



# ENERGY MARKETS JARGON BUSTER

THE ENERGY MARKETS CAN BE COMPLICATED, EVEN TO THOSE IN THE INDUSTRY. HERE'S A GUIDE TO SOME OF THE KEY PHRASES USED IN ENERGY CIRCLES THAT MAY HAVE PREVIOUSLY LEFT YOU SCRATCHING YOUR HEAD.

## Backwardation

▶ Market situation where future prices are progressively lower in the distant delivery months. Usually indicates uncertainty over immediate supply. Bearish Market. A market where prices are falling or are expected to fall.

## Bearish Market

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## Balance of Month (BOM)

▶ Balance of Month is the market price for energy to be delivered on each of the remaining days of the current month, starting the day after tomorrow.

## Contango

▶ Market situation where future prices are progressively higher in the distant delivery months (opposite of Backwardation).

## Day-ahead

▶ The Day-ahead price is an energy contract which is traded the day before delivery.

## Far-curve

▶ Longer term market, i.e. contracts past the next season and onwards.

## Liquidity

▶ Market liquidity is the degree to which market participants are willing to actively trade. This is characterised in the number of buyers and sellers active in the market and leads to clear price levels. High levels of liquidity encourage trading activity due to the ability for market participants to enter and exit positions easily and the large number of potential counterparties. This is reflected in the narrow margins between the bid and the offer. Illiquid markets are difficult to operate in, due to the lack of counterparties and poor price definition.

## Month ahead

▶ The price of electricity or gas for delivery next month.

## NBP

▶ A theoretical point on the gas system where flows are balanced. Wholesale GB gas prices are priced at this point. Electricity trading is carried out at this (notional) point.

## Prompt

▶ Gas or electricity for delivery within the current calendar month.

## Rangebound

▶ When prices move around a similar level for a certain period of time.

## Resistance

▶ A level at which if prices breach above indicates the start of an upward move in prices.

## Season

▶ A season contract is a period of six months or two quarters. The summer seasons runs from April to September or quarters two and three. The winter season runs from October to March or quarters four and one.