather at the end of the month lifted contracts but LNG was able to accommodate the increase in demand. 15 tankers arrived in the UK during October, 5 more than last month and 6 more than the same time in 2018. Movements on the Sterling and EUAs were mostly Brexit-related as the EU and UK agreed new exit deal before MPs voted to delay whether to accept, forcing an extension through to the 31st January 2020.

Politics and global economics

Brexit negotiations saw a new deal being agreed between the UK government and EU, only for parliament to vote against it. News then broke that the UK will have a general election in December, which boosted Sterling and carbon permits, with the electorate set to take to the polls on the 12th.

Outside of the UK, the World Trade Organisation approved US tariffs on \$7.5bn of European goods in response to a court ruling that European loans for Airbus were in fact illegal state subsidies. On the 1st October the Institute for Supply Management's also announced its factory index slipped to 47.8 in September, the lowest since June 2009. The index, which measures US factory data, showed only three of 18 industries reported growth in September, the smallest figure since April of the same year. The weak data fuelled concerns of a global recession, with oil futures trading lower as a result.

Oil

On the 11th, the global oil benchmark moved upwards on the back of positive trade discussions between the US and China, with the US President stating negotiations were progressing. During the same session further buying interest came from claims that two rockets had struck an Iranian oil tanker travelling through the Red Sea. The state-run IRNA news agency, quoting Iran's National Iranian Tanker Co., identified the vessel as the Sabiti. If confirmed, the attack would add to the growing tensions in the Middle East. Tensions were raised earlier in the week when Turkey entered northern Syria.

Coal

Coal contracts gained at the start of October as demand in Asia and optimism over the US-China trade negotiations provided buying interest. A drop in wind generation mid-month fuelled coal purchasing before easing off as the sessions progressed. Falling temperatures increased the need for additional thermal generation in the UK power stack, with coal partly playing a role. Continued gas stocks then weakened demand for the resource.

Carbon

The start of October brought news that the World Trade Organisation had ruled in favour of the US in a 15-year battle with the EU, in which the former claims cheap European loans for Airbus were in fact illegal state subsidies. This news weakened Brent crude futures. The US in response imposed tariffs of \$7.5bn on European goods on 18th October. The majority of goods subjected to the tariffs come from the EU's largest economies with France, Germany, Spain and the UK all affected. The rest of the month saw EUAs track Brexit developments. Certificates reached a six-month low of 22.03 Euro/tonne during trading on the 9th as Brexit progress during Irish-British talks between prime ministers seemed unlikely. Both nations then stated a day later that a deal could indeed be reached. Allowances then gained following the new Brexit deal, as well as on the back of the UK general election in December.

Looking Ahead

November is predicted to see below average temperatures for most of the month, however storage levels remain high and LNG sendout expected to remain strong with a large number of tankers are expected to dock in the UK.

Disclaimer: The above information is based on current market data available at the time of producing this document and is subject to change.

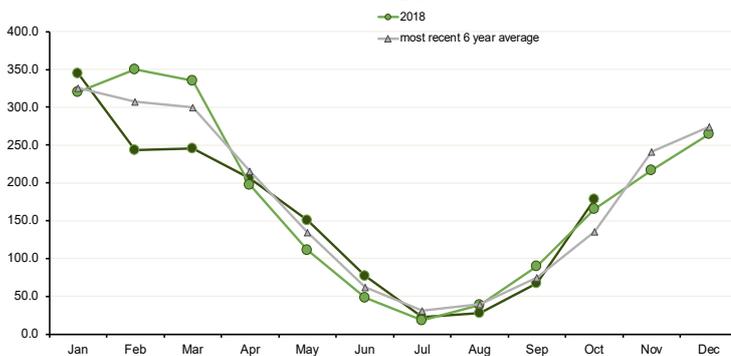
ECA cannot be held responsible for movement in the commodity market.

month on month marketview

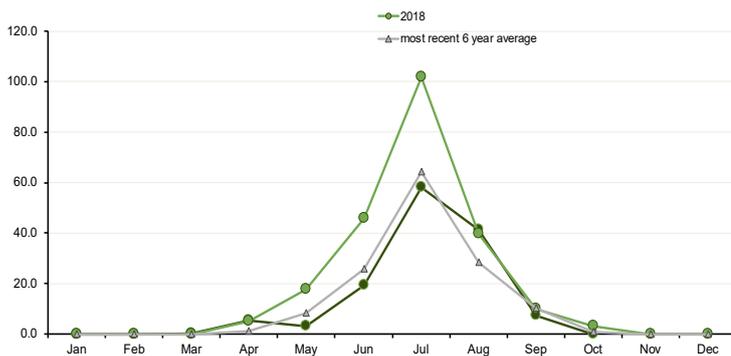
Review of: October 2019

Degree days are a representation of the length of time and severity with which the outside temperature either drops below (heating days) or goes above (cooling days) 15.5°C, and therefore it is assumed that heating or cooling is required.

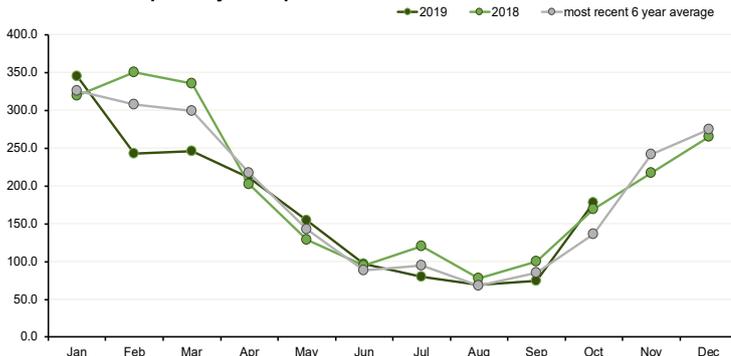
Heating Degree Day Comparison



Cooling Degree Day Comparison



Weather Impact Days Comparison



Heating 2019: Summary

2019 Summary v 6 Year Average

(* Positive numbers = warmer, negative = colder than 6 year average)

	2019	Sept	Oct	Year total
DD		7.7	-42.2	65.0
%		10.2%	-31.2%	3%

2016 v 2015 Summary

(* Positive numbers = warmer, negative = colder than 2013)

	2019	Sept	Oct	Year total
DD		22.6	-12	113.5
%		25.1%	-7.2	5.3%

Cooling 2016: Summary

2016 Summary v 6 Year Average

(* Positive numbers = warmer, negative = colder than 6 year average)

	2019	Sept	Oct	Year total
DD		-2.9	-0.8	-4.1
%		-28.9%	-100%	-2.9%

2016 v 2015 Summary

(* Positive numbers = warmer, negative = colder than 2013)

	2019	Sept	Oct	Year total
DD		-2.7	-3.1	-88.6
%		-27.1%	100%	-39.8%

Weather impact days 2016: Summary

2016 Summary v 6 Year Average

(* Positive numbers = warmer, negative = colder than 6 year average)

	2019	Sept	Oct	Year total
DD		-10.6	41.5	60.3
%		-12.4%	30.4%	2.6%

2016 v 2015 Summary

(* Positive numbers = warmer, negative = colder than 2013)

	2019	Sept	Oct	Year total
DD		-25.3	8.9	13.2
%		-25.3%	5.3%	0.6%

Met office UK summary

October began with a warm showery day in the south, and while colder air quickly spread from the north followed by a transient ridge of high pressure, low pressure and associated fronts returned by the 4th. Until the 20th the weather was unsettled with frequent low pressure systems and rain belts crossing the country, and the jet stream was further south than normal, resulting in frontal systems often especially affecting the south and east of England. There was a quieter interlude from the 21st to 23rd, and then after a very wet spell on the 24th to 26th. The weather turned cold, dry and sunny for most of the country from the 27th to 30th, although the far south-west remained very wet at times.

Rainfall was 109% of average, and it was a wet month over most of England and Wales with some parts of eastern England, notably in Yorkshire, and also the far south-west, having more than twice the normal rainfall, but in Scotland, Northern Ireland and Cumbria it was generally drier than average. Sunshine was 95% of average, and sunshine was below normal over most of England and Wales but above normal in most parts of Scotland, Northern Ireland, Cumbria and north Lancashire.

Utility impact summary

October 2019 has seen a drop in temperature and the beginning of the 'heating season' where most days are expected to require at least some heating to ensure rooms are comfortable for the occupants.

This October has been cooler than usual, there has been 7.2% more demand for heating than last October and 31.2% more than the 6 year average.

October is also a month for a lighting impact with the clocks changing and the nights drawing in. Lighting will need to be on more now than in previous months and with most of the country having below average sunshine hours it has also been required more than last October.