



Bord Gáis Energy Index

Understanding energy

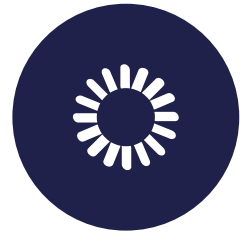
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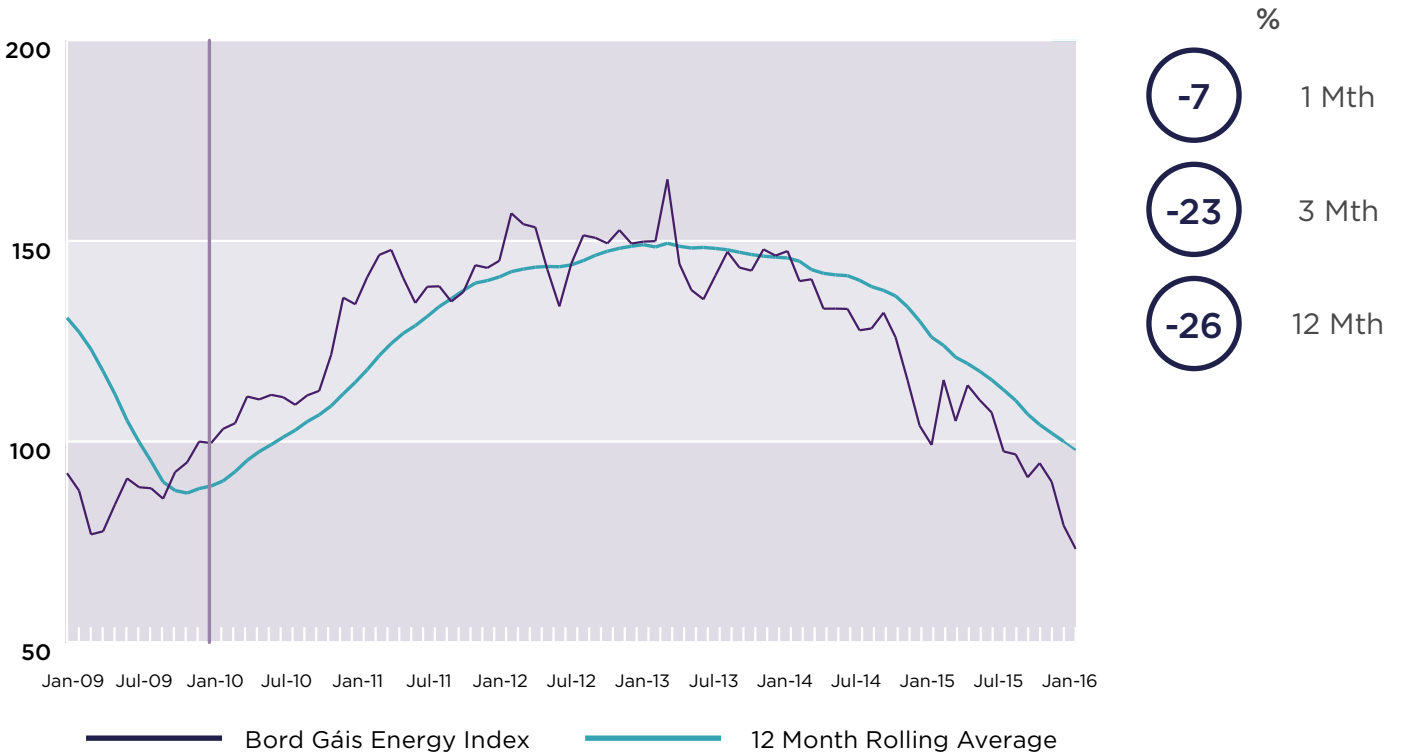


Bord Gáis Energy Index

January 2016



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



Summary

In January 2016 the Bord Gais Energy Index fell by 7% month-on-month as the wholesale prices of Brent crude oil (-7%), UK prompt wholesale gas (-9%), European coal (-3%) and Irish wholesale electricity (-8%) all recorded losses month-on-month.

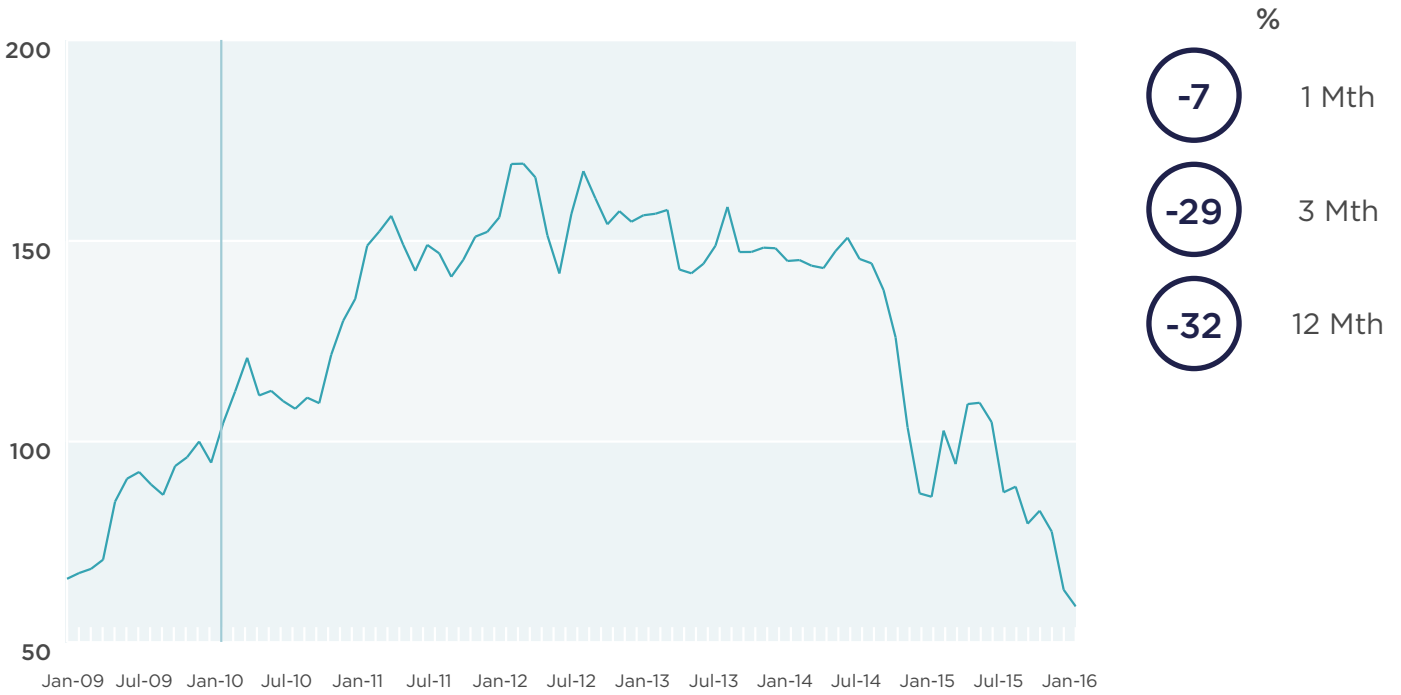
In January 2016 the Index stood at 73, which is another record low.

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Oil Index



*Index adjusted for currency movements.

Data Source: ICE

Oil

Brent traded down a further two dollars fifty cents a barrel in January to close the month at \$34.74 a barrel. The oil price drop, in place since June 2014, accelerated in January as prices hit 12 year lows of \$27.88 following the lifting of international sanctions on Iran in the middle of the month. The lifting of sanctions heralds the return of Iranian production with most commentators estimating an additional three to five hundred thousand barrels of Iranian oil likely to hit an already oversupplied oil market.

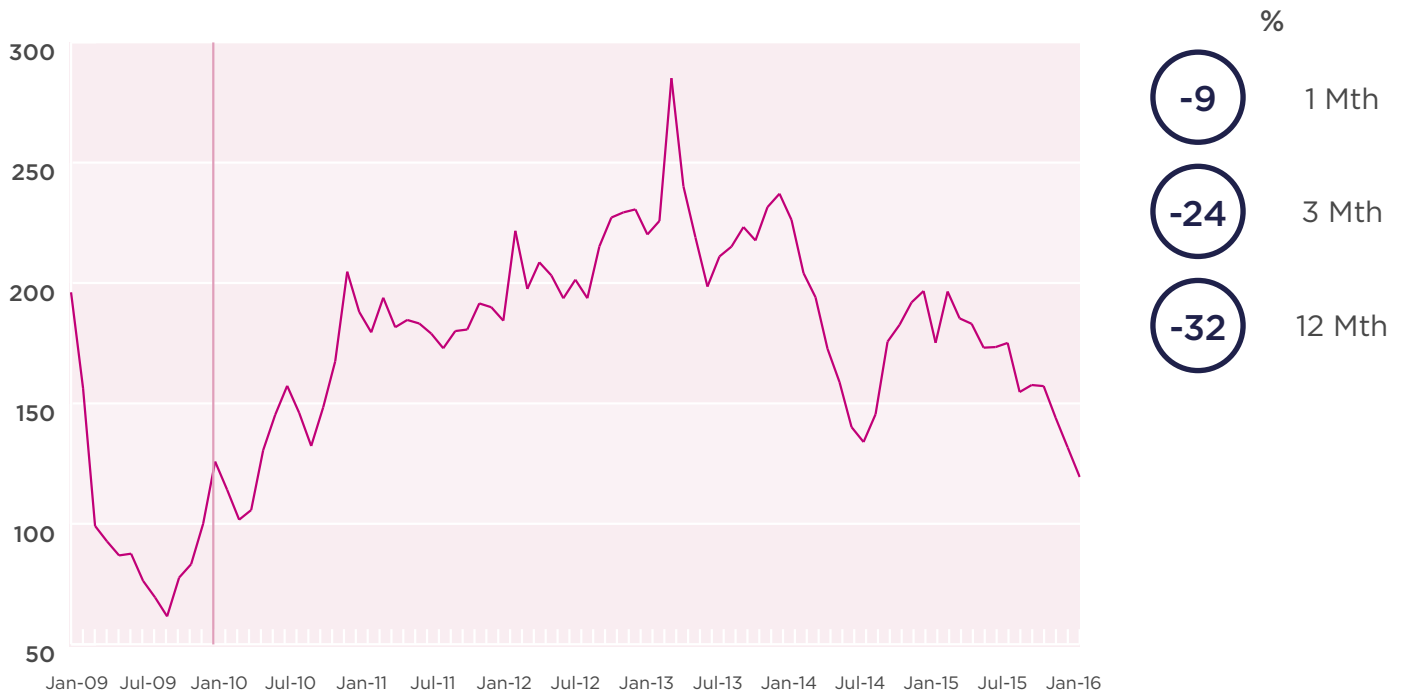
Toward the end of the month we saw a sharp rally in oil prices on comments by Russian energy minister, Alexander Novak, suggesting that OPEC producers and Russia would meet in February to discuss a potential coordinated cut in production. Despite scepticism among most market participants that such an agreement would be reached we saw a sharp rally in oil contracts as traders rushed to close short positions.

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Natural Gas Index



*Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The UK's NBP day-ahead contract averaged 32.02 pence/therm in January, down 2.14p/th from December's average of 34.16p/th and significantly below the comparable month average of 46p/th in January 2015. Demand averaged a winter high of 300mcm over the month, 3% above seasonal norms for the time of year and over 20% above December's levels. Despite the increased demand, solid UK production and storage withdrawals were utilised to comfortably balance the system.

The weakness in prompt, milder weather forecasts and the continued decline in oil all weighed on NBP curve contracts over the month with Summer 16 and Winter 16 contracts hitting fresh lows.

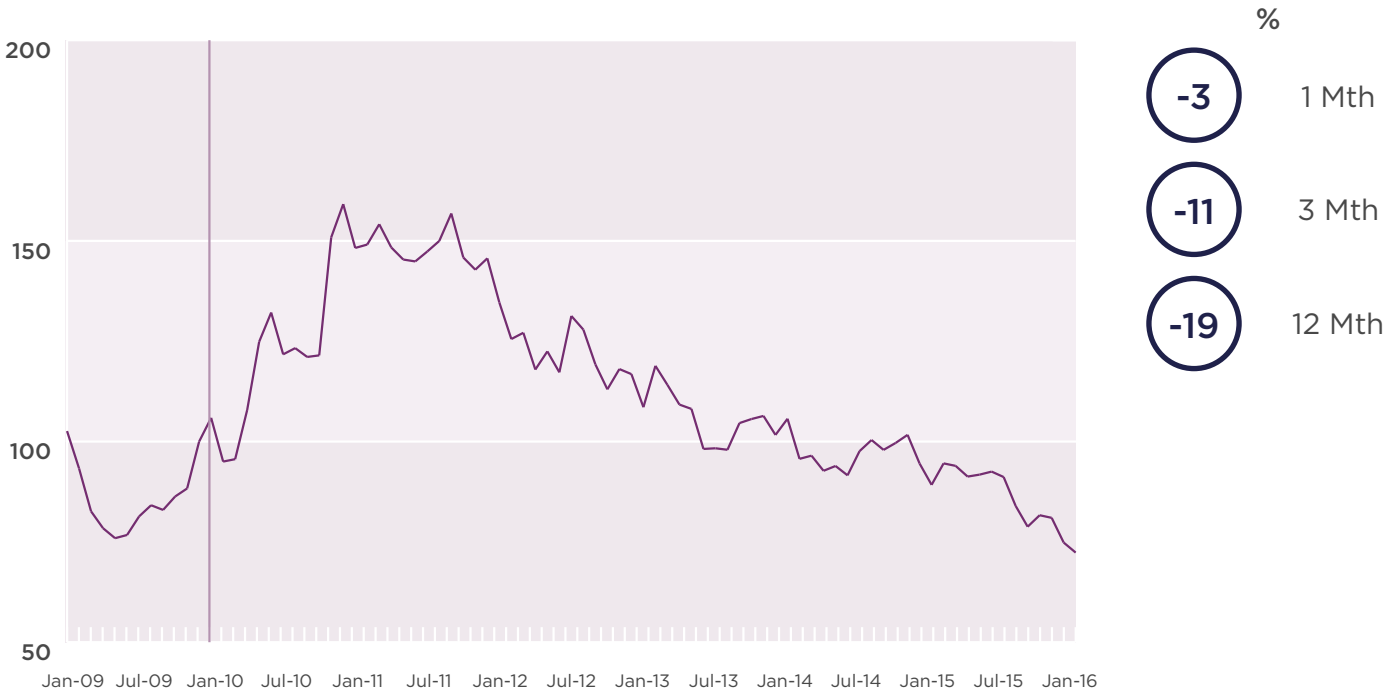
Gas prices currently reflect strong storage, a benign demand outlook and ample supplies. However, the UK's reliance on imports means it remains vulnerable to external shocks. Increasing volatility, with large intra-day percentage moves, has been a feature of oil prices in the last two weeks. The sharp rally in oil seen toward the end of the month highlights the risk of a sharp bounce in oil prices on any indication of production cuts. These production cuts could be the result of co-ordinated action or more likely the shutting in of production which is uneconomic at current price levels.

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Coal Index



*Index adjusted for currency movements.

Data Source: ICE

Coal

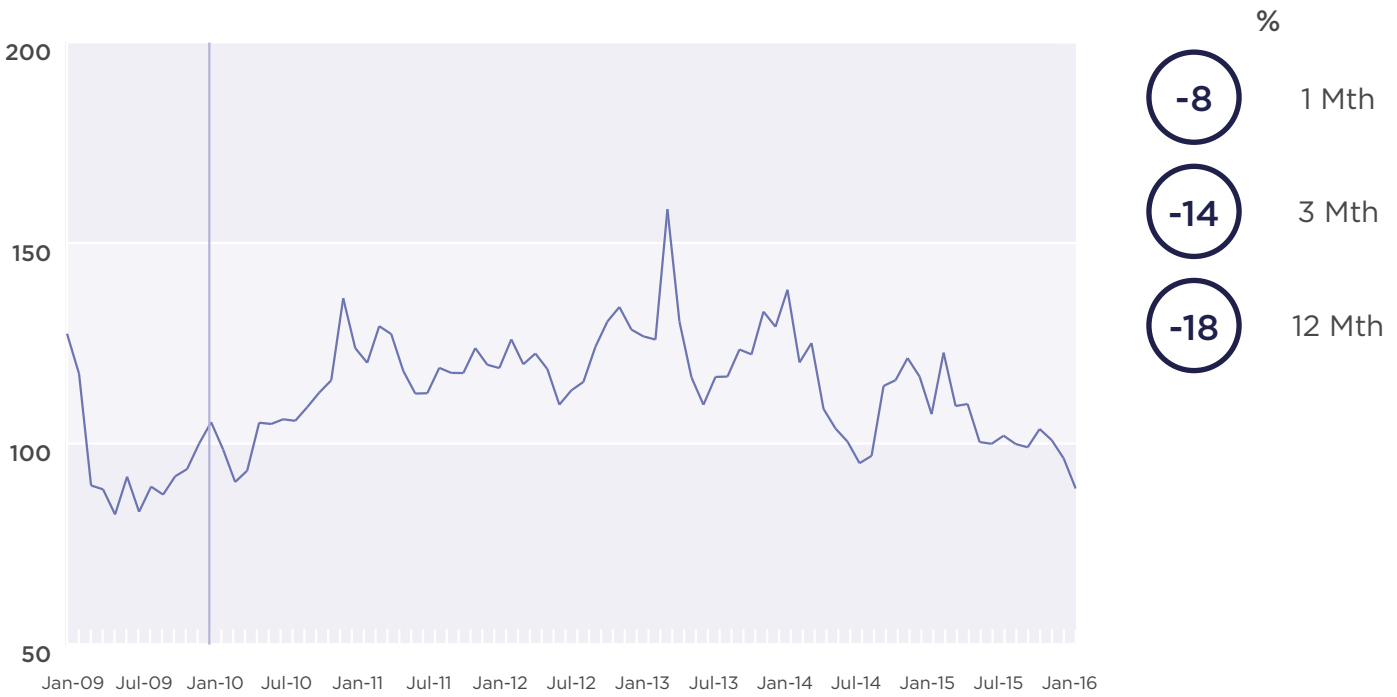
Coal prices, in line with weaker oil and gas, fell again over the month. The ICE Rotterdam Monthly Coal futures contract fell another \$1.7 to close the month at \$45.75/mt. The coal industry continues to face difficulties such as weakening demand, global overcapacity, increasing environmental legislation and falling prices for substitute commodities such as natural gas.

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Electricity Index



Data Source: SEMO

Electricity

In line with falling UK prompt gas prices, Irish wholesale prices dropped month-on-month as wind levelled off slightly.

Month-on-month the average wholesale price of electricity fell by nearly 6.4% in January. Excluding supplier capacity payments the average wholesale price for January was €39.99 compared to €42.72 in December, a fall of €2.73/MWh on the average monthly wholesale price.

The wholesale cost of imported gas from the UK decreased month-on-month by just over 6.5% in sterling terms. Irish wholesale power prices typically tend to fall with the cost of imported gas as it is the most significant cost in the production of electricity.

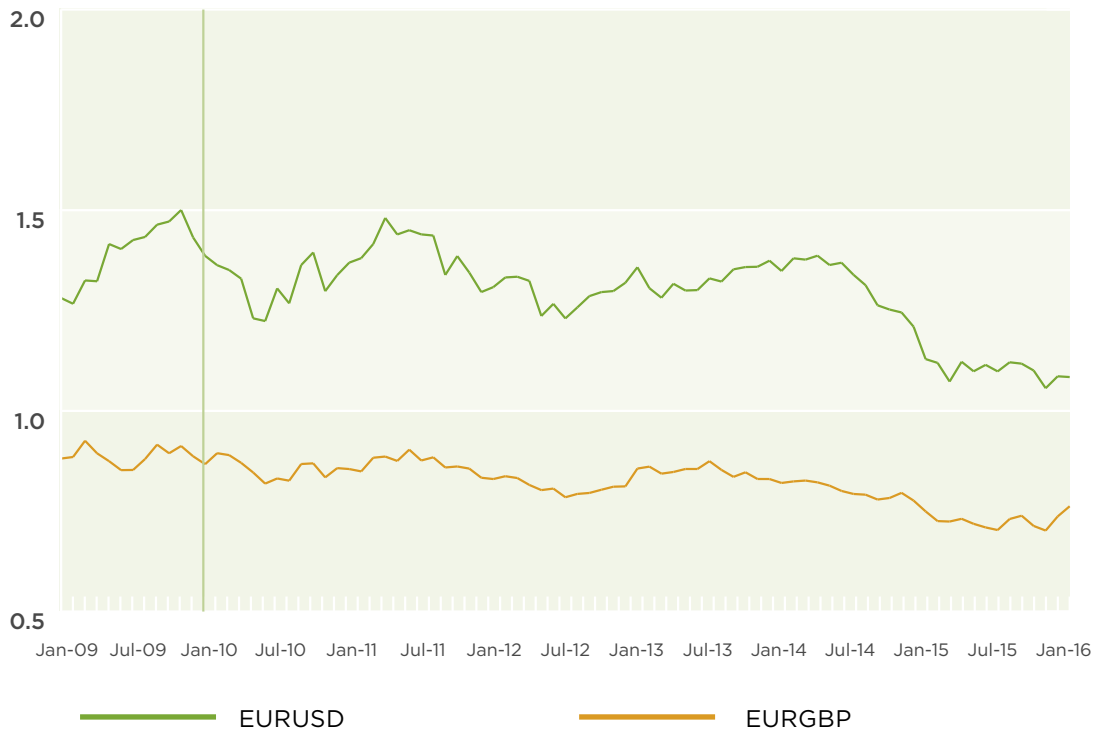
A monthly clean spark of approximately €7.8/MWh was recorded in the month, which is up from the €6.8/MWh level observed in December (a rise of almost 14.7%). The increased spark can be attributed to a significant drop off in wind levels in January. Demand remained strong and the proportion of demand met by wind fell in January. Over 26% of the island of Ireland's demand was met by wind in January compared with nearly 33% in December. The extra space on the system left by wind was filled by CCGT's running which pushed up spark levels.

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FX Rates



EURUSD %



EURGBP %



FX Rates

In January, the euro weakened marginally versus the US dollar while it gained against the British pound.

It was a turbulent start to 2016 as renewed instability in the Chinese equity market and a further decline in oil prices saw global stock markets post steep negative returns. In bond markets, perceived safe havens rallied with Treasury, Gilt and Bund yields declining. The USD marginally strengthened versus the euro over the month as the Fed left monetary policy unchanged in January. It placed the spotlight on its March meeting as it carefully skirted the line between dovish and hawkish sentiment in an attempt to reassure investors that rate increases will be gradual and data dependent. The USD weakened slightly over the month versus the euro to close at 1.0843.

Across the Atlantic at the ECB's January meeting, Mario Draghi assured markets that he would consider further action at upcoming March meeting. What this action will entail remains to be seen; possible steps include a further cut to the deposit rate which stands at -0.3%, an increase in the size of the monthly asset purchase which currently stands at €60 billion per month or an extension to the programme.

In the UK, GDP rose by 0.5% in the fourth quarter of 2015, in line with economist expectations. Services and consumer facing companies continued to fare well, while globally exposed corporates struggled as commodity prices remain low and growth in the emerging economies decelerates. At the Bank of England policy meeting, the members voted 8:1 in favour of leaving rates unchanged and suggested little urgency to raise rates in the short term. Investors have pushed out expectations of the first rate hike to late 2017. GBP weakened notably against the euro over the month, declining by over 3% to close the month at just over 76p.

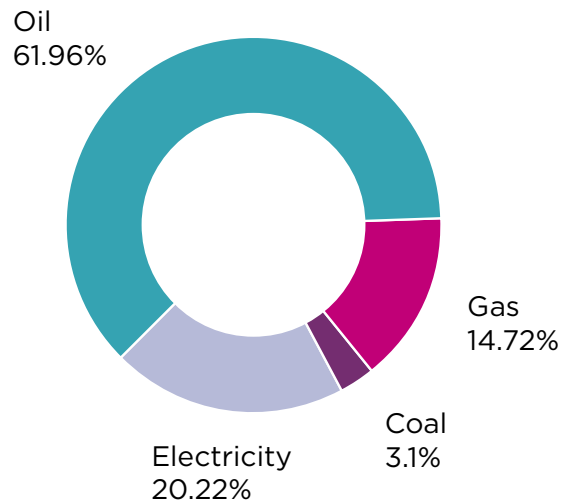
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Re-weighting of Bord Gáis Energy Index

Following the SEAI's 2011 review of energy consumption in Ireland, there was a 6.4% drop in overall energy consumption. Oil continues to be the dominant energy source with most of the oil used in transport and the remainder being used for thermal energy. For the purposes of the Bord Gáis Energy Index, the total final energy consumption in Ireland fell 1,089 ktoe (toe: a tonne of oil equivalent is a unit of energy, roughly equivalent to the energy content of one tonne of crude oil) between 2009 and 2011. This fall was made up of a 1,022 ktoe drop in oil consumption (down 13.5%), a 20 ktoe drop in natural gas (down 12.6%), a 7 ktoe drop in electricity (down 0.3%) and a 40 ktoe drop in coal (down 10.98%). The Bord Gáis Energy Index has been re-weighted in January 2013 to reflect the latest consumption data. The impact has been minimal and has resulted in slight reductions in the share of oil and gas and a slight increase in the weighting of electricity in the overall Index.



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