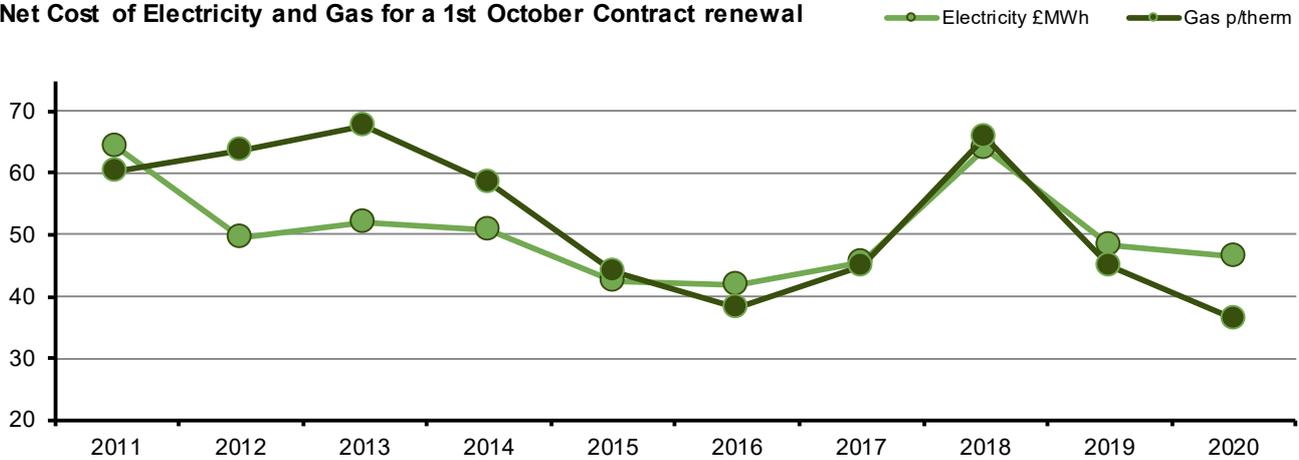


month on month marketview

Review of: August 2020

Net Cost of Electricity and Gas for a 1st October 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	49.65	52.1	50.8	42.54	41.7	45.46	63.96	48.41	46.58

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

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
60.17	63.67	67.71	58.3	44.02	38.26	44.95	65.84	44.77	36.43

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

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

August in summary

August saw continued bullishness from the energy market which saw gas and power prices reach pre-COVID levels. Warm weather in the first half of the month maintained the increased gas for power demand, with Norwegian maintenance season taking effect and reducing supply.

Market volatility

Volatility came from Norwegian outages reducing supply and data from the U.S. regarding supply and unemployment levels, with holiday season for traders also having an impact. Rises in cases of COVID-19 across several countries and the re-introduction of some restrictions has further stoked market volatility.

Weather

August started with low pressure and showery, mostly cloudy weather. Between the 6th and 13th the weather turned warm or hot and sunny in most regions, with some thundery outbreaks, and temperatures widely exceeded 30 °C in the south and locally 35 °C in the south-east. The weather turned more unsettled mid-month with showers and longer spells of rain. From the 19th to 28th the weather was often wet and windy with depressions heading in from the west, and Storms Ellen and Francis brought especially wet and windy weather to most of the country on the 20th-22nd and 25th. It turned cooler and quieter during the last few days.

Gas, Storage and LNG News ▲

August began with gas contracts picking up the bullish trend from carbon as the front month contract rose close to 20% on the day, seemingly eyeing levels above 20p/therm. The contract remained strong throughout the week, eventually settling 6.65p/therm up on the week. This upward movement continued into mid-month, and was linked to rallying Henry Hub pricing on US heatwaves, symbolising we have truly entered a more global gas market with LNG volumes being of such importance to UK price action.

The second half of the month saw wind output rocket briefly and LNG arrivals help to counteract Norwegian planned and unplanned outages. Markets remained generally choppy as the holiday season continues. These unplanned Norwegian outages did put pressure onto near-term pricing, as Norwegian capacity was already lower due to planned outages as well. This helped to lift the front of the curve and saw the day-ahead reach highs not seen since before the lockdown. Gas prices continued to take direction from Henry Hub with lower supply seen in the U.S. due to tropical storms. With wind output returning to near normal levels, gains were capped, but did continue through to the end of the month.

Politics and global economics ▲

Positive manufacturing data out of the US, along with a drop in US crude stockpiles, which was later confirmed by an IEA report, provided support for the oil market. Further discussions around the next phase of the US economic stimulus plan and some Asian price recovery further strengthened this

support. However, many remain wary as COVID-19 cases in many countries continue to rise. Later in the month, there was an announcement of unexpectedly high U.S. unemployment figures and OPEC+ made comments regarding a slow recovery.

The UK Government has provided a list of countries, which it deems safe enough for travellers to visit, in order to try to stimulate air travel. However, a number of last minute changes and imposing of quarantine deadlines has reduced confidence in the system. Brexit negotiations have also come back into the limelight as the end of the year deadline to secure a deal with the EU is fast approaching with seemingly no sign of a resolution.

Oil ▲

Oil began the month trading up, following positive manufacturing data out of the US and some Asian price recovery. With this said, many remain wary as COVID-19 cases in many countries continue to rise, with most countries reacting quickly to implement regionalised, increased lockdown measures. US and China tensions reared their heads once more, and the IEA cutting their 2020 crude oil demand forecast along with unexpectedly high US unemployment figures and OPEC+ comments regarding a slow recovery saw some of the early month gains eroded. Storms in the U.S. limiting supply did provide some respite, but the final week saw sideways market movement with only marginal gains.

Coal ▼

Despite seasonally strong European cooling loads, sentiment in seaborne coal markets remains subdued amid ongoing low European natural gas prices. At current coal prices, a large proportion of seaborne coal production volume is generating negative cash operating margins, and ongoing supply cuts from unprofitable high-cost producers are expected to limit the further downside for coal prices.

Carbon ▲

Carbon had a bearish start to August. A series of weak auctions, a feeling of oversupply and thin volumes meant heavy losses, which saw the contract drop. Throughout August, trading levels below €25/tonne have looked well bid and with expectations of EC announcements of ETS tightening mid-Sep offering support. This was evident in the final week of August as Carbon returned to strength, coming within touching distance of €30 once more. This was linked to a bullish article in the Financial Times speculating carbon prices could go as high as €40/tonne by 2022.

Looking Ahead

As maintenance levels reduce, Norwegian supply being back to somewhere near capacity will help bring stability. COVID-19 will be high on the agenda once more, as schools and universities across the country return, with predictions of spikes in cases likely and an increased possibility of local lockdown measures being re-introduced. Brexit has also started to appear on the horizon again, with the deadline to negotiate a deal comes into focus.

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.

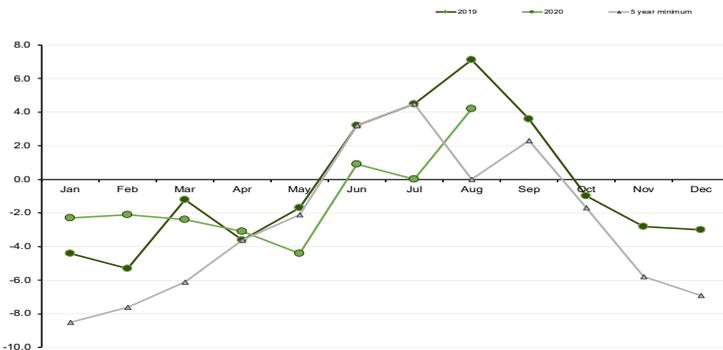
month on month marketview

Review of: July 2020

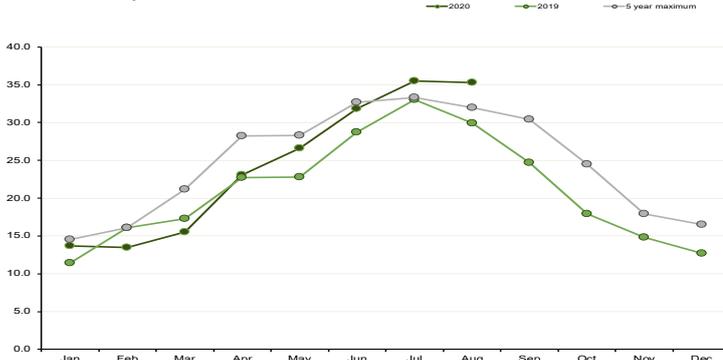
Average Temperature



Minimum Temperature



Maximum Temperature



Met office UK summary

August started off with low pressure and showery, mostly cloudy weather. Between the 6th and 13th the weather turned warm or hot and sunny in most regions, with some thundery outbreaks, and temperatures widely exceeded 30 °C in the south and locally 35 °C in the south-east. The weather turned more unsettled mid-month with showers and longer spells of rain. From the 19th to 28th the weather was often wet and windy with depressions heading in from the west, and Storms Ellen and Francis brought especially wet and windy weather to most of the country on the 20th-22nd and 25th. It turned cooler and quieter during the last few days.

The provisional UK mean temperature was 15.9 °C, which is 1.0 °C above the 1981-2010 long-term average. Mean maximum temperatures were mostly between 0.5 and 1.0 °C above average. Mean minimum temperatures were widely between 1 and 2 °C above. Rainfall was 135% of average and sunshine was 88% of average, and it was a cloudy and wet month over most of the UK.

Average temp: 2020: Summary

2020 Summary v 5 Year Average

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

2020	Jul	Aug	Year total
°C	-2.3	-0.9	-0.1
%	-14.3%	-5.6%	-0.7%

2019 v 2020 Summary

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

2020	Jul	Aug	Year total
°C	-2.2	-0.8	-0.4
%	-13.6%	-5%	-4.5%

Min temp: 2020: Summary

2019 Summary v 5 Year Average

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

2020	Jul	Aug	Year total
°C	-4.5	4.2	4.1
%	-100%	100%	-48.2%

2019 v 2020 Summary

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

2020	Jul	Aug	Year total
°C	-4.5	-2.9	0.9
%	-100%	-40.8%	-17.0%

Max temp: 2020: Summary

2020 Summary v 5 Year Average

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

2020	Jul	Aug	Year total
°C	2.2	3.3	2.2
%	6.6%	10.3%	6.6%

2019 v 2020 Summary

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

2020	Jul	Aug	Year total
°C	2.5	5.4	2.5
%	7.6%	18.1%	7.6%

Utility impact summary

August has been a changeable month, beginning cool but then bringing a heatwave mid-month with cooler weather to end with the arrival of two storms.

The average UK temperature this August was almost 1 degree cooler than last year and the 5 year average. Minimum and maximum extremes were wider at 3-4 degrees warmer than the 5 year average.

As we move back into the work environment following the pandemic be aware that your energy use is likely to increase, perhaps to a higher level than before lockdown. There are increased air quality conditions now due to the pandemic meaning air conditioning may be using more energy, along with the seasonal change to winter. Be aware of the energy implications when reopening and setting up your heating and cooling.