

**Headline:** Carbon prices rally, pushing UK gas and power prices higher, before softening at the end of the month

## Key Market Drivers

- Renewable generation was generally healthy for July as sunny conditions in the South boost solar generation
- Carbon prices were the main driver on longer term contracts
- Outlook ahead is neutral to bearish with some potential downside for oil prices

## Market Prices

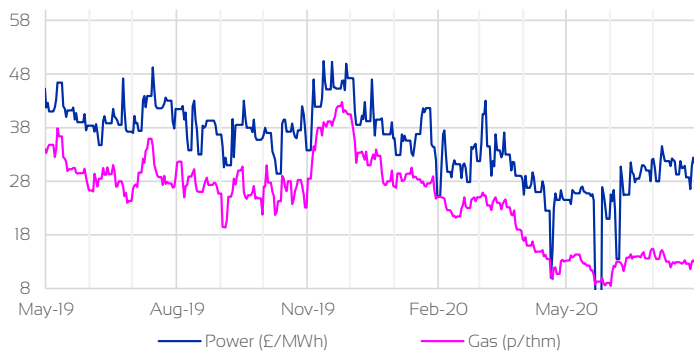
Contract	UK Baseload Power (£/MWh)			NBP Gas (p/thm)		
	Jun -20	Jul -20	Change	Jun -20	Jul -20	Change
<b>Day-Ahead</b>	£32.00	£31.25	-2.3%	15.40	13.20	-14.3%
<b>Win-20</b>	£46.15	£44.00	-4.7%	33.40	31.30	-6.3%
<b>Sum-21</b>	£40.90	£38.80	-5.1%	30.85	28.15	-8.8%
<b>Win-21</b>	£48.95	£47.35	-3.3%	41.25	39.90	-3.3%
<b>Sum-22</b>	£43.75	£42.10	-3.8%	34.43	35.25	2.4%

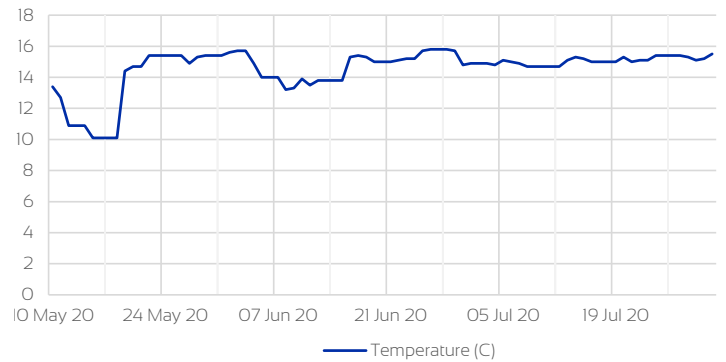
Brent Crude	Carbon	GBP : EUR	UK Destined LNG Cargos
\$ 43.27/bbl	€ 25.49/tCO2e	€ 1.11	3
5.2%	-5.3%	0.3%	

## Market Analysis: Short-Term

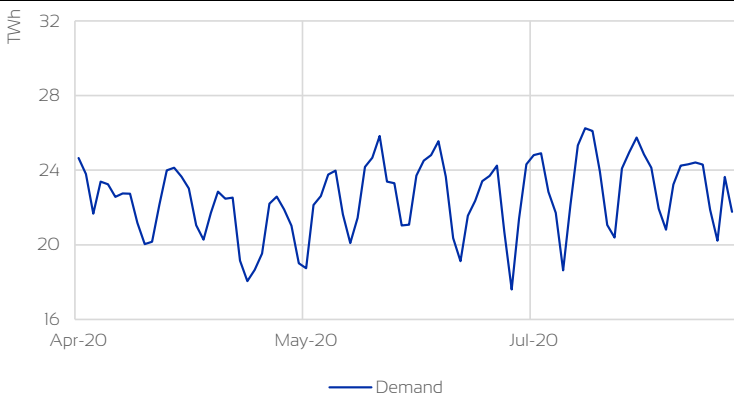
Day Ahead Prices



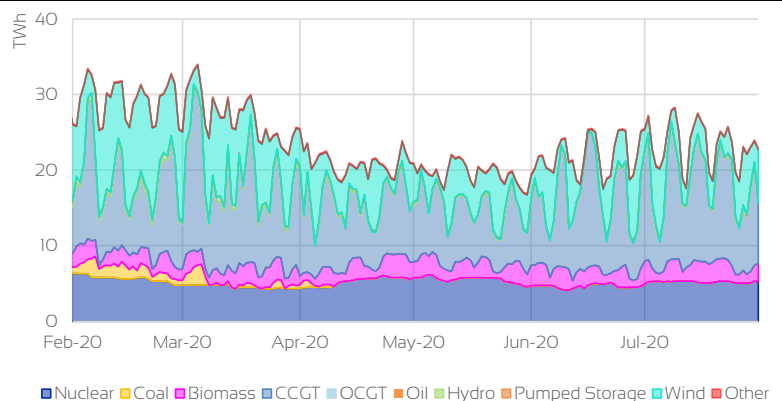
UK Temperatures



UK Demand



UK Supply Mix



## Market Insight: Short-Term

Generally bearish short-term fundamentals, throughout July, have kept prompt prices below those seen in June. Renewable generation sat around seasonal norm for most of the month. The relatively unsettled weather to mid-month saw some healthy wind output and, with sunnier weather in the south, solar generation was fair for the second half of July. Warm and fair conditions on the continent resulted in healthy renewable output, which was welcomed as the Nordstream gas pipeline was offline for maintenance from mid-July to this week.

The number of LNG cargos reaching UK shores in July remained subdued as large exporters, such as the US and Australia, continue to cancel exports amid generally poor global spot gas prices. Norwegian flows have managed to keep up pace, filling the gap left by LNG. This despite several direct maintenance projects taking capacity offline throughout July and Nordstream maintenance increasing continental Norwegian gas demand.

The GBP has had a fairly steady month, trading mostly between the €1.09-1.11 mark. Stalling EU trade talks and increasing local lockdown measures have pressured the Pound but the chancellor's mini-budget was received positively and retail sales have been reported up for June. The USD continues to suffer as rising virus cases deter investors from the usual 'safe haven' of US treasury bonds.

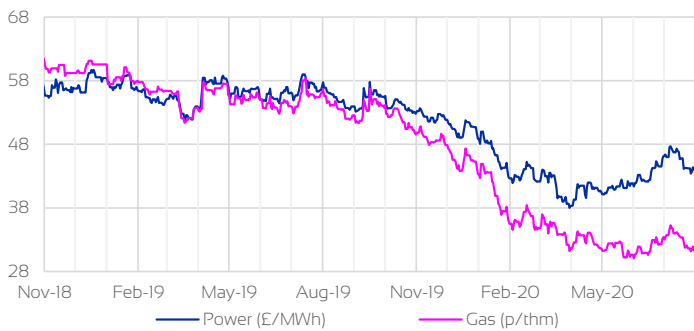
**Market Insight: Long-Term**

Rising carbon prices have been the main topic of conversation on longer term contracts for July. Prices had been steadily recovering from mid-May as European lockdowns were eased and the global equities markets remained generally positive. From the start of the month, carbon prices rallied, despite generally bearish fundamental drivers remaining. It was, however, the technical drivers that kept the rally going. The Dec-20 contract traded above the €30/tCO<sub>2</sub>e at times. The commodity did appear to hit its resistance level towards the middle of the month and has since settled to levels similar to mid-June. The effect on far-curve UK gas and power prices is plain to see.

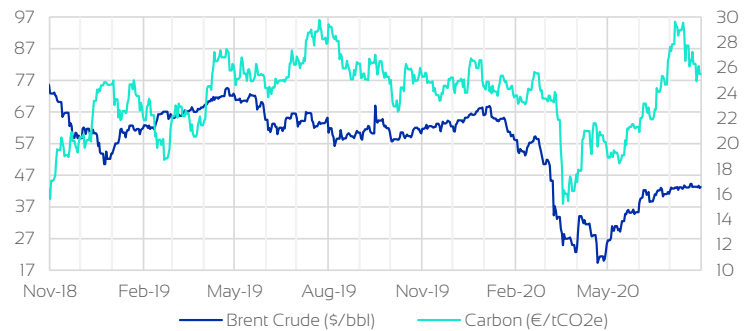
Oil prices have remained range-bound throughout the month, mostly trading between the \$41-43/bbl mark. Fears over ever rising US virus cases seem to have been kept in check by a more balanced supply/demand picture.

**Market Analysis: Long-Term**

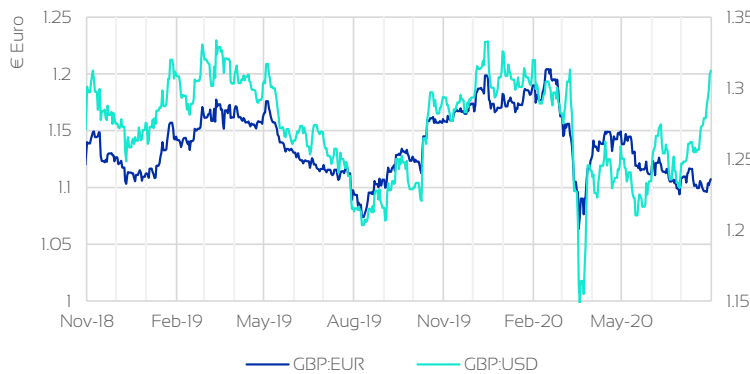
Front Seasonal Prices



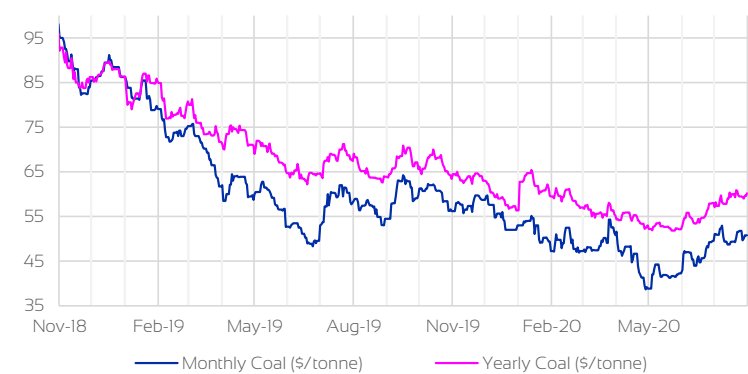
Brent Crude & Carbon Price



UK, EU & US Currencies



Coal Prices



**Market Outlook**

The short-term outlook for the coming weeks is bearish to neutral. Dry and settled conditions are expected for much of August, particularly in the South. The North-West is likely to see some wetter, windier weather at times. Generally, temperatures should sit at or just above seasonal norm, meaning demand should remain within expected seasonal levels. Norwegian flows are expected to remain steady into August. If prices remain bearish, we may see increased gas demand for injection into storage as facilities continue to build stocks ahead of winter.

Further ahead, markets could be driven by more volatile oil prices as we move into August. OPEC+ cuts will officially reduce by over 2 million bpd from the start of the month and rising second-wave virus concerns across Europe, coupled with the situation in America, could see the supply/demand balance start to slip once again.

With markets posting monthly losses for July, fixed term renewals should be considered. The markets continue to exhibit contango characteristics so advice on fixing out no further than 24 months remains. Alternatively, clients should select a longer-term flexible strategy.

For more information on anything covered in this month's Market Insight, please contact Optimised Energy's Trading desk:



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