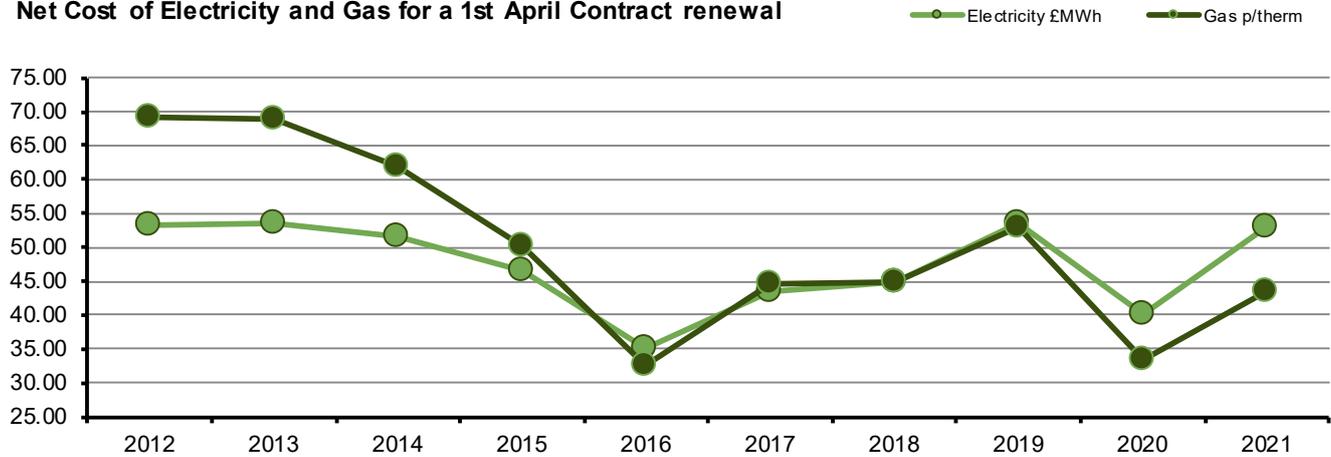


month on month marketview

Review of: February 2021

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



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

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
50.33	51.93	51.75	44.18	36.45	44.65	44.9	55.33	40.3	51.98

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

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
64.61	67.39	63.6	46.28	33.63	46.83	45.73	54.83	33.58	44.9

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

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

February in summary

Gas prices had a bearish February following warmer weather predictions and an increase in LNG shipments to the UK helping to ease storage fears. In contrast, oil and carbon markets were dominated by bullish sentiment, with carbon breaching record highs of \$40/barrel.

Market volatility

Volatility in February was largely weather driven once again, with supply concerns easing as the threat of cold temperatures were relieved by forward forecasts. The markets ended the month lower in comparison to the end of January as a result.

Weather

The first five days of February saw mild weather in the south, with colder and unsettled weather in the north. This was followed by a very cold easterly spell with heavy snowfalls in some areas, and extremely low temperatures on the early morning of the 11th. It turned much milder for the second half of the month, with wetter conditions in most areas with frequent strong winds, before a quieter anti-cyclonic spell arrived for the last few days of the month.

Gas, Storage and LNG News ▼

The start of February saw general bullishness amongst the energy complex, with Summer 21 and Winter 21 pulled higher by rampant carbon and optimistic oil markets. These moves were reversed towards the front end of the curve with March 21 NBP losing 2.83p/therm. With the end of winter in sight, warmer forecasts for the end of the month and an expected increase in LNG deliveries to the UK, the front month contracts were driven down. Gas markets then softened moving into the middle of the month, particularly at the front of the curve as weather models found some common understanding that cold weather was due to come to an end mid-month. This saw cold weather premiums stripped out of contracts, especially at the front of the curve with March 21 dropping almost 7p/therm. Also pressuring pricing was the backdrop of increased LNG supply and strong renewable output.

Despite a Norwegian outage mid-month, gas and power markets still gave back cold weather premiums as the mild and windy conditions came to fruition. Traders began to worry about the LNG supply stack following disruption from the freezing temperatures in Texas, and cold conditions in Japan drawing cargoes east. However, with Qatari gas making a comeback into the UK delivery roster along with deliveries from other areas of the US, and forecasts showing UK conditions were not set to get much cooler into March, these worries dissipated.

The end of February saw gas and power contracts drift mostly sideways in a week that saw March 21 contracts expire and April 21 take centre stage. Warmer temperatures for the final week of the month, helped dampen contracts with March 21 NBP dropping 1.29p/therm. Contracts were then lifted slightly higher in the final few days of February, as a mixture of planned and unplanned Norwegian outages reduced flow to the UK. Some of this work is expected to last into March. High winds saw LNG docking at Milford Haven delayed, adding to the increase.

Politics and global economics ▲

COVID-19 infection rates have fallen following the lockdown and the rollout of the vaccination programme, which saw the UK meet its first target of vaccinating everyone over the age of 70 by February 15th. As the rollout continues, with those aged 60+ and anyone with an underlying health condition next to be vaccinated. The Government also announced their intention that every adult in the UK will be offered the first dose of the vaccine by July 31st.

February also saw the Prime Minister outline the UK's roadmap out of lockdown, with key dates in March, April, May and a full lifting of restrictions outlined for June 21st. Whilst this could change, it has provided optimism that the economy, and life will return to normality in the not too distant future.

Globally, the US President Joe Biden signed the US back up to the Paris Agreement following his inauguration in January. This is seen as a big step in the right direction in the efforts to reduce carbon emissions worldwide.

Oil ▲

Oil continued its upwards trajectory with April 21 Brent lifting \$4.43/barrel. The contract pushed higher as analysts forecast the commodity could reach mid-\$60's due to a tight market, rising demand and more promising economic data out of the US. This trend continued into the middle of the month, the April 21 contract seeing further gains of \$3/barrel during the second week of February. This continuous bull run came to an end as the market realised that US refinery demand would be impacted by the freezing temperatures experienced in Texas. Some market participants had called this a timely correction following the recent market surge. Despite a surprise build in US inventory being announced, a stronger dollar and returning Texas production saw May 21 Brent rising \$2.32/barrel in the final week of the month.

Coal ▼

Higher wind output coupled with milder than average temperatures have seen coal prices fall, as the fall in demand coupled with the increase in wind saw the role of coal in the power mix diminished once more.

Carbon ▲

Carbon took the limelight as the commodity rose a whopping €5.25/tonne, reaching new highs as the contract came ever closer to €40/tonne mark at the start of February. The contract swayed managing a new high of €38.73/tonne following the first full week of 2021 auctions. Mid-month saw the contract push above the €40/tonne level before news broke that the EU were considering capping speculative trading in the EU ETS. This briefly caused the contract to tumble, but traders ultimately shrugged the news and pushed the contract back above €40/tonne. After this initial rallying however, Carbon did then fall, with the contract giving up €2.79/tonne and enduring a volatile end to the month.

Looking Ahead

Recent weather forecasts for March suggest the cold weather may not quite be over, which could have a bearing on prices next month. LNG supply looks to remain healthy with a number of deliveries already confirmed for March, which may alleviate any impact by colder temperatures, but is another area to keep an eye on. The easing lockdown will see children return to school, with the country waiting to see what happens to case numbers following this, and the impact on easing restrictions thereafter. Chancellor Rishi Sunak is set to announce his budget, and business will wait to see how this will affect them, and the subsequent market impact of this budget.

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.

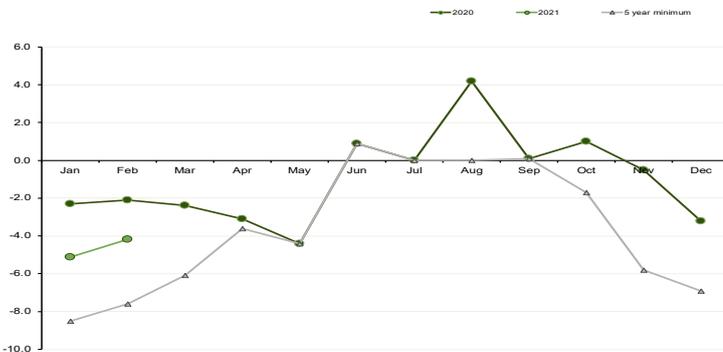
month on month marketview

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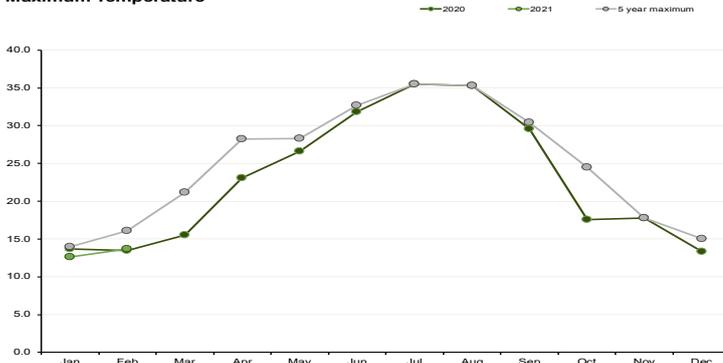
Average Temperature



Minimum Temperature



Maximum Temperature



Met office UK summary

The first five days of February were mild in the south, cold in the north, and unsettled, followed by a very cold easterly spell with heavy snowfalls in some areas, and extremely low temperatures on the early morning of the 11th. It turned much milder for the second half of the month and wetter in most areas with frequent strong winds, before a quieter anti-cyclonic spell arrived for the last few days.

Average temp: 2021: Summary

2021 Summary v 5 Year Average

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

2021	Jan	Feb	Year total
°C	-0.3	-0.3	-0.3
%	-6.3%	-5.9%	-0.1%

2020 v 2021 Summary

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

2021	Jan	Feb	Year total
°C	-1.7	-0.3	-1.0
%	-28.5%	-5.3%	-0.2%

Min temp: 2021: Summary

2021 Summary v 5 Year Average

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

2021	Jan	Feb	Year total
°C	3.4	3.4	3.4
%	-39.8%	-45.0%	-42.4%

2020 v 2021 Summary

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

2021	Jan	Feb	Year total
°C	-2.8	-2.1	-2.5
%	55.1%	49.8%	52.4%

Max temp: 2021: Summary

2021 Summary v 5 Year Average

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

2021	Jan	Feb	Year total
°C	-1.4	-1.4	-1.9
%	-10%	-10%	-12.6%

2020 v 2021 Summary

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

2021	Jan	Feb	Year total
°C	-1.1	-1.1	-0.5
%	-8%	-8%	-3.4%

Utility impact summary

February saw market-pricing fall on the back of warmer than normal seasonal temperatures.

When you switch your heating on make sure:

- It is on a timer, don't leave it running when there is no-one in the building
- On a temperature set point, usually around 22 degrees is enough, heating to a higher temperature does not make it warm up faster, it will only use more energy try to reach an unachievable temperature.

It is particularly important this year to check your heating settings as closing the building during lockdown may have meant that the usual settings were altered and timers and temperatures need to be reset.

As the evenings begin to grow lighter, adjust any automatic lighting timers to ensure lights are not switching on needlessly.