



Bord Gáis

Energy Index

Understanding energy

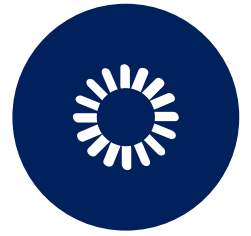
July 2018

BGE/EI/UE/0718

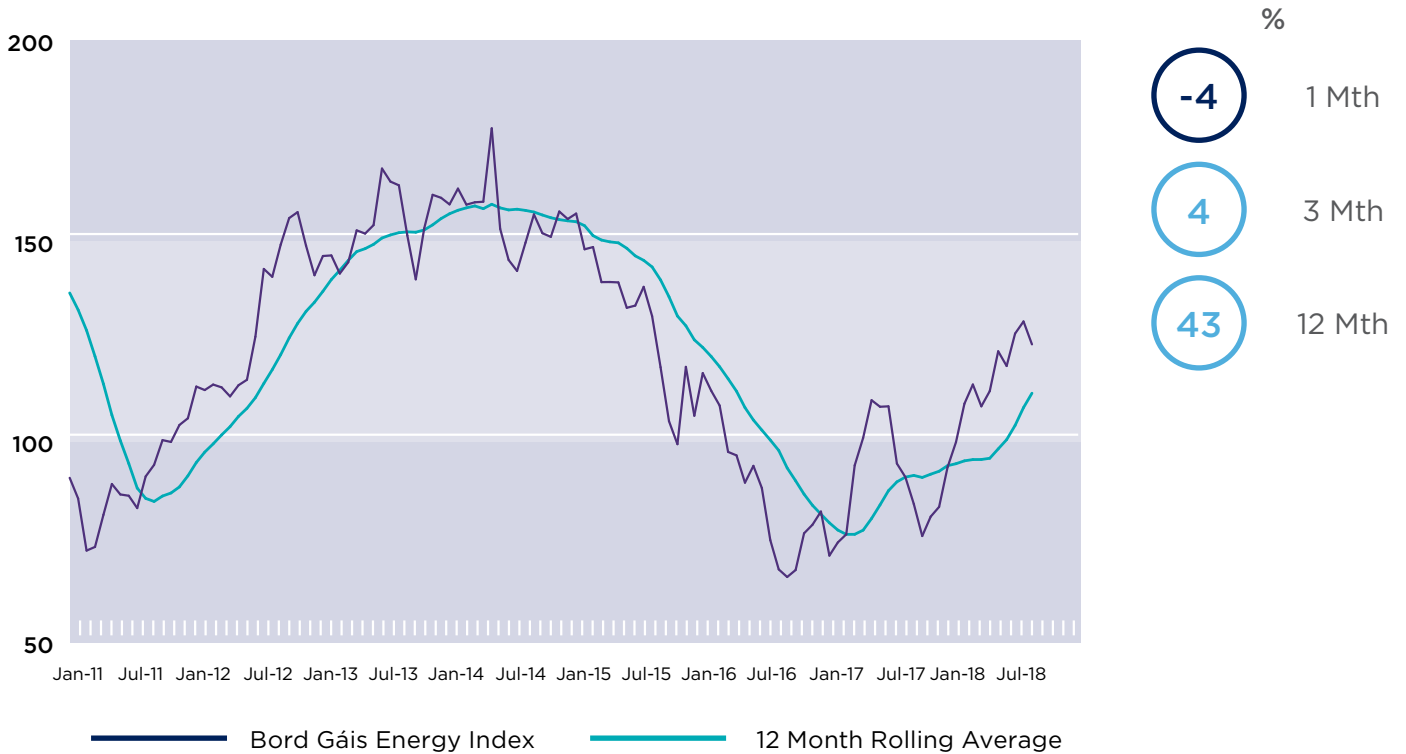


Bord Gáis Energy Index

July 2018



Bord Gáis Energy Index (Dec 31st 2009 = 100)



Summary

The Bord Gáis Energy Index for July was 4% lower, a respite from bullish energy prices in recent months. However, the index remains over 43% above the comparable period last year. A decline in oil prices of 7% was the key driver behind the fall this month as Saudi Arabia and Russia eased production restrictions in place since November 2016.

It was a mixed performance among the other components of the Index with gas increasing 3% as extensive maintenance impacted Russian flows into Europe, while coal and electricity traded marginally lower on the month.

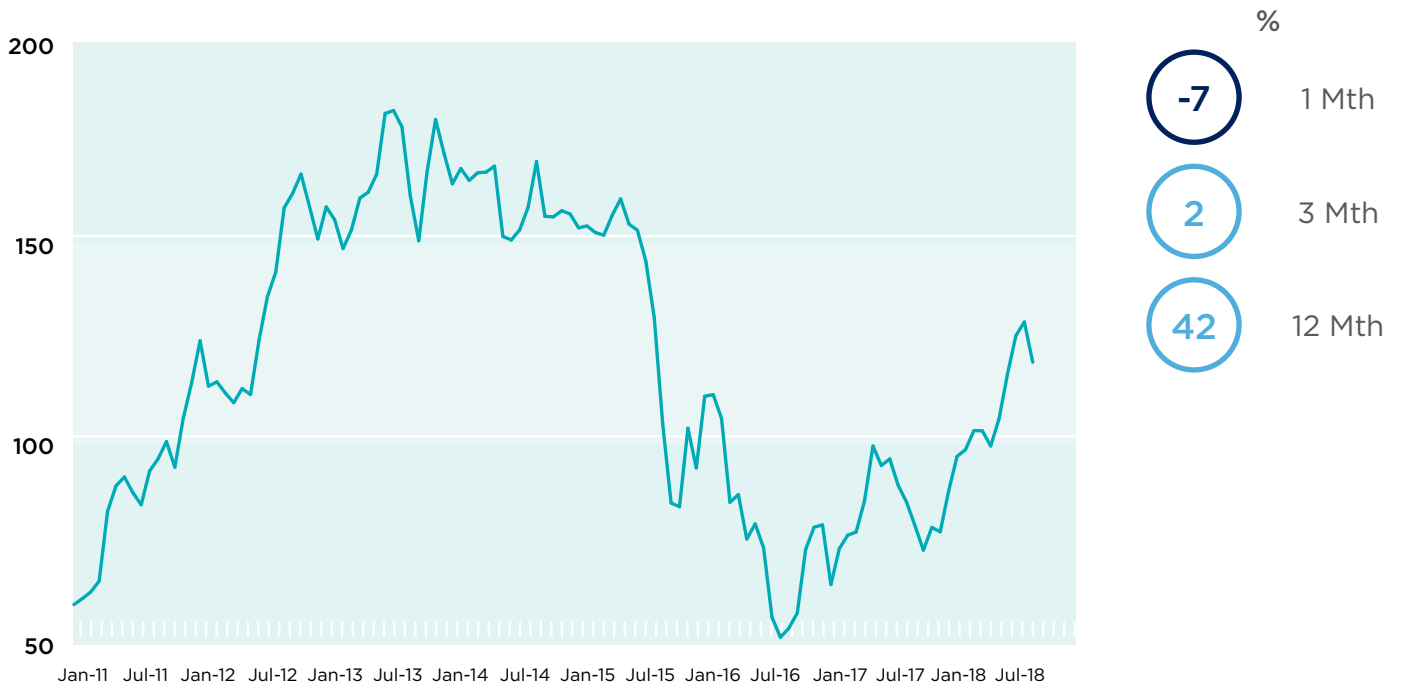
In July, the Bord Gáis Energy Index stood at 120 (-4%).

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Oil Index



Index adjusted for currency movements.

Data Source: ICE

Oil

It was a volatile month in the oil market as the Brent crude benchmark traded to a high of \$78.86 and a low of \$71.84 before settling at \$74.25, down 7% in euro terms on the month.

Oil prices initially moved higher as Libya suspended crude loadings at two major oil terminals. Continued disruptions to Venezuelan production and strike action by Norwegian oil workers in the North Sea also supported prices. In addition, the Trump administration's increasingly aggressive approach to Iran and its oil exports, which currently stand at more than 2 million barrels per day, heightened concerns that oil markets would see a supply squeeze should the US succeed in pushing Iranian oil exports completely off the market.

Brent had its biggest one-day drop since 2016 on July 11th, dropping over 7% to \$73.40, after Libya's state oil company said it would reopen four export terminals, boosting global supply. Saudi Arabia and Russia also increased supply over the month ending a supply restraint agreement in place since November 2016. This had helped rebalance the global oil market and supported the recovery in prices from the lows of \$27 in January 2016.

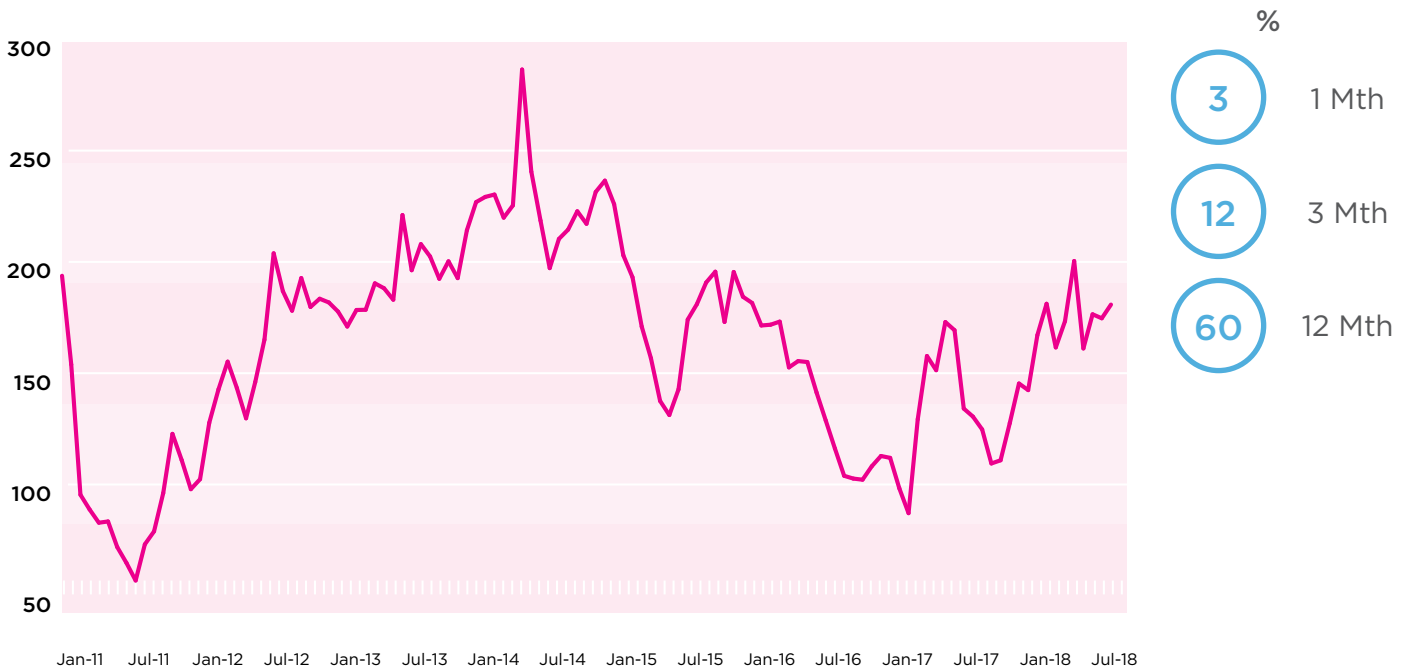
At the end of July, Brent found support after Saudi Arabia suspended oil shipments through the Bab el-Mandeb strait following an attack by Yemeni Houthi rebels on two of its giant crude carriers. The attacks by rebel forces on the Saudi tankers, coupled with Iranian threats to disrupt passage through the Strait of Hormuz, a key transit route for OPEC oil, highlighted increasing geo-political tensions in the region.

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Natural Gas Index



Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 57.2p/th in July, which was a 3% increase from the average price in June and 60% above the comparable period last year.

Gas prices traded in a broad range during July with prices opening the month at a low of 52.70p/th and traded to a high of 59.70p/th during the second week. Prices towards the end of the month traded in the 56p/th to 58p/th range.

Prices were supported by disruptions to Russian gas flows to Europe as the Yamal pipeline was down for maintenance between 9th - 14th July and Nordstream between 17th - 30th July, resulting in a sharp reduction in Russian gas supply into Europe. Gazprom attempted to redirect some of the lost supply through alternative export routes via the Ukraine but overall flows were still materially lower.

To compensate for reduced Russian supply exports through the IUK pipeline, which connects the UK to Europe, ramped up to over 40mcm per day. Injections into European storage also fell in response to reduced Russian flows. As a result, we saw the European storage deficit widen over the month to 3bcm as storage levels ahead of the winter continue to lag five-year averages.

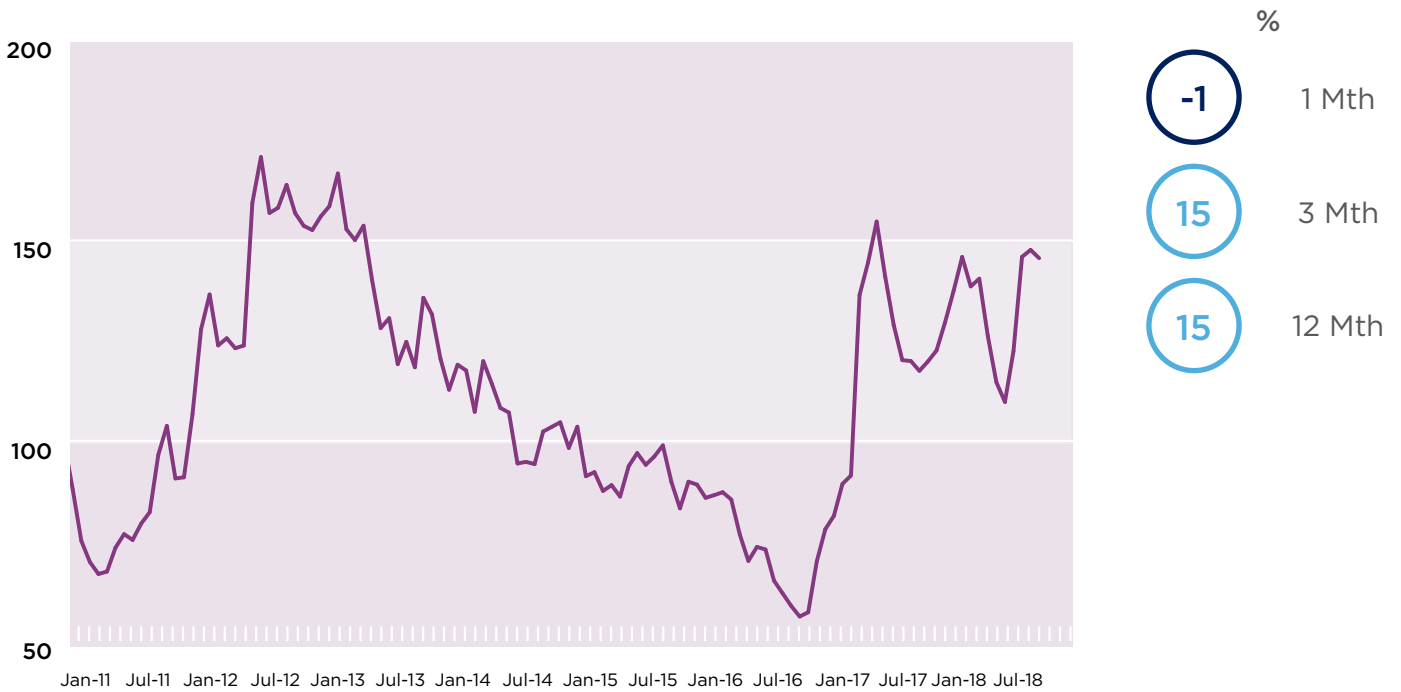
The high temperatures throughout July, in both the UK and Europe, also supported prices as demand for gas fired power generation increased due to low winds and increased air conditioning demand.

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Coal Index



Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at \$95.10 a tonne in July, a drop of 1% in euro terms over the month but still over 15% above the comparable period last year.

Coal prices traded at their highest level in 6 years, with the front month coal contract trading above \$100 a tonne during July. Strong Asian demand continued to be the main driver of coal prices, while high temperatures and low wind led to increased coal fired power generation in Europe.

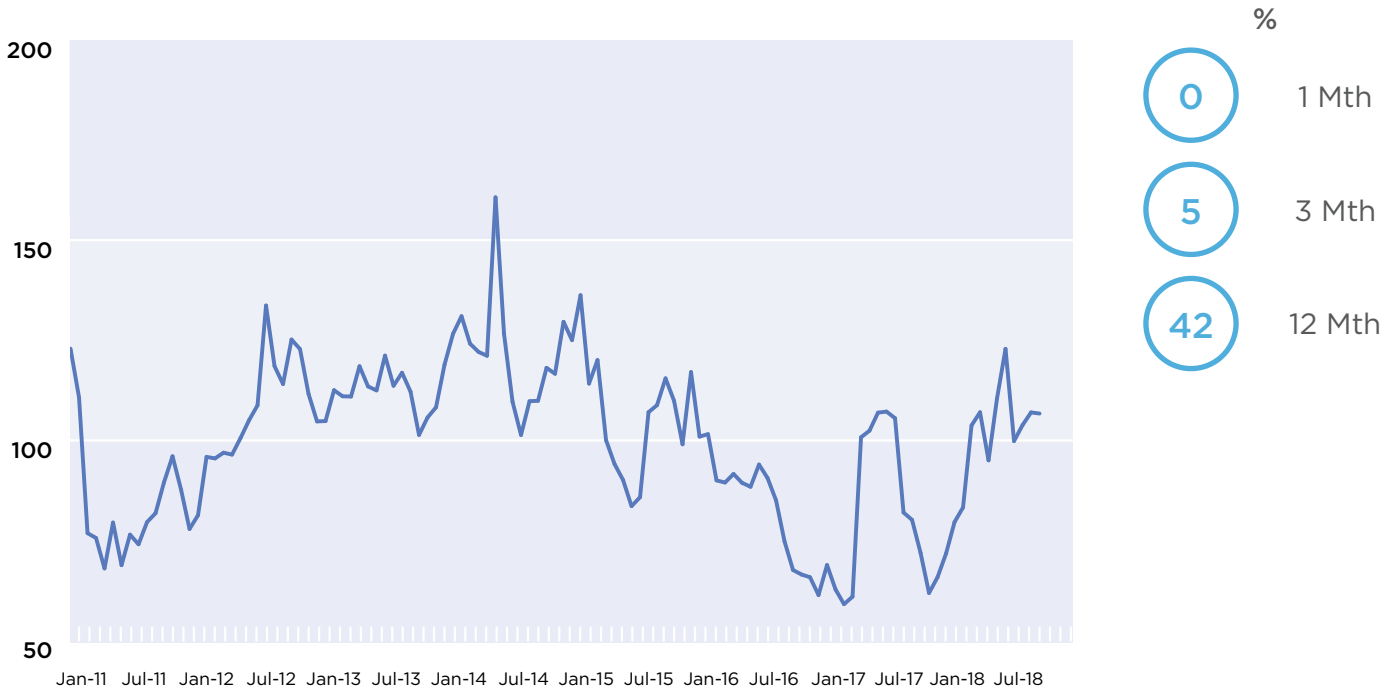
Toward the end of the month, coal drifted lower on bearish inventory data in Europe indicating comfortable stock levels.

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Electricity Index



Data Source: SEMO

Electricity

Excluding supplier capacity payments, the average wholesale price for July was €59.40/MWh compared to €60.18/MWh in June - a decrease of €0.78/MWh. When supplier capacity payments are included, wholesale electricity prices were flat 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 to €8.58/MWh in July from €11.07/MWh in June.

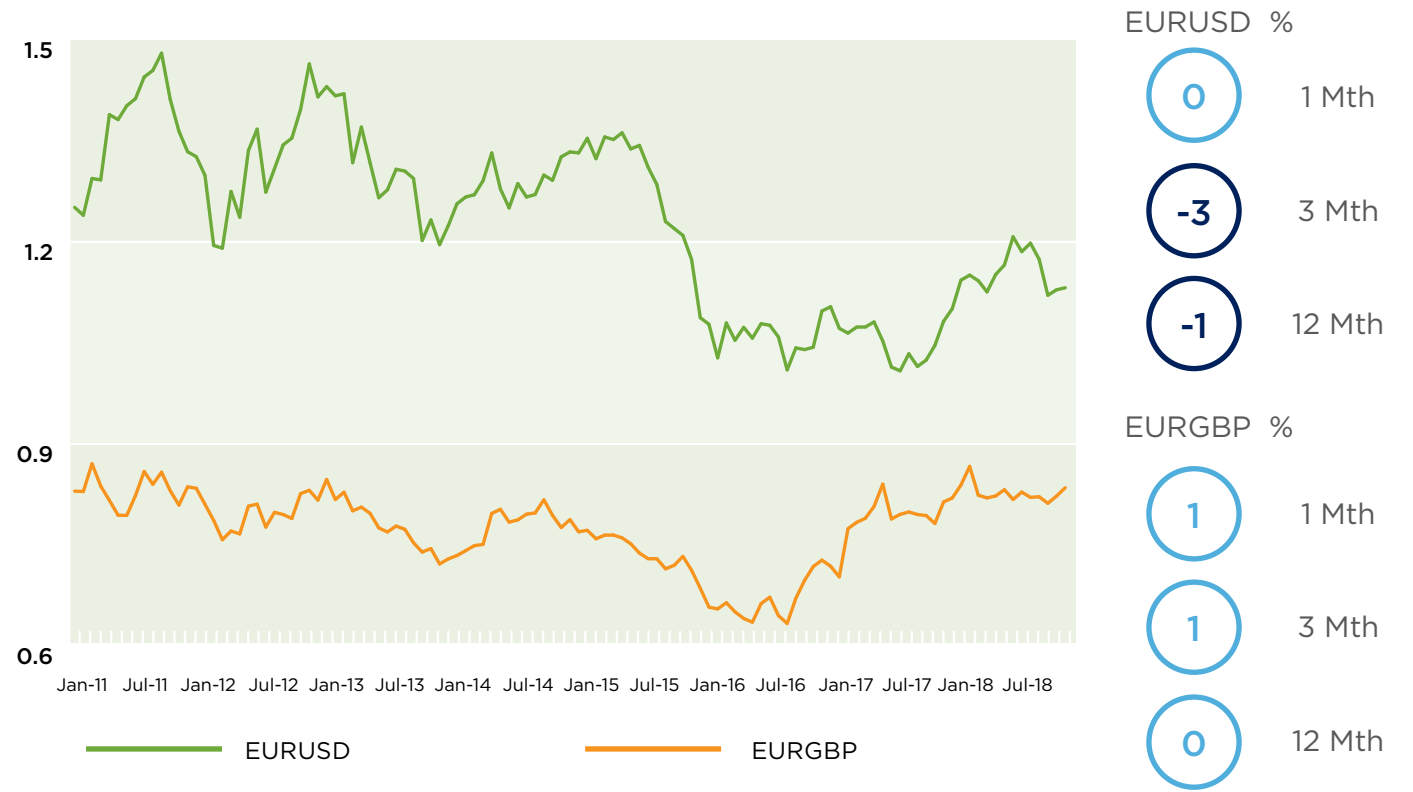
There was no significant change to wind output month-on-month with an hourly average of 458MW, versus 465MW the previous month. The average proportion of demand met by wind in July was 12%.

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FX Rates



FX Rates

The euro gained against both Sterling and the US Dollar in July, settling at 1.1705 against the dollar, a gain of 0.24% over the month, while it gained 0.74% against the Pound to finish the month at 0.8917.

The European Central Bank (ECB) left interest rates unchanged at its July meeting, reaffirming its intention to end quantitative easing and hold interest rates at their current levels through to the summer of 2019.

The Brexit soap-opera continued as the deadline for an agreement approaches. There were two high profile cabinet resignations in July as the Prime Minister Theresa May set out the UK's formal negotiating position for Brexit. The Foreign Secretary Boris Johnson and Brexit Secretary David Davis resigned as they felt they couldn't support the Prime Minister's Brexit plan, which they believed would keep the UK closely aligned with Brussels.

It remains unclear whether the Prime Minister can strike a deal with Europe that will command the support of her own party. The risk of a no deal scenario remains a distinct possibility. However, given such an outcome is economically undesirable for both parties, compromises may come late in the day to avoid a disorderly and costly exit.

Trade tensions continue to hang over the global economy as the Trump administration pursues an aggressive America first policy, while strong US inflation and employment data continues to indicate a continuing normalisation of interest rates over the coming months.

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For more information please contact:

Bord Gáis Energy Pressoffice@bordgais.ie
Rachel McFaul 085 782 7230 or Claire Smith 086 027 9075

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