



June 2011 - Market Summary

The market drivers this month were oil, carbon and currency markets. Oil responded to dollar strength and Greek economy concerns while Carbon was struggling as the policy markets failed to reach agreement over emission allowances. The result for UK power and gas curves was a run up in the early part of June followed by a slide down.

Many participants in the energy markets described the start of June as 'Stagnant' and 'Directionless'. Whilst most contracts recorded gains in the early weeks this was against a backdrop of low levels of liquidity and lack lustre trading sentiment. Bearish fundamentals remained in play including plentiful LNG supplies and healthy gas storage levels but bullish factors were also apparent; details were released from Germany about the planned schedule of nuclear withdrawal and concerns were voiced in France over low reservoir levels that could impact the cooling capability of the France's nuclear fleet potentially boosting their import requirement. Both pieces of news impact demand levels and potential energy import requirements.

OPEC met on 8 June but failed to reach a consensus for the first time in 20 years resulting in oil production levels remaining unchanged. This was despite calls from oil importing countries like the US to increase production. As we mentioned last month, the International Energy Agency had indicated that should OPEC leave production levels unchanged it would consider releasing strategic supplies (a claim it followed through with later in the month) while Saudi Arabia, in a unilateral move, was reported as preparing to boost its own production.

By 10 June Winter 11 was trading at £59.65/MWh and 72.20p/therm and Summer 12 at £56.65/MWh and 66.55p/therm.

The clear change in sentiment was seen mid month when oil was described as 'plunging' as fears in the markets escalated about Greece's ability to secure support for tough austerity measures needed to secure bailout funds from the EU and IMF. These concerns continued to drive dollar /euro exchange rates causing oil to come under pressure. The IEA announcement on 23 June that it was planning to release 60 million barrels from Reserves added further pressure (see separate article). Oil became the main driver in the UK electricity and gas markets as the curves started to come off (though coal remained relatively stable). Weak carbon prices also contributed to the sell off which hit a yearly low when politicians failed to agree curbs on EU Allowances

By 24 June Winter 11 electricity was at £55.40/MWh and summer12 at £52.75/MWh while gas for the equivalent contracts was at 68.15p/therm and 63.05p/therm respectively.

Curves regained some of these loses in the final days of June as oil prices recovered and the Carbon market became stronger. Huge numbers of jellyfish caused the EdF owned Torness nuclear power plant to be shut-down. Drawn in with cooling water they were obstructing the filters but the loss of generating capacity had little impact on the market and the move was described as precautionary.