

MEDIA RELEASE

Bord Gáis Energy Index shows significant gains in oil

The Bord Gáis Energy Index saw a slight decrease of 2% in April. Oil made robust gains during the month and settled at its highest level in four years, while coal also posted a significant increase. However, gas and electricity declined as the much colder weather seen in March continued to abate. In April, the Bord Gáis Energy Index stood at 116 (-2%).

Darragh Crowley, Energy Trader with Bord Gáis Energy said, *'The components of the Energy Index are a mixed bag this month. We see oil finishing at a four-year high with a noteworthy increase in the coal prices in the face of longer term challenges from both an economic and policy perspective. Despite a dip in prices, gas settled above the comparable period last year. The focus now is on European storage levels which have been depleted to a decade low after the cold winter.'*

Oil rallies to four year high....

Brent crude continued to rally in April rising 9% in euro terms to settle at \$75. This is the highest level in four years largely driven by rising global demand as a result of increased growth and production cuts implemented by OPEC and Russia. Global oil consumption is expected to top 100 million barrels per day (b/d) for the first time later this year and oil inventories are back in line with the five-year average.

In terms of geopolitical risk, the threat of the US pulling out of the Iran nuclear deal came into sharp focus in April and helped send prices higher. This is in addition to the conflict between Saudi Arabia and the Houthi rebels in Yemen, who are supported by Iran. These, and other risks such as the continued political turmoil in Libya and Venezuela, have served to keep oil prices bid over recent months.

In 2018 market speculators built up a record long position in Brent crude oil which means that crude has been bought aggressively on any dips. The reasons are two-fold; first is the theory that commodities outperform other asset classes late in the economic cycle. Secondly, the market structure of the oil market allows investors to earn a regular yield.

....while gas dips after high March average....

The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 50.45p/th in April, a decrease of almost 20% from the high March average of 62.22p/th. This follows record highs for demand as Europe was hit with an extreme cold snap in February and March. Despite the steep drop from March, the April average still settled 11p above the comparable period last year.

Prompt gas prices remained elevated as a combination of colder temperatures, unplanned outages, weak LNG send out and strong injection demand supported prices. LDZ demand in April was strong and helped sustain prompt prices. On the supply front, LNG send out from the UK's three LNG terminals was almost 50% lower year-on-year in April contributing to a tighter system. Consequently, exports to the continent were almost 1bcm lower.

As temperatures plummeted in March and demand increased, stocks fell to their lowest point in a decade. European storage levels remain a key risk with fears that we could enter the higher demand months without stocks replenished.

A strong rally in oil prices, putting on over \$5 over the month on geopolitical concerns, added to bullish momentum on the curve. The third quarter 2018 contract traded 7.4p higher over the month to 52.89p/th. Further out the curve, the winter 18 contract gained over 6p to 59.61p/th, while the summer 19 contract finished the month 4.67p higher at 45.55p/th.

....coal sees a 9% rise after first quarter decline...

Coal prices settled at \$85.2 a tonne, rising 9% in euro terms over the month. Global coal prices declined in the first quarter as winter demand waned and temperatures increased. China, the key producer and consumer of coal in the global market, intermittently curbed coal production while demand remained relatively high and supported coal prices in the shorter term.

However, coal faces long-term challenges from both economic and policy perspectives. In the U.S. cheap gas is pushing coal off power generation, while recent reforms to the European Union emissions trading system increases the cost of coal generation. China, the world's largest consumer of coal, has undertaken energy policies favouring renewables and gas in a push away from coal toward cleaner alternatives.

....with 14% decrease in electricity.....

Excluding supplier capacity payments, the average wholesale price for April was €55.56/MWh compared to €66.74/MWh in March – a decrease of €11.18/MWh. When supplier capacity payments are included, wholesale electricity costs decreased by 14% over the month. Wholesale electricity prices typically track the cost of imported gas as it is the most significant cost in the production of electricity. However, this can vary on a month-to-month basis.

The clean spark decreased from €10.86/MWh in March to €10.17/MWh in April. The price of gas was 19% lower over the month, while wind output decreased slightly month on month from an hourly average of 1194GW to

1162GW – a decrease of 3%. The average proportion of demand met by wind in April was 29%.

.....euro is flat against the pound and slipped further versus the dollar....

The euro was flat versus the pound in April settling at £0.8791p, while it fell 2% against the US dollar to settle at \$1.2101. The euro slipped further versus the dollar in April as patchy economic data contrasted with more robust readings from the US.

Meanwhile, the US economy continues to add jobs with the unemployment rate falling to under 4%. This has bolstered expectations that the Federal Reserve will deliver two or three more rate rises this year after raising rates as recently as March. The US Fed is likely to be the only major central bank to raise rates this year.

For more information, see the full Energy Index at bordgaisenergy.ie/energyindex/.

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About Bord Gáis Energy

Bord Gáis Energy is a gas energy and services supplier in the Republic of Ireland. The company has been in operation since 1976 and currently supplies energy and services to over 730,000 business and residential customers. In 2014, Bord Gáis Energy became part of the global Centrica plc Group.