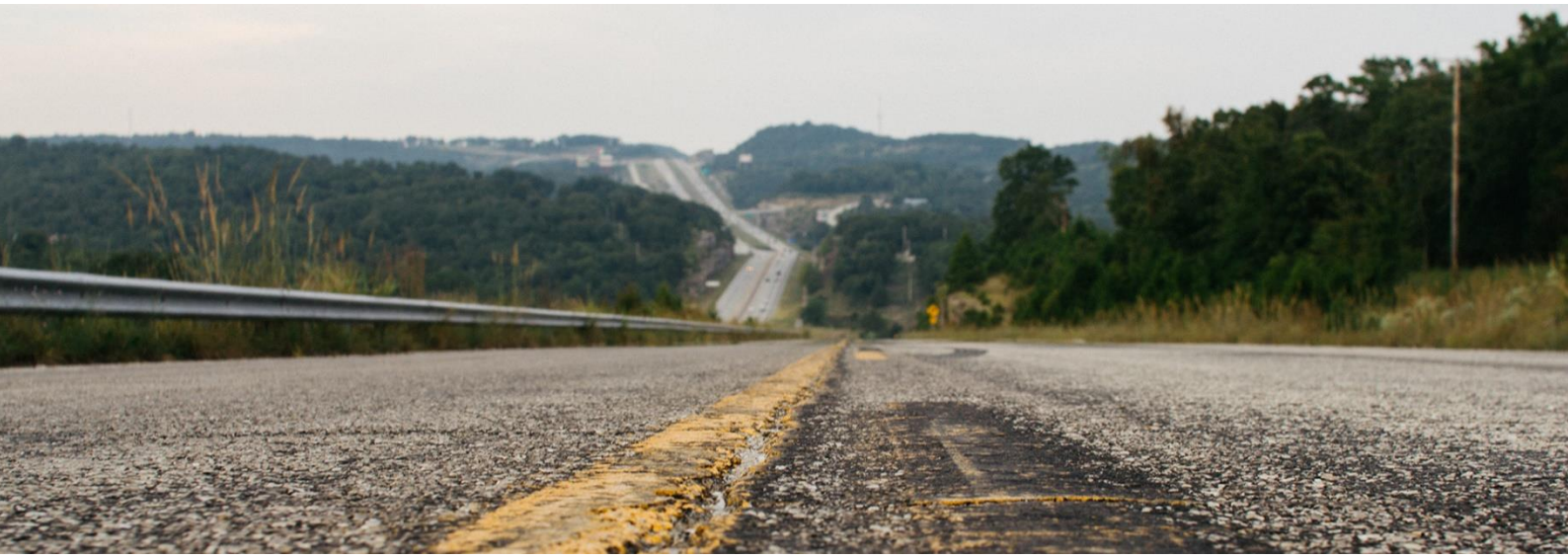


# MONTHLY MARKET ANALYSIS APAC OCTOBER 2018

Writer: [Juan Rios](#) | Designer: [Joke Bruneel](#)

# CONTENT

■ Introduction .....	3
■ Natural Gas .....	4
■ Electricity .....	7
■ Oil .....	9
■ Coal .....	11
■ Carbon.....	13
■ Graphs & Tables .....	14
■ News .....	20

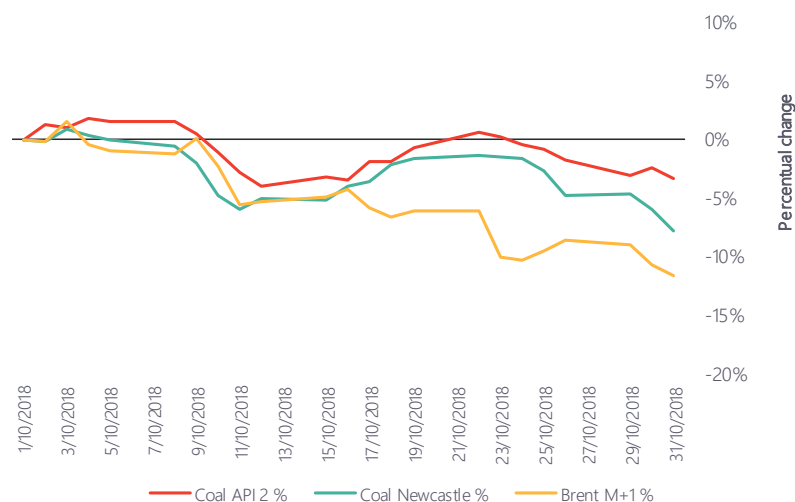


## INTRODUCTION

Welcome to the inaugural edition of our APAC Monthly Market Analysis, we hope you enjoy it and we welcome any feedback. In this first edition of the APAC MMA, we provide analysis of prices and the fundamentals throughout October, placing special focus on the Australian energy market.

Asia's increasing demand for LNG, particularly that of China and Japan, continues to wreak havoc in Australia's gas and electricity industry due to the link between domestic and international gas prices. Electricity year ahead prices continued the bullish run in October, increasing by an average of 0.5% daily. Brent crude prices reached a four-year high then dipped in October as Saudi Arabia aims to increase oil supply in the short term. October coal prices were varied from bullish to bearish due to changes in China's demand appetite as well as an increase in production. Renewable energy certificate prices in Australia have decreased in price throughout October due to an influx of supply from renewable energy generators.

Percentual change in commodity prices since  
beginning of the month



## ELECTRICITY

Electricity futures prices in Australia continue their bullish trend. This is fostered by uncertainty in energy policy, a record drought in NSW, and the typical weather and stability concerns during the upcoming summer period. Backwardation between Cal 19 and Cal 20 continues to increase, with the gap increasing an average of 2.58 AUD per MWh across the National Electricity Market (NEM). There is a sentiment in the market that perhaps 2020 will bring much needed price relief thanks to large amounts of renewable energy generation coming online in the next few years.

In Australia, electricity futures remained bullish throughout October. Year-ahead (Cal 19) prices increased by an average of 9.83 AUD per MWh, with Victoria having the highest increase of the month of 11.32 dollars per MWh. Other states were just as bullish. New South Wales increased by 9.47 dollars per MWh, Queensland by 7.2 AUD per MWh, and South Australia by 11.3 AUD per MWh.

In New Zealand, electricity front year futures were also bullish throughout October. Otahuhu increased by 8.68 NZD per MWh, while Benmore increased by 7.06 NZD per MWh.

On average, Australia's Cal 19 prices increased by 0.5% daily, driven mainly by Quarter 1 price bullishness across all states. This price premium for Q1 prices in Q3 and Q4 of the previous year is common due to seasonality, but in October this premium was largely driven by a number of fundamental factors described hereafter. Furthermore, the bullishness in Cal 19 prices further increased the backwardation between Cal 19 and Cal 20 prices, which was largely driven by uncertainty in energy policy.

A number of fundamental factors have sparked even more fear and uncertainty in an already volatile market.

Firstly, the prospect of dryer months ahead as Australia approaches the summer period has raised alarm bells. For starters, the Bureau of Meteorology has just upped the chance of an El Nino this year, by changing their status from "watching" to "Alert". This means there is now three times the normal risk of a climate driver associated with hot and dry conditions happening this year.

In light of this, AEMO has listed drought as an immediate threat for the summer period, due to the impacts of drought on water availability for hydro generation and for cooling thermal power plants, as well as the increased risk of bushfires as a risk to power supply.

The effects of drought conditions eased from the perilous conditions in August and September across New South Wales. However, the water level in Snowy Hydro's main water source, Lake Eucumbene, is still at 24.8 per cent capacity, almost almost half the level it was this time last year.

Electricity futures  
remained bullish  
throughout October



An already volatile electricity market continues to find itself in centre stage as Australia continues to struggle with energy policy uncertainty and political instability.

The scrapping of a highly contested National Energy Guarantee, the appointment of a new Primer Minister and Energy Minister with clearly different agendas than their predecessors, has spooked the market, causing the bullshness in futures and wholesale prices to continue for Cal 19 and beginning to trickle onto Cal 20 futures.

An aging coal fleet which is constantly under scrutiny, especially due to major outagges (97 so far this year, with every coal power station included), also increases uncertainty for their operation in hotter and dryer conditions.

**Australia continues to struggle with energy policy uncertainty and political instability**

The increase in electricity prices continue to be driven by high gas prices. As mentioned previously, domestic gas is now linked to international

pricing. Thus, what was dubbed the 'transitional fuel' away from coal, is now setting the price across the NEM as gas-fired generation continues to be the marginal bidder, coupled with higher fuel costs to run these generators. This allows old coal power stations to stay online.

Increased volatility in the market means those who hedged early their prices for 2019 will be patting themselves on the back.

Continued backwardation for 2020 means there is sentiment in the market that more renewable energy will become available, which would drive wholesale prices down based on its zero-marginal cost of generation driving out expensive and unreliable fossil fuel generation. And the market knows best, with around 6000 MW of generation currently under construction across Australia. We may indeed see a 'tipping point' in 2020 where the geneation capacity is so large that wholesale prices will begin the bearish run that so many hope eventuates.

However, hedging a small portion of your 2020 volume progressively under current prices is a good way to start implementing a risk management approach for the long term. If 2020 prices start to drop, due to this tipping point being reached, then you would leave yourself some volume open to take advantage of this opportunity, and hedge a larger part of your volume once the price is right.

average electricity prices

spot electricity prices

Y+1 electricity prices

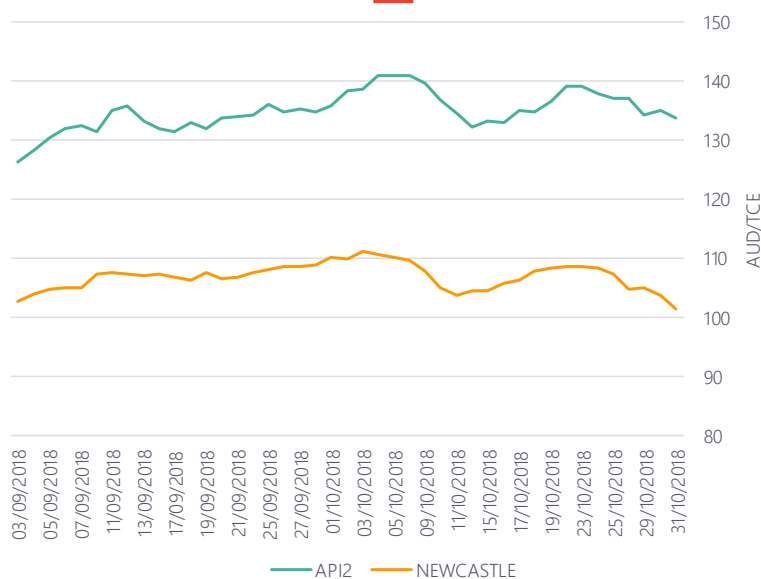
### Average coal prices last month

Oct-18	Monthly average (\$/t)	Monthly Minimum (\$/t)	Monthly Maximum (\$/t)
NEWCASTLE	106,95	101,59	111,16
API2	134,98	126,47	141,12

### Coal prices (LT)



### Coal prices (ST)



[back to the coal analysis](#)

[menu](#)

## NEWS



### How to negotiate an electricity contract in the US

Different components of the electricity bill.

by author Nicholas Kerz  
topic: Energy Contracting

[READ MORE](#)



### What is the best power contracting option in Mexico?

Mexican power consumers used to have only one ...

by author Carolina Muñoz  
topic: Energy Contracting

[READ MORE](#)



### To be or not to be on the deregulated market in Brazil - that's the question

The differences between both markets explained.

by author Vera Ruffato  
topic: Energy Markets

[READ MORE](#)



### Why you could and shouldn't blame China for higher gas prices

China's energy policy is impacting the LNG ...

by author Cyriel Poppe  
topic: Energy Markets

[READ MORE](#)



### Fear of heights in energy procurement

How to handle the bullish energy market?

by author Benedict De Meulemeester  
topic: Energy Trading

[READ MORE](#)



### How to organize global energy procurement

There is a steady decrease in demand for global ...

by author Benedict De Meulemeester

[READ MORE](#)