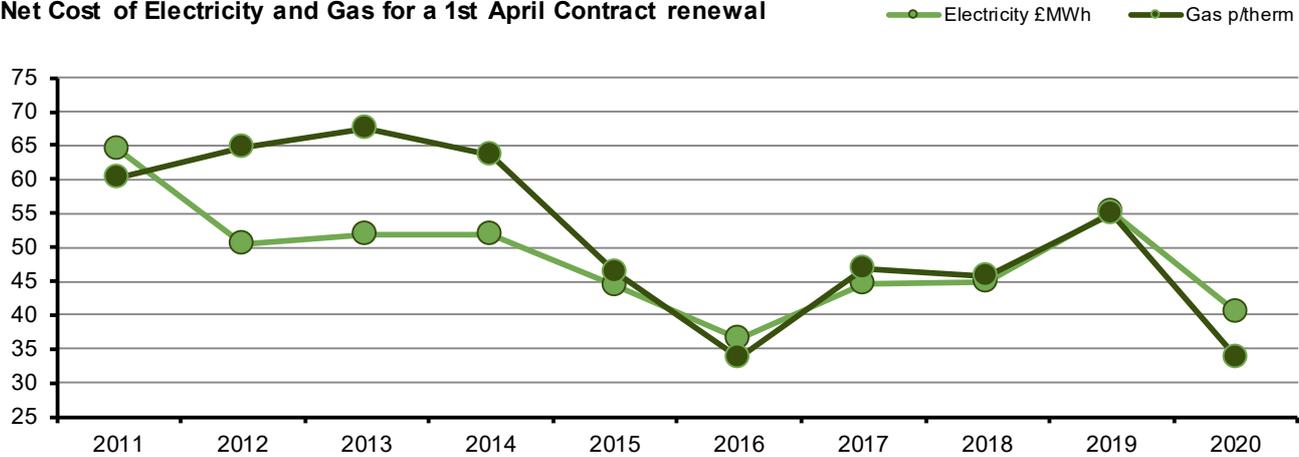


month on month marketview

Review of: January 2020

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



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

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
64.4	50.33	51.93	51.75	44.18	36.45	44.65	44.90	55.33	40.30

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

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
60.17	64.61	67.39	63.60	46.28	33.63	46.83	45.73	54.83	33.58

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

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

January in summary

The confirmation at the very end of December that the transit agreement between Ukraine and Russia had finally been concluded had a bearish impact, as there would now be no transit disruption in the New Year as previously feared. Strong storage levels also continued to pressure prices. This was mainly due to the robust LNG sendout, which peaked around 180mcm/d at the start of the month and a continuation of unseasonable milder weather keeping demand below average for this time of year.

Market volatility

Continued milder weather and healthy storage levels both in the UK and across Europe have helped to weigh down prices in January.

Weather

January began with high pressure over southern parts of the UK, bringing settled weather generally with plenty of cloud. This gradually moved away to the south-east allowing frontal systems in from the west, which brought mild and unsettled weather. High pressure returned later in the month, and brought more settled weather and plenty of sunshine, with very mild air for the remainder of the month.

Gas, Storage and LNG News ▼

UK gas prices continued their bearish trend throughout the majority of January as continued milder than average weather and healthy storage levels limited demand. Above-average renewable generation also helped to keep pressure on prices. An escalation of tensions in January following the killing of an Iranian Military General by a US drone strike did cause a brief spike, as risk of potential oil supply shortages increased. However, with both sides backing down and a de-escalating of the situation, any gains made were short-lived. The outbreak of the Coronavirus in China saw their economy slow significantly towards the end of the month, as quarantine measures including an extended Chinese New Year holiday meant oil demand fell sharply.

Politics and global economics ▼

The US signed a trade agreement with China on 15th January in what is set to be the first phase of negotiations. President Trump stated he would welcome Chinese officials to the White House before travelling to Beijing later in the year to go through subsequent phases on the deal. US-Iranian tensions rose at the start of the month following a US drone strike in Iraq, which killed a senior Iranian Military General. This led to a retaliatory air strike on the US embassy in Iran, with a threat of tensions growing and the possibility of oil supplies being disrupted through the Strait of Hormuz. However, both sides backed down, which saw any risk dissipate from the markets. The outbreak of the Coronavirus in China led to the New Year Holiday being extended and left industry at a standstill. Wuhan and other provinces in China have been placed under quarantine, limiting the movement of around 50 million people. This has occurred at one of the busiest economic periods of the year with Chinese New Year, with trade limited to try and contain the outbreak.

Oil ▼

At the start of January, oil markets spiked upon news that one of Iran's top military officials had been killed in a US air strike in Iraq. Military commander Qasem Soleimani was killed at Baghdad airport, along with other Iran-backed militia figures, in a strike ordered by US President Donald Trump. Higher-than-expected US crude stocks weighed on the Brent crude front-month future. Brent crude futures were further softened as a number of bearish drivers provided direction, including the news that China and the US signed Phase One of the trade deal. Global oil markets fell further towards the end of the month as concerns over the effect of the coronavirus on demand, pressured futures lower. As a result, the Brent crude and the American reference WTI suffered further losses.

Coal

Coal prices gained value as a resolution to the US-China trade war appeared likely. Further gains were seen in reaction to news of heightened unrest between the US and Iran as the former carried out an air strike in Baghdad, with Coal seeing a strong start to the month. However, a de-escalation of the Middle East tension coupled with cheaper gas, strong renewables and mild weather continuing to weigh on the market, and saw the API 2 2021 contract lose value in the second half of the month.

Carbon

Warmer temperatures across much of the continent at the start of the month combined with strong wind generation limited the need for fossil fuel burn. On Tuesday 14th, the European Commission proposed removing mining activities and fertiliser manufacturing from a list of heavy industries eligible for state aid. The Commission aims to "shorten the number of sectors eligible for compensation from 14 to 8" in order to focus on those which are most at risk of relocating, it said in a statement regarding the draft ETS state aid guidelines. There were also suggestions that Germany would cancel carbon permits for soon-to-be-closed coal plants, which raised EU ETS futures, before an announcement from Economy Minister Peter Altmaier that the German government had come to an agreement with workers, companies and regional governments regarding the closure of coal and nuclear power stations rallied permits.

Looking Ahead

Going into February, the main market drivers will be the now inevitable strong storage overhang by the end of winter, assuming no major or prolonged supply disruptions. The outlook for LNG sendout continues to look strong for February, though downwards month on month adjustment is possible. Weather forecasts for February show a continuation of the milder than average temperatures seen through winter so far. However, any prolonged colder spell of weather could see this become a bullish factor. In addition, the potential risk for prolonged supply outages, or if Equinor withholds Troll production, in a similar move to last summer, could have a bullish impact on the markets. FEB20 trading below Q3 provides a theoretical incentive for this.

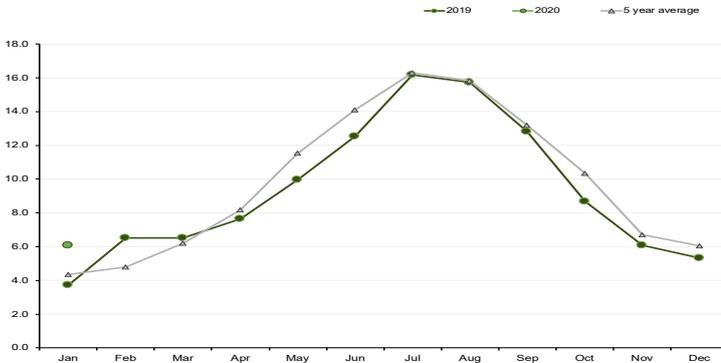
Disclaimer: The above information is based on current market data available at the time of producing this document and is subject to change.

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

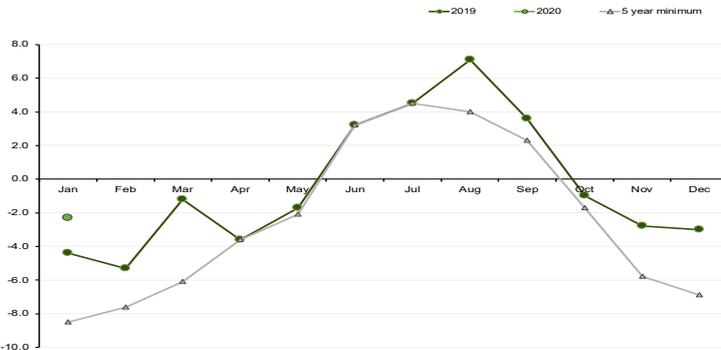
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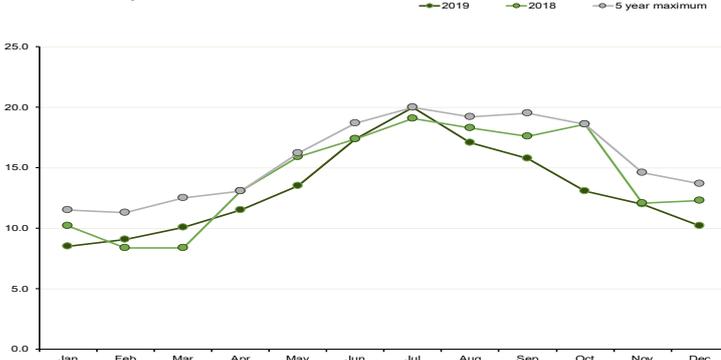
Average Temperature



Minimum Temperature



Maximum Temperature



Average temp: 2019 and 2020: Summary

2020 Summary v 5 Year Average

(* Positive numbers = warmer, negative = colder than 5 year average)

2020	Dec	Jan	Year total
°C	-0.7	1.7	1.7
%	-11.9%	-39.9%	39.9%

2019 v 2020 Summary

(* Positive numbers = warmer, negative = colder than 2019)

2020	Dec	Jan	Year total
°C	-0.5	2.4	2.4
%	-9.2%	63.2%	63.2%

Min temp: 2019 and 2020: Summary

2019 Summary v 5 Year Average

(* Positive numbers = warmer, negative = colder than 5 year average)

2020	Dec	Jan	Year total
°C	3.9	6.2	6.2
%	-56.5%	-72.9	-72.9%

2019 v 2020 Summary

(* Positive numbers = warmer, negative = colder than 2019)

2020	Dec	Jan	Year total
°C	-1.0	2.1	2.1
%	50.0%	-47.7%	-47.7%

Max temp: 2019 and 2020: Summary

2020 Summary v 5 Year Average

(* Positive numbers = warmer, negative = colder than 5 year average)

2020	Dec	Jan	Year total
°C	-3.5	-2.1	2.1
%	-25.5%	-18.3%	18.3%

2019 v 2020 Summary

(* Positive numbers = warmer, negative = colder than 2019)

2020	Dec	Jan	Year total
°C	-2.1	0.9	0.9
%	-17.1%	10.6%	1.06%

Met office UK summary

At the start of January, high pressure lay over southern parts of the UK, bringing settled weather but generally with plenty of cloud. This gradually moved away south-eastwards allowing frontal systems in from the west, and from the 7th to 17th the weather was mild, unsettled and also very windy at times. High pressure brought settled weather from the 18th to 25th, with plenty of sunshine initially but by the 22nd most places were overcast. Wet and windy weather returned from the 26th, and there was snow in some areas on the 27th and 28th, mainly on high ground, but very mild air returned on the last three days.

Utility impact summary

This Januarys average temperature across the UK of 6.1°C is 1.7°C (39.9%) warmer than the 5 year average and 2.4°C (63.2%) warmer than last year. This may have resulted in a much lower heating bill than expected.

The January 2020 minimum and maximum temperature extremes are also warmer than last year. The UK minimum temperature was -2.3°C and the maximum was 9.4°C.