

13 July 2016

WHOLESALE ENERGY PRICES: MAY – JULY 2016: PART I: OIL AND NATURAL GAS

In this new series of articles, Dominic Whittome covers wholesale energy prices between May and July.

Oil

Crude prices continued rising in spite of little progress towards an OPEC production ceiling. The market shrugged off the continuing discord between producers and a recent International Energy Agency report highlighting a potential 3 – 3½ million barrel a day glut set to overhang the market next year. The physical 15-Day Brent contract closed the two month period up another 5%. Prices remain comfortably above the new \$25 – \$35/bbl range talked about in London oil trading circles as recently as March/April.

Concerns over the future cost of mobilising non-OPEC supplies in order to make up any OPEC shortfall may continue to support the market for the meanwhile. Looking further ahead, it may be the case that that only after oil prices reach £75/bbl and look like staying above this level may we see any real dampening effect on the market through new shale exports from North America.

Natural Gas

Despite seasonally weak European demand, significant contractual oil price de-coupling in Russian and, reportedly, Norwegian contracts too, the Annual October '16 gas contract at the NBP continued to advance amid supply issues in the North Sea and the prospect of costlier imports from Europe in the aftermath of Brexit and a sustained weaker value in Sterling. If such concerns are founded, this would push the winter UK market higher with €/MWh price at the Dutch TTF hub increasingly influencing marginal prices through the UK-Zeebrugge Interconnector.

Looking somewhat further ahead, the abrupt seeming thaw in diplomatic relations between Russia and Turkey might signal the Blue Stream 2 export project back on the cards. This would mobilise further gas supplies to the Continent and help Turkey to establish itself as a major gas hub, a regional thoroughfare for both Russian and future Iranian gas export into Europe.

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Dominic Whittome is an economist with 25 years of commercial experience in oil & gas exploration, power generation, business development and supply & trading. Dominic has served as an analyst, contract negotiator and Head of Trading with four energy majors (Statoil, Mobil, ENI and EDF). As a consultant, Dominic has also advised government clients (including the UK Treasury, Met Office and Consumer Focus) and various private entities on a range of energy origination, strategy and trading issues.

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