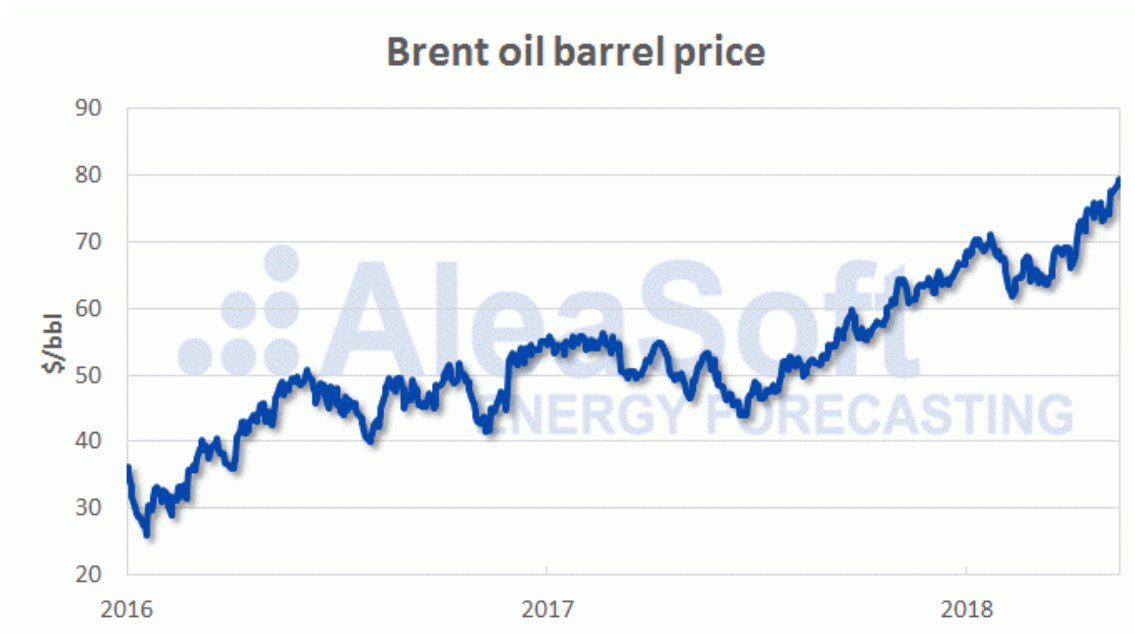


ELECTRICITY MARKET ANALYSIS

“Brent crude price could decrease by \$10 and precipitate the fall of the fossil fuel prices and electricity futures.”

May 28th, 2018.- The Brent crude price is being a concern in recent months due to its unstoppable rise since June 23rd, 2017. The rise of Brent crude pushes up the prices of the rest of fossil fuels, on which the price of electricity depends.



Brent crude Price evolution.
Source: EIA.

At a global level, the high prices of Brent crude are causing the slowdown of the economy, especially in emerging countries that have also seen a dollar revaluation, also since June 2017.

The rise in the Brent crude price is caused by the instability situation in the Middle East. The problems reach from southern Turkey to Yemen and from Afghanistan to Lebanon. Clashes between Turks and Kurds, Shiites and Sunnis, Jews and their Arab neighbors have been the norm. The Middle East is experiencing a geopolitical pulse between Saudi Arabia and Iran, and between the US and Russia. All these tensions can cause a war escalation and bring Brent crude prices to even higher values.

On May 9th, President Donald Trump withdrew US from the nuclear deal with Iran and reintroduced sanctions, and on May 12th Israel attacked dozens of Iranian targets in Syria. A few days later, on May 17th, Brent crude price reached \$80 per barrel for the first time since 2014.

Another factor that helped this price rise is the situation of the production infrastructures in Venezuela.

In the short term, a rise in the Brent crude price benefits producers, but, in the long term, it benefits the development and accelerates the implementation of electricity production from renewable sources, especially photovoltaic generation.

On Friday, May 25th, Saudi Arabia expressed their will to increase the oil production to meet the global drop in production due to sanctions against Iran and production problems in Venezuela.

As of this moment the Brent crude price has begun a descent, and futures prices decreased to \$75 per barrel.

This price decline could reach a market equilibrium point of 60 dollars per barrel that would stabilize the price if Iran signed a new nuclear agreement.

A drop in Brent crude prices would cause a fall in the prices of other fossil fuels, and, consequently, a drop of electricity prices. Now, Q3 in Spain is trading at 64.25 euros/MWh and we believe that it can reach 60 euros/MWh. Also the month June, currently at 64.18 euros/MWh, is expected to have an average spot price in the order of 60 euros/MWh.

Our models detect that we are at maximum levels of prices in electricity, fuel, CO2 emissions rights. This bubble effect that has been growing unstoppably in recent weeks can be deflated by the sale of futures of both electricity, fuel and CO2 emissions rights, accompanied by low buying pressure.