Energy markets/ Some terms

1. Energy markets:

The energy market is basically a market handling process specifically with the trade and provision of energy, which may refer to the electrical energy market or other energy resources. Energy markets are known as a fast-growing and complicated sector considering their significant role in the global economies, the necessity of this sector in power and gas supply, and financial concerns of energy.

Energy commodities such as oil and gas are traded on international exchanges, usually through the purchase of futures contracts. Rather than actually buying and selling barrels of oil, investors buy the *option* to purchase or sell a certain quantity of this commodity in the future. They are gambling on their predictions of rising or falling prices being correct.

An energy market is a type of commodity market on which electricity, heat, and fuel products are traded. Natural gas and electricity are examples of products traded on an energy market. Other energy commodities include: oil, coal, carbon emissions (greenhouse gases), nuclear power, solar energy and wind energy. Due to the difficulty in storing and transporting energy, current and future prices in energy are rarely linked. This is because energy purchased at a current price is difficult (or impossible) to store and then sell at a later date. There are two types of market schemes (for pricing): spot market and forward market

2. OPEC :

The Organization of the Petroleum Exporting Countries (OPEC) was established in Iraq in September 1960 by five leading oil producing states (Iran, Iraq, Kuwait, Saudi Arabia and Venezuela) in an attempt to co-ordinate petroleum policies of member states so as to secure a fair and stable remuneration for their outputs. At the peak of its time, OPEC had 14 members but now has 12 full members (Indonesia suspended its membership in 2009 and Gabon terminated its membership in 1995).

3. The spot market:

The spot market is an alternative mechanism where oil is exchanged on a dayto-day basis instead of exchanges through long-term contracts. The spot market developed due to a number of reasons, including among others, de-integration of petroleum industry in the 1970s that required a balancing mechanism, increase in production outside OPEC who needed an alternative transaction mechanism, diversification of sources of supply and consumption, and spot-related sale by OPEC members.

The spot market performs important functions: (a) it provides pricing information as it provides market clearing price of crude and petroleum products; (b) it is sharing or transferring risks as speculators take the risk; and (c) it provides an alternative channel of oil trade. Information is processed quickly and disseminated instantaneously. There are no institutional barriers to distribution of information.