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WHOLESALE ENERGY PRICES: SEPTEMBER – NOVEMBER 2016: PART I: BRENT CRUDE & NATURAL GAS

In this series of articles, Dominic Whittome covers recent changes to wholesale energy prices.

Brent Crude

September started strongly for the crude market amid hopes of an early OPEC production cut, linked to a production sharing accord with non-OPEC producers. However, dated Brent subsequently fell back below $50/bl as a deal proved elusive and traders grew weary of another false dawn.

Production limiting accords between the cartel and non-OPEC countries (including Russia, even Norway on one occasion) are not unprecedented and have been sustainable for quite long periods in the distant past, so this topic shall remain on the market's radar. Oil prices could be supported further if European refiners restock and delayed winter weather increases demand for middle distillates on the Rotterdam spot market, which has already had a strong few months.

Crude ended the month period 7% higher although prices have drifted downwards again quite recently. The market is unlikely to rise far above its current support level, discussed at around $45/bl, unless we see some concrete signs of progress in Vienna in the coming weeks.

Natural Gas

The low, sub-$35/bbl crude oil prices witnessed earlier in the year have mostly dropped out of pricing formulae in Norwegian, Dutch and Russian long-term contracts.

Gas traders are also believed to be cautious about the delicate supply and demand balance and a late start to winter. The consensus of longer-range meteo offices seems to embody a higher degree of uncertainly versus last year and generally they point to a colder than normal winter. This, together with the blight in LNG imports into the UK, has supported the gas market. Short term prices meanwhile ticked up as Centrica confirmed delays to bringing its Rough platforms back on stream, the UK's principal gas storage facility.

Gas withdrawals are now planned to resume during December although any further delays may coincide with extreme demand periods and cause prices to spike. Additionally, the rampant price volatility on the electricity balancing and prompt markets has driven gas prices upwards. Consequently the forward market has bounced with the April 2017 contract ending the period over a fifth higher. The market will be vulnerable to further increases should we see any unscheduled interruptions to North Sea or trans-Continental supplies, although the supply side has been holding up fairly well over the past few weeks.

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