

Bord Gáis Energy Index Remains Unchanged in February; Up 50% Year-on-Year

13 March 2017:

The Bord Gáis Energy Index remained unchanged in February as oil traded in a tight range and a drop in gas prices was offset by a price spike during the month. Broadly, the Index has recorded a year-on-year increase of 50%, driven mainly by strengthening oil prices throughout the year.

In February, movements among the individual components of the index were mixed, with oil holding steady, a 2% fall in gas prices masked a spike that saw prices rise to a three-year high in the month and a 7% fall in coal prices.

In February the index stood at 107.

Commenting on the latest Index, Darragh Crowley from Bord Gáis Energy, said:

“The fact that the Index remained unchanged in February is largely due to oil trading in a tight range as investors showed caution about the future price of oil and the fact that a small reduction in gas prices masked volatility in the market which has seen the price of gas spike to a three year high in the month.

“However while February showed stability, we have recorded a 50% increase in the Index over the year. This is largely driven by a rise in oil prices following OPECs deal to cut production late last year following a plunge in oil prices in 2016.

“There are uncertain headwinds as investors await key election results in Europe, notably in France and the Netherlands. This was partly responsible for the euro’s fall against the dollar and sterling. Looking ahead we will continue to monitor geo-political events as well as OPECs commitment to cut oil production.”

Oil

Oil traded in a tight range in February. The lack of price movement shows that investors are undecided over the direction that prices will take as they assess whether OPEC and other big producers such as Russia are delivering on last year’s deal to cut output. The deal is counteracted by US shale producers who are ramping up production.

Data from the US shows that crude oil production has risen by 500,000 barrels per day since mid-2016 to stand at over 9 million barrels per day currently.

Investors will be focusing on OPEC's meeting scheduled for the end of May for signals on whether the cartel is likely to extend its current production agreement. Data shows that taking an average of January and February production, the 10 members that are obligated to cut their output level achieved 98.5% of the targeted cuts in February.

Gas

The UK NBP day-ahead contract, the price for gas delivered tomorrow, dropped 2% on the January average and remained 59% higher than a year ago.

Price volatility continued in February. Day-ahead prices spiked in February to a three-year high as cold weather forecasts heightened concerns that prices would be squeezed higher due to a tighter UK system.

In recent months there has been a number of announcements suggesting the viability of the UK's Rough storage facility may be in serious doubt. 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.

Coal

After hitting multi-year highs, coal gave up some gains in February falling 7% in euro terms to \$77.9 a tonne.

China, the world's largest energy consumer, is trying to reduce its reliance on coal. Chinese authorities directed coal mines to cut production to a 276-day basis, instead of the previous 330 days. However, this only stoked the country's demand for coal imports due to a reduction in supply without a corresponding cut in demand.

As recent months illustrate, the direction of coal prices from here will be largely reliant on China's 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.

Electricity

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

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.

FX

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 is elected on a mandate to call for 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.

For more information, please see the full Energy Index report.

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About Bord Gáis Energy

Bord Gáis Energy is a gas, electricity and energy services supplier in the Republic of Ireland. The company has been in operation since 1976 and currently supplies energy and services to over 680,000 business and residential customers. In 2014, Bord Gáis Energy became part of the global Centrica plc Group.

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