

Headline: Freezing temperatures support the prompt but far-curve may run out of steam on new COVID-19 strain

Key Market Drivers

- Gas supply picture is less steady as more LNG heads to Asia for higher hub prices
- The Pound finds strength from Brexit trade deal and vaccine rollout, to shrug off new COVID-19 strain worries
- Outlook is neutral to bullish as a strong commodity complex remains but rally could be slowed by new strain

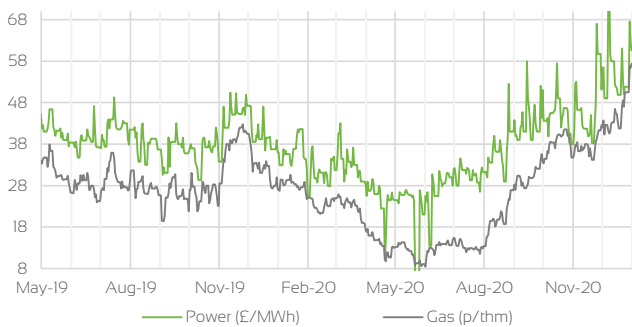
Market Prices

Contract	UK Baseload Power (£/MWh)			NBP Gas (p/thm)		
	Dec -20	Jan -21	Change	Dec -20	Jan -21	Change
Day-Ahead	£60.60	£68.00	12.2%	57.35	60.90	6.2%
Sum-21	£51.85	£51.85	0.0%	42.65	43.90	2.9%
Win-21	£57.00	£57.00	0.0%	50.50	50.50	0.0%
Sum-22	£46.75	£46.75	0.0%	36.50	36.50	0.0%
Win-22	£53.10	£53.10	0.0%	44.70	44.70	0.0%

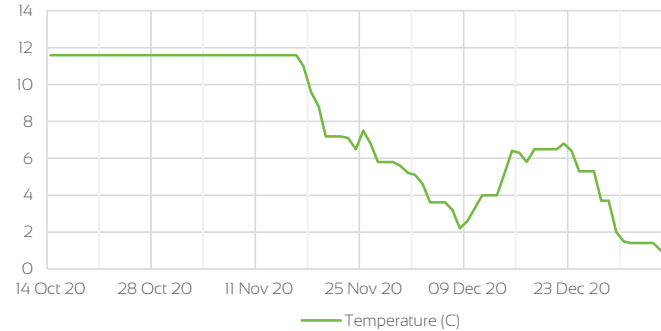
Brent Crude	Carbon	GBP : EUR	UK Destined LNG Cargos
\$ 52.45/bbl	€ 32.57/tCO2e	€ 1.11	0
1.3%	0.0%	-0.6%	

Market Analysis: Short-Term

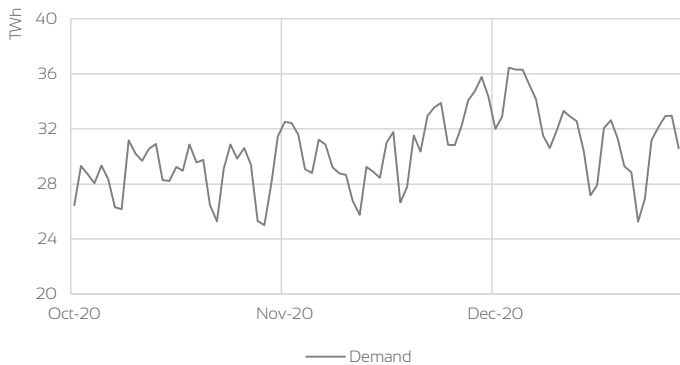
Day Ahead Prices



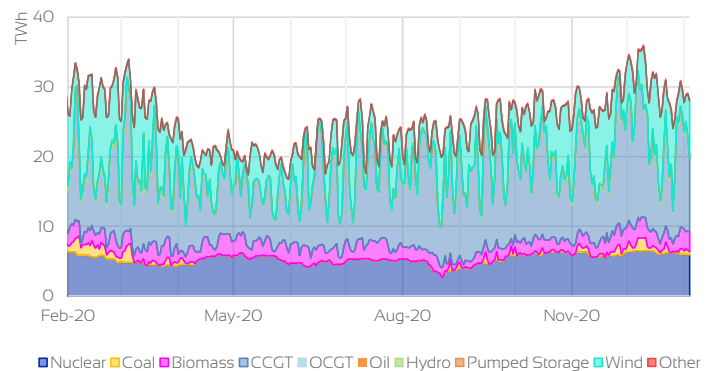
UK Temperatures



UK Demand



UK Supply Mix



Market Insight: Short-Term

Demand reduced throughout December in line with expectations for the holiday period. After a cold start to the month, temperatures remained at, or slightly above, seasonal norms until Christmas Day, after which temperatures plummeted. We are currently experiencing temperatures well below seasonal norm and this pattern is expected to continue for the first week to 10 days of January. A sudden stratospheric warming (SSW) event will take place today. This will likely displace the polar vortex, away from the pole, spreading cooler weather into Northern Europe and USA.

On the supply side, after a flurry of LNG arrivals into the UK towards the end of December, there are currently no cargoes scheduled to arrive into the UK. High Asian gas hub prices, supported by freezing weather and recovering commercial demand in the fast East, are continuing to incentivise cargoes away from the UK and Europe. Front month JKM (Asian hubs) prices currently sit above \$14/MMBtu. In comparison, the equivalent front month prices on the NBP (UK) and TTF (Eur) hubs are \$7.9 and \$6.9/MMBtu respectively. Some traders expect that these high Asian gas prices will be short lived as many Asian countries worked to stockpile gas ahead of winter, to avoid a repeat of the shortages seen in 2017. In the UK, Norwegian flows have been steady and MRS has been used to support the system.

Market Insight: Long-Term

Oil prices continued to recover throughout December as COVID-19 vaccination programs began globally and OPEC+ agreed to extend production cuts into January. A weaker USD has also supported oil prices by increasing buying interest. The recovery has been capped by the spread of a new strain of COVID-19, leading to tougher lockdowns for many countries. Some market participants speculate that oil demand won't recover to pre-pandemic levels until at least 2022. OPEC+ will meet again today to discuss extending current production cuts into February in light of the new demand concerns. If agreed, further cuts would support oil prices.

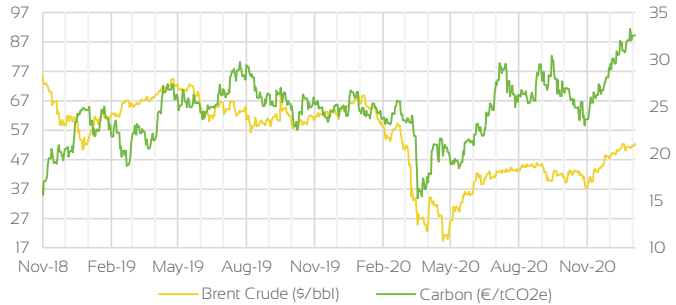
Carbon prices remain supported with the current auction pause and cold European temperatures. Auctions are currently on hold until late January/early February as adjustments are made to the scheme following the UK's exit. A continued cold snap across Europe is also contributing to higher permit prices as countries rely more heavily on fossil fuel fired generation to keep up with demand.

Market Analysis: Long-Term

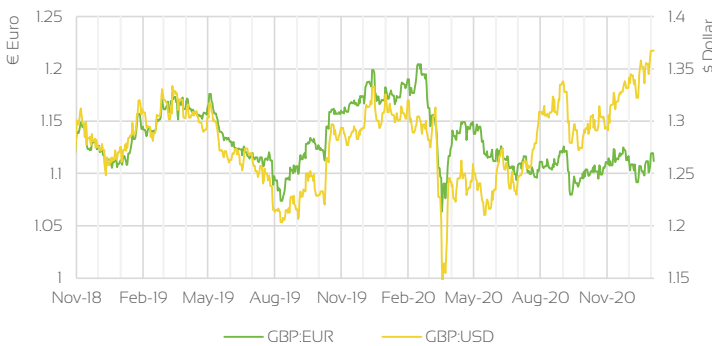
Front Seasonal Prices



Brent Crude & Carbon Price



UK, EU & US Currencies



Coal Prices



Market Outlook

The shorter term outlook is bullish with temperatures set to remain at or below norms for at least the first half of January, whilst the temperature impacts of the SSW event, and resultant PV displacement, could take weeks to play out. The supply picture is strained as LNG cargos continue to favour Asian destinations. MRS in UK and Europe currently sits well below levels in January 2020. Further ahead, the picture is neutral to bullish. The commodity complex has strengthened on vaccine development and production cuts, however, the new strain of COVID-19 is renewing concerns around oil demand recovery.

Backwardation is now in full play across gas and power markets. Fixed clients should consider the opportunity backwardation could present for securing volume further ahead. Alternatively, clients should select a longer-term flexible strategy to take advantage of any emerging opportunities to secure volume further ahead.

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



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