

Headline: Rising winter demand supports gas prompt whilst weak commodity complex keeps curve contracts in check

Key Market Drivers

- Norwegian flows strong in October, despite strikes early in the month
- Oil and carbon post significant monthly losses on worsening virus situation
- Outlook is neutral to bullish as wider commodity complex weakens but cold weather could be on the horizon

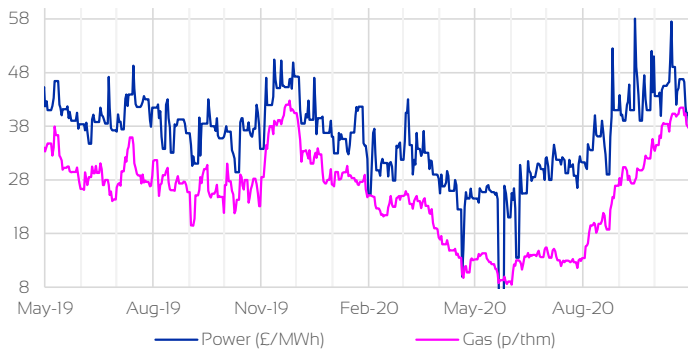
Market Prices

Contract	UK Baseload Power (£/MWh)			NBP Gas (p/thm)		
	Sep -20	Oct -20	Change	Sep -20	Oct -20	Change
Day-Ahead	£51.00	£38.00	-25.5%	33.90	37.50	10.6%
Sum-21	£43.40	£42.60	-1.8%	33.70	34.25	1.6%
Win-21	£50.31	£48.10	-4.4%	43.07	42.25	-1.9%
Sum-22	£43.60	£43.45	-0.3%	35.80	35.55	-0.7%
Win-22	£51.25	£48.30	-5.8%	44.50	44.10	-0.9%

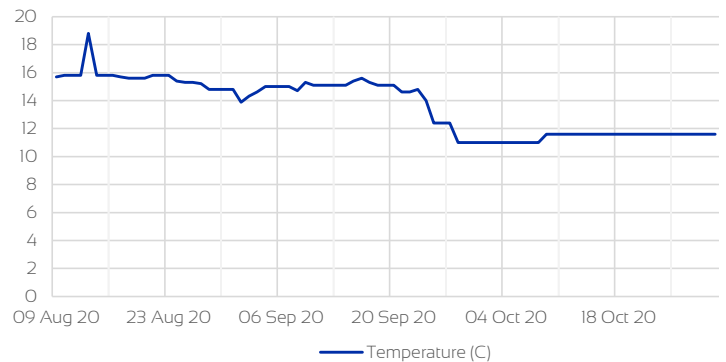
Brent Crude	Carbon	GBP : EUR	UK Destined LNG Cargos
\$ 37.64/bbl	€ 23.31/tCO2e	€ 1.11	8
-8.1%	-13.4%	0.7%	

Market Analysis: Short-Term

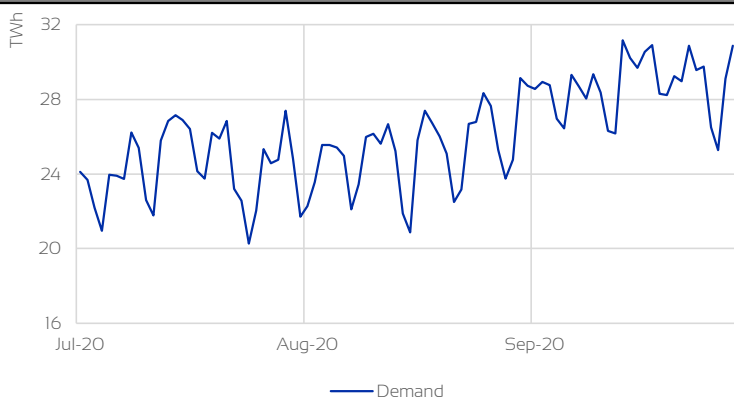
Day Ahead Prices



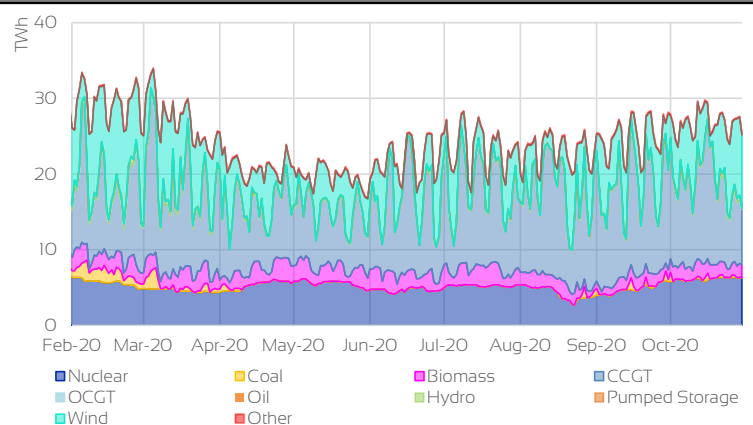
UK Temperatures



UK Demand



UK Supply Mix



Market Insight: Short-Term

The expected uptick in demand has been clearly visible as we move further into the winter season and this has supported shorter-term contracts. The gas system has generally been well supplied throughout October. Some upside was seen early in the month as Norwegian Gas and Oil workers went on strike; however, a deal was reached within a week and risk premiums quickly leaked from the market. The Pound has remained remarkably stable, despite the twists and turns of recent trade talks. To marketplace remains optimistic that a deal will be reached.

The LNG picture has begun to improve with 8 cargoes now expected into the UK by 9th November. European hubs are still trading at a premium to the US Henry hub, tempting US exporters to head to Europe. Some Asian hubs saw price jumps of 20% last week as Vitol paid above market price for 3 LNG cargoes for delivery to China in December. Expectations of a cool winter in Asia have also supported prices. If the premium remains or increases, this will incentivise LNG exporters to head for Asia over Europe and this could coincide with significantly cooler temperatures for NW Europe in December.

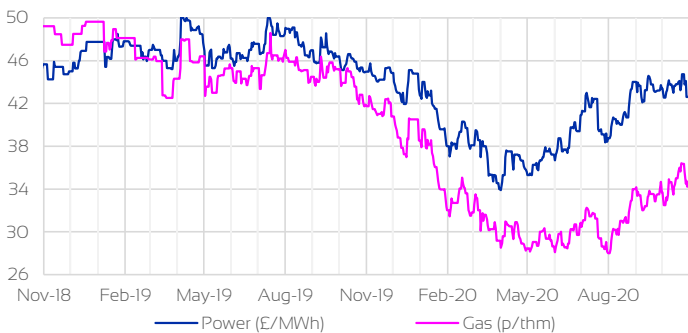
Market Insight: Long-Term

Movement on the far-curve of UK energy markets has been largely driven by oil and carbon during October. Oil prices have posted losses of over 8% on month as coronavirus cases continue to rise and many major economies enter stricter lockdowns. Lack of resolution around a further economic stimulus package for the US has also pressured prices along with news of building US inventories. Increasing production from Libya has further threatened to knock the supply/demand balance off course. The commodity currently trades well below the \$40/bbl mark.

Carbon prices have been pressured by high auction volumes and demand fears linked to coronavirus. Healthy renewable generation across continental Europe has also applied pressure. The commodity currently trades at €23/tCO₂e, down over 13% on month and significantly lower than the €30/tCO₂e mark touched in July.

Market Analysis: Long-Term

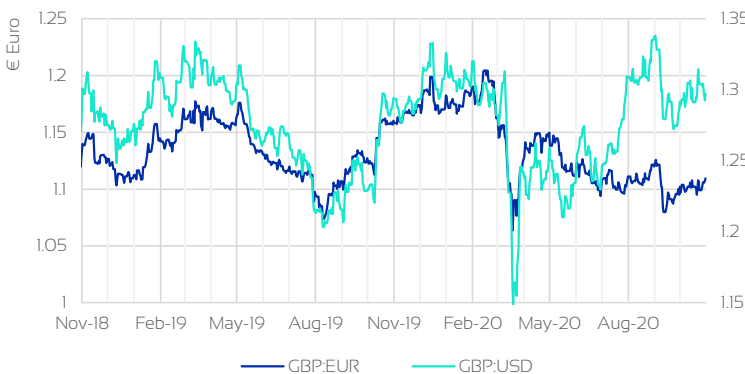
Front Seasonal Prices



Brent Crude & Carbon Price



UK, EU & US Currencies



Coal Prices



Market Outlook

In the shorter term, the outlook is bullish with temperatures set to fall into November and settled conditions could threaten wind generation levels. The LNG picture has improved in the short-term but the sustainability of this, given rising Asian hub prices and a forecast cool Asian winter, remains to be seen. Further ahead, the picture is neutral to bullish. Whilst the wider commodity complex has weakened during October, the potential for cool UK temperatures in November and December, and competition with Asian hubs for LNG deliveries, could see gas storage being utilised significantly for system flexibility. The consequences of which would knock on to the front season as storage facilities look to refill depleted supplies.

The market contango has continued to soften and could indicate a period of backwardation is on the horizon. 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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