September 2011 - Market Summary

The month started on a bearish note as the market took stock of the significant rally that had been seen in the UK gas and power markets at the end of August (this was following maintenance announcements relating to Qatari LNG infrastructure and resultant concerns that this would have an impact on LNG supplies into the UK market for the coming winter). Some of the gains were undone as a result of profit taking combined with the news that more LNG cargoes were heading to the UK.

The backwardation that had crept into the front two winters during August remained a feature early on in the month although the spread started to narrow closing at £0.65/MWh on 2 September from a spread of £2.10/MWh at the start of the week (Winter 12 traditionally trades at a premium to Winter 11 - described as Contango but this relationship had reversed with Winter 12 trading at a discount to Winter 12 - described as backwardation).

LNG concerns again resurfaced in the week ending 9 September with more maintenance announcements; this time connected to Rasgas and the power market resumed its bullish run. Winter 11 finished the week at £59.40/MWh (up £0.6/MWh from the previous week) and Winter 11 gas at 74.15p/therm.

The Eurozone debt crisis (and the handling of) took hold of the energy markets mid month creating volatility across the world markets. Five central banks announced a co-ordinated move to try to help the financial system. The move will see the central banks provide commercial banks with three additional tranches of loans to help ease funding pressures. At the same time fears spread that the Greece would default on its loan commitments sending the financial markets into turmoil as the implications were assessed and valued. US Treasury Secretary joined a meeting of EU Finance ministers underlining global concerns about the potential for the Eurozone debt crisis to spread and trigger another recession.

In this type of climate liquidity comes under pressure with traders unwilling to do more than is necessary to cover positions responding instead to short term physical signals; this became clear in the second half of the month as the UK Power market become 'rangebound' (trading within a set range). There was some break between the front season and the rest of the curve with delivery of Winter 11 due at the end of the month but the real focus continued to be the wider economic arena and the Eurozone. Market sentiment bounced between continuing fears of a Greek default and hope that a satisfactory solution would be found. The ping pong effect of sentiment fed through to dollar and oil rates and in turn UK gas and power markets.

The UK power curve strengthened at the end of the month on the news that Germany would support a more powerful fund to support troubled eurozone economies. Oil also responded positively. But a sell-off on the last day of the month saw all contracts close the month down when compared with their values at the start of the month. This came on the back of NBP gas falls as LNG supply fears seen at the end of August finally subsided.

Winter 11 finished trading offered at £57.15/MWh and Winter 11 gas at 69.8p/therm. Summer 12, which is now the front season, finished September offered at £52.85/MWh and Winter 12 at £57.05/MWh.