



## April 2011 - Market Summary

In comparison to the activity seen in March – the energy markets seemed relatively sedate shedding some of the value along the way. While Middle East and North African (MENA) unrest has grabbed less air time and column inches this month, the situation there continued to influence the global oil markets throughout the month as did the changing fortunes of the US dollar. Oil yet again set the barometer for the UK energy markets and while it did look as though NBP gas had broken away from the influence of oil at the start of the month, the commodities coupled up again towards the end. The unseasonably warm weather led to a well supplied system while the run of Easter holidays and extended bank holidays at the end of the month did little to help liquidity with traders looking to close out their positions before the long weekend breaks.

Longer dated gas contracts were buoyed by the oil markets at the start of the month which in turn were responding to ongoing MENA unrest including disruptions at the Nigerian elections. However the start of the warm April weather saw NBP gas and consequently UK power prices start to come down just five days in. The feeling was that the market was experiencing a correction and that the recent gains had been a 'little overdone'. This was of particular note because it occurred at a time when oil reached yet further 'highs' suggesting that these two commodities had decoupled.

Around the same time, Chris Huhne, Secretary of State for Energy and Climate Change said that the European gas and power markets "should understand that the current price of oil does not reflect the realities of supply and demand". In a statement he said that even though the oil price has remained above \$100/bbl since January and fluctuated around \$115 following the turmoil in Libya, there has been no global 'shortage' of oil. Just a few days later the IMF warned that crude demand is outpacing the growth of global supplies - a situation that would lead to sustained higher prices over the long term!!

The bearish sentiment in the UK energy markets continued mid month. Oil was cited as a contributory factor along with record LNG deliveries, healthy storage levels and the continuation of the above Seasonal Norm temperatures. Goldman Sachs played its part issuing a note predicting a downward oil correction...and the markets obliged by selling the contract down! And when Standard & Poor (S&P) changed its outlook for U.S. debt from stable to negative a few days later, the oil contract shed around \$2.50 in one day.

Oil still remains high relative to previous levels though and various surveys and analyst reports released throughout the month suggested that the high oil prices are here for the medium term. A Platts survey showed that OPEC oil production plunged to 630,000 barrels in March and while member states did increase productions, it was insufficient to cover the 930,000b/day loss from Libya (especially given that Libyan crude is the highest quality in the world). Barclays also came out saying it was too early and too simplistic to say that the oil highs had been reached. So when U.S. data published showed that crude stockpiles had decreased (at a time when analysts had been expecting an increase) the oil market bounced back.

The UK Power market did take a steer from fundamentals other than gas (finally) later in the month responding to strong German power prices and coal. This came at the time of the German Chancellor's confirmation that Germany will be speeding up its nuclear plant switch off with 8 reactors to be switched off and further reactors to be phased out.

It was the US dollar and its performance against the Euro(weak dollar leads to strengthening oil markets as oil becomes more attractive) that influenced oil prices at the end of the month. However by this time, the UK energy markets were fairly illiquid with most participants closing out their positions ahead of the Easter and extended bank holidays. Going into the last week of April, UK Power prices slipped at the start of the week before bouncing back.