# Bord Gáis Energy Index
## Understanding energy

FEBRUARY 2017

BGE/EI/UE/0317

Bord Gáis Energy

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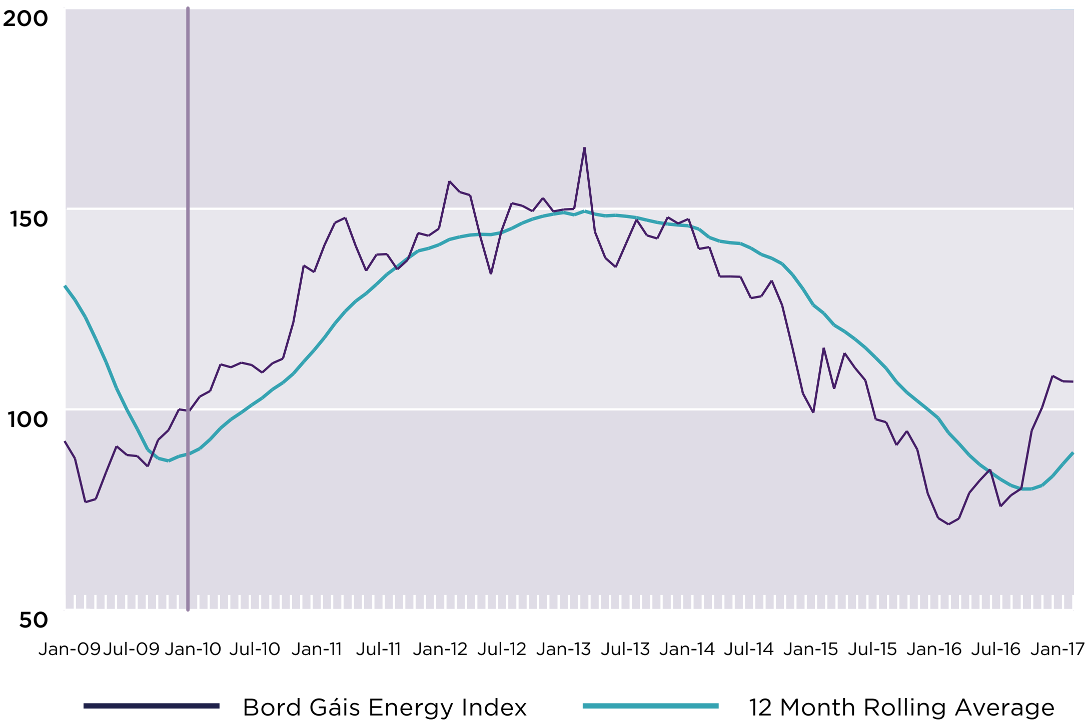
February 2017

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




| % | |
|---|---|
| 0 | 1 Mth |
| 6 | 3 Mth |
| 50 | 12 Mth |

## Summary

The Bord Gáis Energy index remained unchanged in February. Oil traded in a tight range over the month. Investors remain undecided over the direction oil prices will take next while they assess evidence that OPEC and others are complying with last year's deal to cut output. Gas prices registered a 2% drop over the month, however it masks the volatility within the month where prices spiked to a three year high. Cold weather forecasts heightened concerns that the system would remain tight over the remainder of the winter due to the low levels of gas in storage. These fears dissipated as the month progressed and the weather was not as cold as expected. Coal continued its recent reversal in February with prices falling 7% and electricity is also lower by 2%.

In February, the Bord Gáis Energy index stood at 107.

# Bord Gáis Energy Index

February 2017

## Oil Index


| % | |
|---|---|
| 1 | 1 Mth |
| 10 | 3 Mth |
| 58 | 12 Mth |

Index adjusted for currency movements.

Data Source: ICE

## Oil

Brent crude, the international benchmark, spent February trading in a tight range between $54 and $57 per barrel. Spot prices finished the month at $55.59 per barrel which was 1% higher in euro terms than January.

It is unusual for Brent to trade in such a tight range and so it is little surprise that the CBOE Oil Vix Index which measures oil price volatility hit a two year low of 25 in February. The average over the last 10 years is 37.5. The lack of movement shows that investors are undecided over the direction that prices will take while they assess evidence that OPEC and other big producers such as Russia are delivering on last year's deal to cut output. This is counteracted by US shale producers who are increasing their production to take advantage of the doubling in prices over the past year.

Data from the US shows that crude oil production has risen by 500k barrels a day since mid-2016 to over 9 million barrels per day currently, while the number of active rigs has almost doubled to 609 since hitting a cyclical low at the end of May 2016. Although the link between the rig count and production levels is not direct due to differences in productivity between individual wells and crews, the increase in drilling activity should eventually show up in a significant rise in production.

Focus will soon turn to the upcoming OPEC meeting at the end of May for signals on whether the cartel is likely to extend its current production agreement. According to a survey conducted by Platts, taking an average of January and February production, the 10 members that are obligated to cut their output level have achieved 98.5% of their targeted cuts, up from 91% in January. The lead is being taken by Saudi Arabia who continued to show the strongest output discipline.

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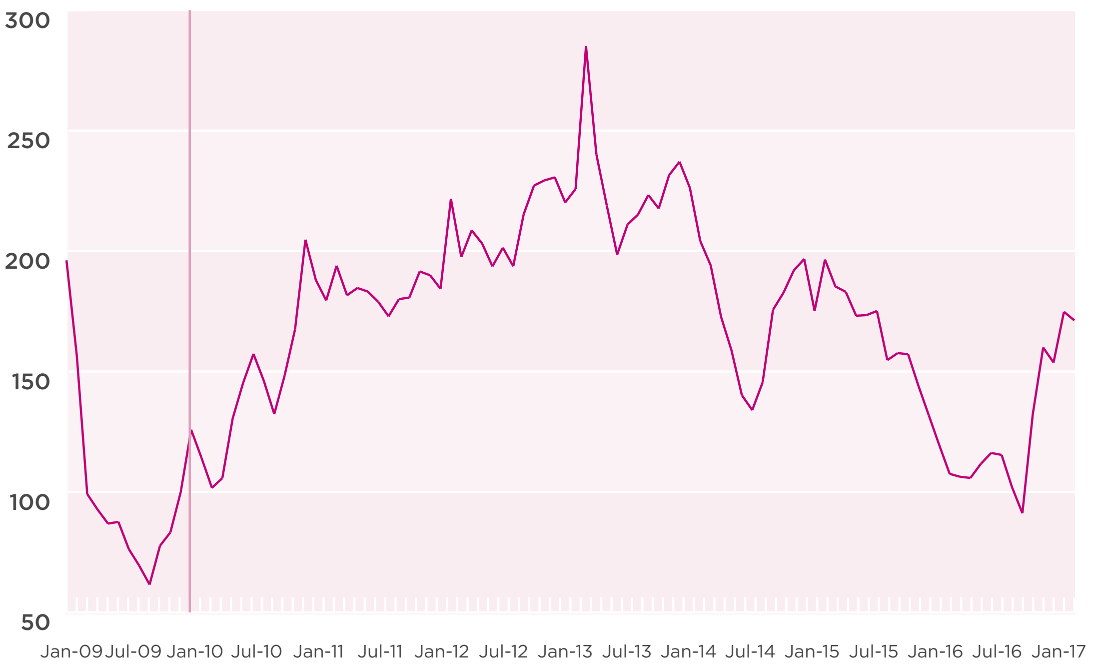
## Natural Gas Index




| % | |
|---|---|
| -2 | 1 Mth |
| 7 | 3 Mth |
| 59 | 12 Mth |

Index adjusted for currency movements.

Data Source: Spectron Group

## Natural Gas

The recent volatility in gas markets continued in February. The UK NBP day-ahead contract, the price for gas delivered tomorrow, averaged 51.43p/th for the month. This was a drop of 2% in euro terms on the January average of 52.73p/th but gas prices remain over 59% higher than the comparable period last year.

The winter contract, thus far, has been characterised by increasing prices as a combination of high gas for power demand, low LNG receipts and perennial issues with the Rough storage facility pushed prices higher, particularly for prompt and near curve contracts.

Day-ahead prices spiked early in the month to a three year high of 61p/th as cold weather forecasts heightened concerns that prices would be squeezed higher due to a tighter UK system. However, as the days passed these forecasts proved unfounded and prices retreated, closing the month at 44.35p/th.

The weakening prompt filtered through the curve pushing forward prices lower. The sharpest falls were seen in the front summer contract which finished the month 9% lower at 41.63p/th, while the Winter 17 contract recorded a less stellar drop of 4.5%. The variance in the seasonal contracts is a consequence of the distinct impact gas in storage has on each season. Even though forward prices are lower they are still 36% higher than this time last year.

The Rough storage facility, located off the east coast of England, is the UK's largest storage facility representing more than 70% of the UK's storage capacity. In recent months there has been a catalogue of announcements which suggest that the viability of this ageing asset may be in serious doubt. Storage facilities inject gas in the lower demand summer months for withdrawal and use during the colder winter months when it plays a crucial role in helping balance the UK system. Any reduction in Rough storage capacity could move summer prices lower due to a lower gas demand for storage injection but could drive winter prices higher as it reduces supply flexibility and ability to meet peak demand on high demand days.

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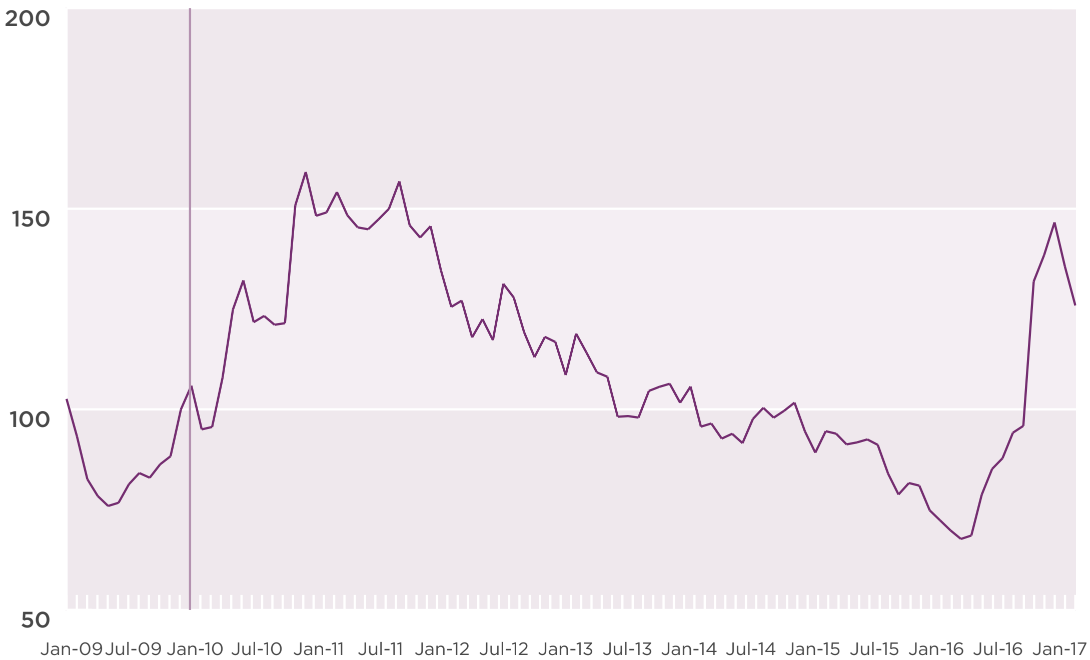
## Coal Index




| | % |
|---|---|
| 1 Mth | -7 |
| 3 Mth | -9 |
| 12 Mth | 80 |

Index adjusted for currency movements.

Data Source: ICE

## Coal

Having hit multi year highs in recent weeks, coal gave up some gains in February falling 7% in euro terms to $77.9 a tonne.

Prices for thermal coal, used for electricity generation, soared in the second half of 2016 due to strong demand and continued supply tightness in China resulting from government restrictions. China, the world's largest energy consumer, is trying to move away from its reliance on coal and restricted domestic coal production by implementing restrictions on the number of days a mine could be operational.

Chinese authorities directed coal mines to produce on a 276-day basis, instead of the previous 330 days, effectively reducing production by 16%. However, this did little to reduce actual use of coal and only increased the country's demand for coal imports due to tightening supply without a corresponding reduction in overall demand.

Coal prices peaked in mid-November above $100/tonne before retreating when authorities lifted the restrictions on mining. As recent months illustrate clearly, the direction of coal prices from here will be largely reliant on Chinese coal policy as the country consumes half of the world's coal output and coal accounts for nearly two-thirds of the country's energy consumption.

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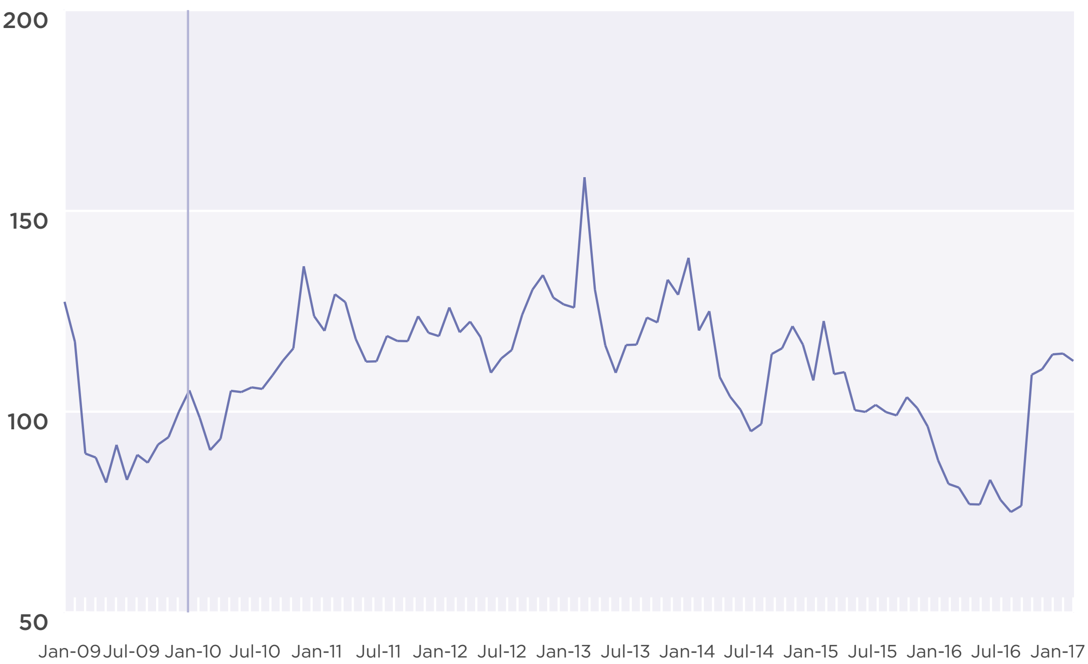
## Electricity Index




| % | |
|---|---|
| -2 | 1 Mth |
| 2 | 3 Mth |
| 37 | 12 Mth |

Data Source: SEMO

## Electricity

The average wholesale price of electricity in Ireland decreased 2% in February.

Excluding supplier capacity payments, the average wholesale price for February was €55.31/MWh compared to €57.51/MWh in January, a decrease of €2.2/MWh on the average monthly wholesale price.

The average wholesale cost of imported gas from the UK decreased by 2% in euro terms in February. Irish wholesale power prices typically tend to track the cost of imported gas as it is the most significant cost in the production of electricity.

An average monthly clean spark of approximately €11.62/MWh was recorded in the month, which is down from €13.21/MWh observed in January (a decrease of 12.03%). The proportion of demand met by wind in February increased to 26.6% from 20.0% in January.

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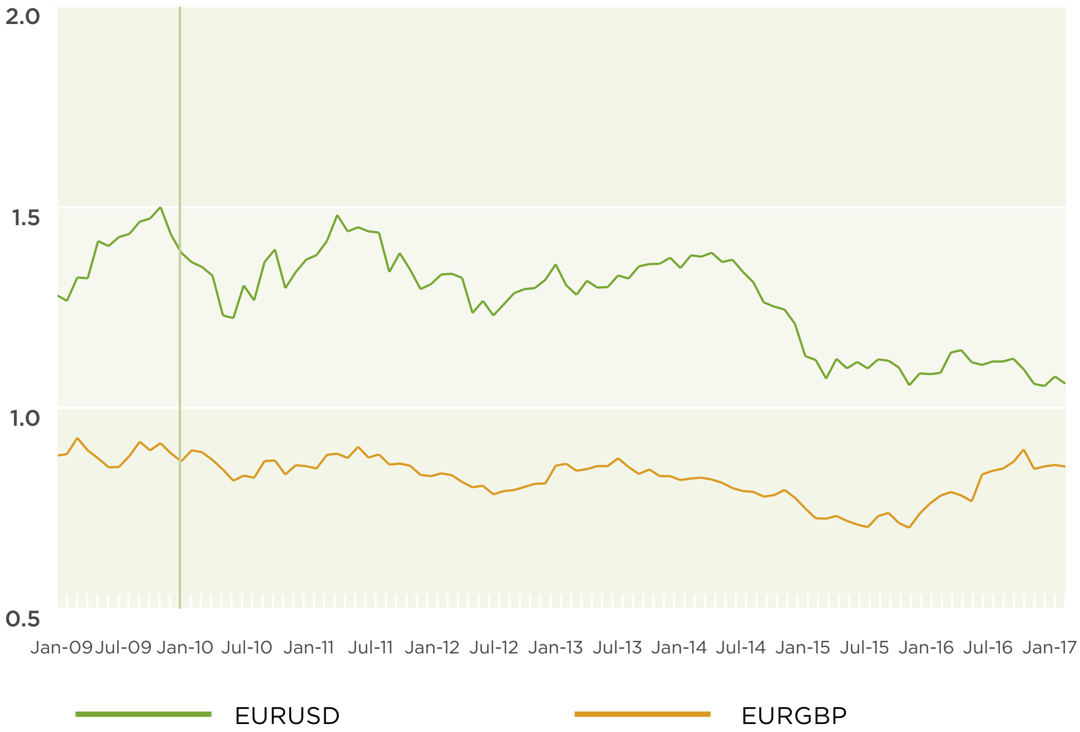
## FX Rates




EURUSD %

| | |
|---|---|
| -2 | 1 Mth |
| 0 | 3 Mth |
| -2 | 12 Mth |

EURGBP %

| | |
|---|---|
| 0 | 1 Mth |
| 1 | 3 Mth |
| 9 | 12 Mth |

## FX Rates

The euro fell versus both the dollar and sterling in February as political uncertainties in Europe and the prospect of a rate rise in the US came to the fore. The single currency finished the month down marginally against sterling at 0.8543 and settled at 1.0608 versus the US dollar, a fall of 2%.

Political uncertainty was evident in currency markets again in February as fears grew over the possibility of Marine Le Pen winning the French Presidential election. The election will be run off over two rounds in April and May. According to polls, Le Pen is expected to win the first round, however she is expected to lose the second round and the overall election. The fear that if elected, Le Pen will call for a referendum on French membership of the EU has also spooked bond markets with French debt trading at a discount to German debt.

The dollar rallied as market expectations of a rate rise in March rose towards 80% even though the US Fed gave no explicit guidance of the timing of any hike. However, commentary from Fed Chair Janet Yellen that a rate rise could occur relatively soon was echoed by other Fed members. Any early rate hike expectations from the Bank of England were tempered when it lowered the neutral rate of UK unemployment and effectively lowered its expectations of wage and inflation pressures. The UK is expected to pass a bill in March which will enable it to trigger Article 50 and officially begin exit negotiations with the EU.

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## For more information please contact:

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