



Press Release – 11.03.2011

UK wholesale gas prices jump on Japanese earthquake

Fears that the UK could see a drop in gas imports due to the massive earthquake in Japan pushed up wholesale prices on Friday morning.

The price of the April 2011 gas contract on the UK wholesale market rose sharply in early trading on Friday, as speculation rose that Japanese demand for liquefied natural gas (LNG) would increase following an earthquake which cut the country's nuclear power production.

The midpoint value for the NBP April '11 contract was 59.725 pence/therm as of 10:17 London time, a rise of 2.15p/th or 3.7% from Thursday, according to ICIS Heren data.

The fear is that with Japanese nuclear plants shutting, utilities in Japan will be forced to bid for extra LNG cargoes, diverting supply away from the UK and, to a lesser extent, continental Europe. The LNG would then be regasified and used as a raw material to produce electricity. While it is too early to assess the full extent of damage to Japan's generation assets, at least five nuclear plants have been shut down.

Traders said news of the Japanese earthquake was driving the price, although there was still no real clarity on the market of how much extra gas demand may come from Japan as a result.

“The UK now sources as much as 30% of its daily gas supply as LNG. This comes from large global exporting countries such as Qatar. If the price rises sharply in Japan we could see LNG diverted to that market and away from the UK,” said Edward Cox, Editor at ICIS Heren.

The following UK winter contract, Winter '11, was also trading significantly higher as a result of the news from Japan. The contract traded at 69.00p/th at 10:28 London time, a 2.125p/th rise on the Thursday ICIS Heren closing assessment. Further dated contracts were rising, but less dramatically.

UK electricity traders piled into the front month on the news from Japan. The April '11 Baseload contract traded steadily upwards through the morning, and reported dealing at £51.00/MWh by 10.45 London time an increase of £1.05/MWh from the previous day.

LNG is natural gas that has been converted temporarily to liquid form for ease of storage or transport.

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