PRICE RISK REPORT

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BEOND

Building 11, Chiswick Business Park
566 Chiswick High Rd,
London, W4 5YS

T: +44 208 899 7385
E: info@beondgroup.com
www.beondgroup.com

Pushing the boundaries in energy design

Last Month Summary

UK gas and electricity prices rose significantly higher during May, driven by rising crude oil prices and news that French energy giant Total would be pulling out of a billion-dollar gas project in Iran by November in the face of renewed U.S. sanctions. With a significant portion of Total's gas output earmarked for Europe, the decision will reduce the expected gas supply available for European consumers.

In addition, supply disruptions limiting gas imports into Continental Europe from both Libya and Russia are pushing up forward prices. As a result, Norwegian gas flows continue to be rerouted from the UK to Continental Europe. Gas prices ended the month 10.4% higher at 2.10 p/kWh, with electricity prices 8.7% higher at 5.87 p/kWh.

Brent crude oil prices rose 3.1% over the last week. The overall price increase reflected President Trump's announcement that the U.S. was pulling out of the nuclear deal with Iran and re-imposing oil sanctions on the country. As a result, the benchmark Brent crude contract increased 3.1% month-on-month.

Energy Price Outlook

Bearish price drivers (🡇)

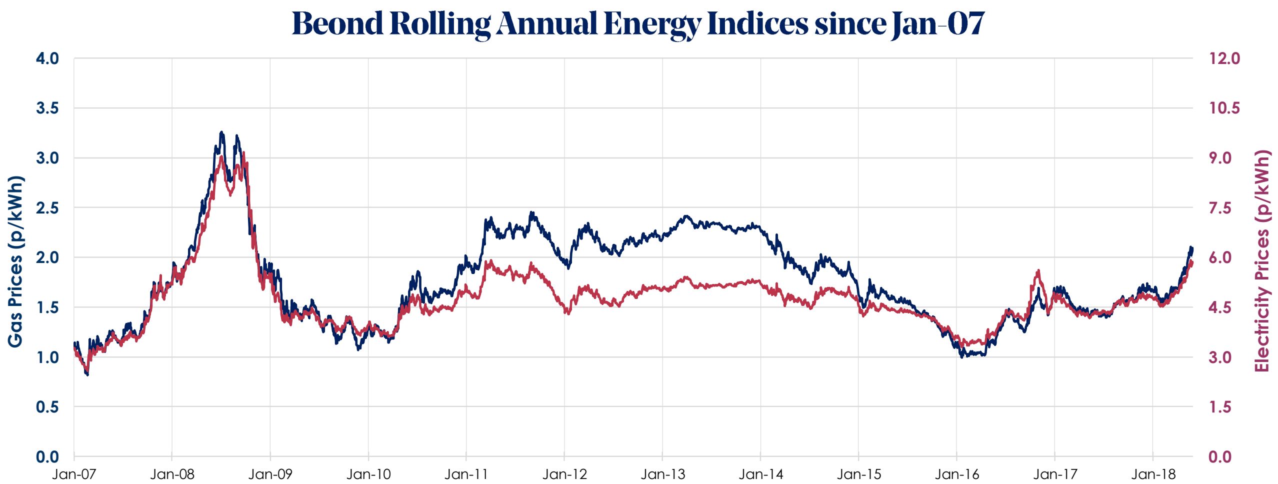
- Stronger storage injections across Northwest Europe over the coming summer months could alleviate supply concerns for winter.
- Milder weather for UK and Continental Europe forecast for April and the rest of summer.

Bullish price drivers (🡅)

- Sources close to Saudi Arabia and Russia have said that both countries are likely to honour the pact to cut crude oil production until the end of 2018.
- Unexpected pipeline gas or nuclear outages, could both harm Britain's ability to meet power demand during times of peak UK gas and power consumption.
- Lower gas inventories across Northwest Europe mean demand from injections into storage facilities during summer months is forecast to be higher than during previous years.

What to watch out for: There is a very real risk that crude oil and carbon prices will continue to rise, boosting European and UK energy prices. With UK and Continental European gas storage lower than normal, prices will be even more sensitive to unplanned pipeline and nuclear outages than in previous years.

Recommendations: Current supply and demand risks are more unpredictable than in previous years. As a result, energy users may want to consider securing their contracts within the next month or two. While it is possible that prices could dip in August, any unscheduled supply disruptions could create significant price volatility before the October 2018 contract starts, potentially making energy more expensive.



Total set to pull out of Iran gas deal as a result of U.S sanctions

French energy giant Total is preparing to pull out of a billion-dollar gas project in Iran in the face of renewed U.S. sanctions. Total said it will unwind operations by November unless sanctions are waived. Earlier this month President Donald Trump withdrew the U.S. from the international deal with Iran. Going against advice from European allies, he said he would reimpose economic sanctions that were waived when the deal was signed in 2015. While European governments continued to support the deal with Iran, firms which operate internationally risk falling foul of the reinstated U.S. embargo.

Oil gains 3.1% after U.S. announces it was re-imposing oil sanctions against Iran

Brent crude oil prices rose 3.1% to $77.50/bbl after U.S. President Trump announced he was pulling out of the nuclear deal with Iran and re-imposing sanctions on the country. Iran's oil exports currently stand at more than 2.5m bpd, equivalent to 3% of global demand.

OPEC's monthly oil market report also revealed that the global oil oversupply has now all but disappeared, largely thanks to OPEC and Russian efforts to curb supply. However, a significant decline in Venezuelan output and increased world demand forecasts for 2018 also contributed to the sustained price rise.

Pound weakens as ONS confirmed a slowdown in UK GDP growth

The Pound Sterling fell in value versus the U.S. Dollar as the Office for National Statistics confirmed its previous estimate that GDP growth dipped to 0.1% in Q1-2018. However, there has been some debate as to how much of this slowdown was the result of the "beast from the east" or other factors. The decline represented the weakest household spending for three years and falling levels of business investment. Much will now hinge on how consumers fare over the coming months, with some early indications there could be a rebound in stronger retail sales.

Global economic outlook uncertain as U.S. tears up trade war truce with China

The U.S. Dollar rose in value towards the start of May as the U.S. announced it was putting its trade war with China on hold after the world's two biggest economies reported progress in talks aimed at bringing down America's trade deficit with Beijing.

However, the Trump administration shocked markets by tearing up a truce with Beijing and announcing it would impose tariffs on $50 bn worth of Chinese goods and restrict Chinese investment in the United States. China said it was ready to retaliate.

Changes to CfD rules to cost UK consumers £100m a year over the next 15 years

An investigation into rule changes made to the Contracts for Difference (CfD) second auction round has found that it will increase costs to UK consumers by £100 million a year for the next 15 years. Last year, BEIS awarded 11 CfD's to a number of renewables projects across the UK. Three offshore wind farm projects, generating a total of 3.2 GW, swallowed up all but a small proportion of the 3.3 GW of capacity awarded contracts in last September's auction. However, projects were then rejected if they would bust the cap on capacity being procured through the process. This meant that eight small-scale projects, which were more expensive per unit of electricity generated, won out at the expense of larger and cheaper schemes, according to the National Audit Office report.

Beond Risk Services

Beond risk service and online risk tools include a broad range of innovative hedging strategies which can deliver considerable cost savings at no additional risk, by harnessing market uncertainty and price volatility. Beond also uses an online reverse auction in Beond's tender service, creating an intensely competitive environment to produce best prices and full transparency.