March 2011 - Market Summary

- March was dominated by the news of the devastating earthquake and subsequent tsunami that hit Japan crippling 13GW of its nuclear capacity. The bullish impact was seen in the global gas, LNG and coal markets as players assessed the fuel flow implications.
- In the budget, the Government announced the introduction of the world's first carbon fuel price in the UK energy market from 2013 causing long term power prices to jump nearly 5% the day after it was announced and further gains in the days after.
- Ofgem announced plans to force the Big 6 to auction off up to 20% of their generation output in an attempt to beak their "stranglehold" on the market.
- Oil prices continue to rally over supply concerns in the Middle East (see separate MENA article.)

The richter 9.0 earthquake that hit Japan in the first part of the month (the largest reported in the last century), and subsequent tsunami caused the closure of 27% of Japan's nuclear capacity (nuclear accounts for approximately 35% of its generation needs) as well as several thermal plants. The repercussion on the world's nuclear policy was severe with Germany revoking previous (controversial) legislation that had allowed for lifetime extensions of its nuclear fleet.

The impact was felt across all markets as traders and analysts rushed to assess the impact on global fuel resources. The first reaction was for bullish gains across the fuels complex with gas, LNG and coal all coming under the spotlight and markets pricing in risk premiums to cover policy risk and any other future uncertainties. Carbon prices were pushed to their highest level since the recession led sell off in 2009 with Germany's nuclear announcement cited as the key driver (with analysts at the time reporting an expected 8mt increase of emissions from German power producers during the coming quarter). Only the oil markets, which had been riding a bullish wave from the outset of the month, recorded losses in the immediate wake of the earthquake pressured by an anticipated fall in oil demand from Japan.

The likely increase in demand for LNG dominated the markets in the days proceeding the earthquake with estimates at the time suggesting that Japan would require an additional 10-15 LNG cargoes per month - or as much as 14.4Gm^3 on an annual basis (the UK consumed 13.5 Gm^3 in 2010). This shift in expected global fuel flows all helped to push UK gas and power prices higher. The supply tensions did ease though towards the end of the month with LNG concerns appearing to have been largely overplayed and this caused some softening of the NBP prompt market. However longer dated contracts retained their bullish sentiment largely fuelled by gas which in turn took its lead from oil markets.

Oil prices have been volatile throughout the month responding to Middle East activity, Japan and economic indicators. Supposed ceasefires and on going air strikes in Libya coupled with the Palestinian rocket attacks against Israel created a surge in prices while the return of Eurozone debt concerns (speculation at the time that Portugal would become the third Eurozone country to request emergency aid) gave the market some downward pressures in the closing week of the month. Oil prices then jumped to their highest levels in two and half years at the close of the month breaching $117 bbl. Supply concerns were the driving factor with a key oil region in the east of Libya changing hands four times in 3 weeks, and output at a near standstill compared to 1.69million barrels a day before the unrest. Storage levels in the US are currently full and this may provide a dampening effect though.

And if there weren't enough bullish indicators in the energy markets in March, then the Governments budget announcement of a carbon floor price of £16/tonne CO^2 from 2013 (rising to £20/tonne CO^2 in 2020) certainly created a significant push. Summer 13 contracts climbed £2.20MWh in the day following the announcements closing at their highest levels since they was first quoted.