Professional Certificate in Oil and Gas Trading

Energy Markets and Economics

Energy Markets and Economics Glossary

1. Arbitrage:
Arbitrage refers to the practice of buying and selling the same asset in different markets to take advantage of price differences. In energy markets, traders may engage in arbitrage by purchasing electricity in one market and selling it in another where prices are higher.

2. Backwardation:
Backwardation occurs when the futures price of a commodity is lower than the spot price. This may indicate a current shortage of the commodity and expectations of lower prices in the future.

3. Base Load:
Base load refers to the minimum amount of electricity needed to meet constant, around-the-clock demand. Power plants that provide base load power typically run continuously at a constant output.

4. Bear Market:
A bear market is characterized by declining prices and a pessimistic outlook on the market. In energy markets, a bear market may result from oversupply, weakening demand, or geopolitical factors.

5. Brent Crude:
Brent Crude is a major trading classification of sweet light crude oil that serves as a benchmark price for oil worldwide. It is sourced from the North Sea and is used to price two-thirds of the world's internationally traded crude oil supplies.

6. Contango:
Contango refers to a situation where the futures price of a commodity is higher than the spot price. This may indicate expectations of higher prices in the future and can create opportunities for storage and arbitrage.

7. Demand Response:
Demand response is a strategy used to manage electricity consumption in response to price signals or grid conditions. By adjusting consumption during peak periods, consumers and businesses can reduce costs and help balance the grid.

8. Energy Trading:
Energy trading involves buying and selling energy commodities such as electricity, natural gas, and oil. Traders may speculate on price movements, hedge against risks, or engage in arbitrage to profit from market inefficiencies.

9. EIA (Energy Information Administration):

The Energy Information Administration is an independent agency of the U.S. Department of Energy that collects, analyzes, and disseminates energy information to inform policymakers and the public about energy markets and trends.

10. FERC (Federal Energy Regulatory Commission):
The Federal Energy Regulatory Commission is a U.S. government agency responsible for regulating the interstate transmission of electricity, natural gas, and oil. FERC oversees energy markets, infrastructure, and pricing to ensure fair competition and reliability.

11. Floating Rate:
A floating rate is a variable interest rate that fluctuates with changes in market conditions. In energy markets, floating rates may be used in contracts for natural gas, electricity, or oil to reflect changing prices.

12. Forward Contract:
A forward contract is an agreement between two parties to buy or sell a commodity at a specified price on a future date. Forward contracts are used in energy markets to manage price risk and secure future supply or demand.

13. Fracking:
Fracking, or hydraulic fracturing, is a method of extracting natural gas and oil from underground rock formations. This controversial technique involves injecting high-pressure fluids to release trapped hydrocarbons.

14. Gasoline Crack Spread:
The gasoline crack spread is a measure of the profit margin for refining gasoline from crude oil. It is calculated by subtracting the cost of crude oil from the price of gasoline and is used by refiners to assess profitability.

15. Geopolitical Risk:
Geopolitical risk refers to the potential impact of political, social, or economic events on energy markets. Factors such as wars, sanctions, or trade disputes can disrupt supply chains, affect prices, and create uncertainty for traders.

16. Hedging:
Hedging is a risk management strategy used to protect against adverse price movements. In energy markets, companies may hedge their exposure to volatile prices by using financial instruments such as futures contracts or options.

17. Intraday Trading:
Intraday trading involves buying and selling energy commodities within the same trading day. Traders may take advantage of short-term price fluctuations or news events to profit from rapid market movements.

18. LNG (Liquefied Natural Gas):
Liquefied Natural Gas is natural gas that has been cooled to a liquid state for transportation and storage. LNG is used as a cleaner-burning alternative to traditional fuels and can be traded globally in specialized

markets.

19. Market Fundamentals:
Market fundamentals refer to the supply and demand factors that drive prices in energy markets. These include production levels, consumption patterns, inventories, geopolitical events, and economic indicators.

20. OPEC (Organization of the Petroleum Exporting Countries):
OPEC is a cartel of major oil-producing countries that coordinates production levels to influence global oil prices. Member countries include Saudi Arabia, Iran, Iraq, and Venezuela, among others.

21. Peak Load:
Peak load refers to the maximum amount of electricity needed to meet demand during periods of high consumption. Power plants that provide peak load power are typically dispatched when demand is highest.

22. Price Discovery:
Price discovery is the process of determining the market price for a commodity through the interaction of buyers and sellers. In energy markets, price discovery may occur through trading on exchanges, over-the-counter markets, or auctions.

23. Renewable Energy:
Renewable energy is derived from natural resources that are replenished on a human timescale, such as sunlight, wind, and water. Renewable sources are increasingly used to generate electricity and reduce reliance on fossil fuels.

24. Shale Oil and Gas:
Shale oil and gas are extracted from shale rock formations through hydraulic fracturing. The development of shale resources has transformed the energy landscape, leading to increased production and changing global supply dynamics.

25. Speculation:
Speculation is the practice of trading in financial markets to profit from price movements without the intention of taking physical delivery of the underlying asset. Speculators in energy markets may use leverage and derivatives to amplify returns.

26. Storage Capacity:
Storage capacity refers to the amount of energy that can be stored in facilities such as tanks, pipelines, or underground caverns. Adequate storage capacity is essential for managing supply and demand imbalances in energy markets.

27. Swing Producer:
A swing producer is a country or company that can quickly adjust its oil production to stabilize prices or respond to changes in market conditions. Saudi Arabia is often considered a swing producer in the global oil market.

28. Tariff:

A tariff is a tax or duty imposed on imported or exported goods. In energy markets, tariffs may be applied to cross-border electricity or natural gas transmission to cover costs and regulate trade.

29. Upstream and Downstream:
In the energy industry, upstream refers to activities involved in the exploration, production, and extraction of oil and gas. Downstream includes refining, distribution, and marketing of refined products to end consumers.

30. Volatility:
Volatility is a measure of how much the price of a commodity fluctuates over a given period. High volatility in energy markets can create opportunities for traders but also increase risks and uncertainty.

31. WTI (West Texas Intermediate):
West Texas Intermediate is a grade of crude oil used as a benchmark in oil pricing. WTI is known for its high quality and low sulfur content, making it a popular choice for futures contracts and refining.

32. Yield Curve:
The yield curve is a graph that plots the yields of bonds of similar credit quality but different maturities. In energy markets, the yield curve for oil or gas futures can provide insights into market expectations and supply dynamics.

33. Zero-Sum Game:
A zero-sum game is a situation in which one participant's gain is exactly balanced by another participant's loss. Energy markets can be considered zero-sum games, where profits and losses are distributed among traders based on price movements.

34. 24-Hour Trading:
24-hour trading refers to the continuous trading of energy commodities across global markets, allowing participants to buy and sell at any time of day. The availability of around-the-clock trading enables market participants to react to news and events in real-time.