Bord Gáis Energy Index
Understanding energy

JANUARY 2017

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Bord Gáis Energy

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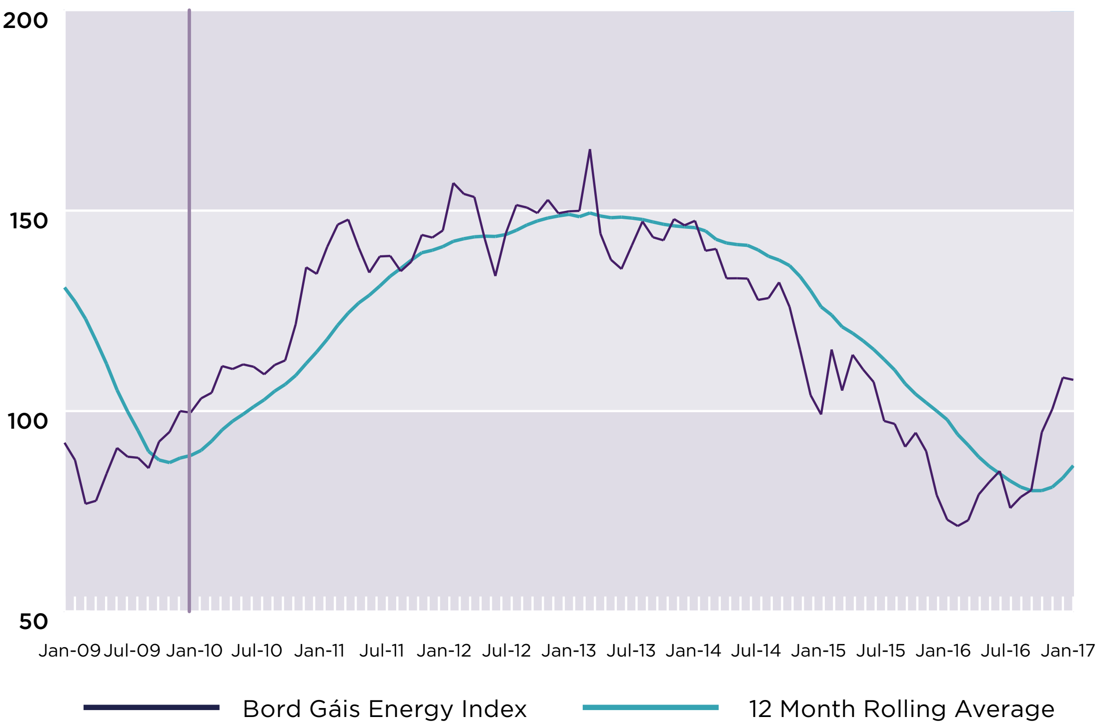
January 2017

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



%	
-1	1 Mth
14	3 Mth
48	12 Mth

Summary

In January 2017, the Bord Gáis Energy Index was down 1% month on month and is 48% higher than a year ago. Movements among the individual components of the index were mixed with a fall in oil prices and coal offset by higher prices in gas and electricity.

In January, the Index stood at 108.

Bord Gáis Energy Index

January 2017

Oil Index

%	
-4	1 Mth
17	3 Mth
61	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The production cut deal, struck at the end of November, between key OPEC and non-OPEC countries has supported oil prices over recent months. However, prices stalled in January as oil fell 4% in euro terms, to finish the month at $55.7 a barrel.

The production cut deal marked the re-emergence of OPEC into a market management role having abandoned prices to market forces in November 2014 in the face of a global supply glut. The oil price had plummeted to a low of $27 in January last year when rumours began to circulate that Saudi Arabia and Russia were in talks to freeze production. Over subsequent months, a series of talks and meetings among key OPEC and non-OPEC producers eventually delivered a deal to cut supply by close to 1.8 million barrels of oil per day over the next six months.

The focus now shifts to evidence that producers are complying with agreed cuts and to the response of US oil production to the higher price environment. US oil producers, who had seen exponential growth in production up to 2015, did not participate in the production deal.

Both Saudi and Russian energy ministers have made positive statements regarding compliance and many expect a high level of compliance, in the shorter term at least. However, it looks like we may also see a robust response from US producers which could help offset some of the impact of the production cuts. In January, oil prices softened as figures showed US producers were adding more new rigs per month than at any time over the past two years. In addition, all the initial signs from the Trump administration suggest that the taxation, infrastructure and regulatory environment will be supportive of domestic US drilling.

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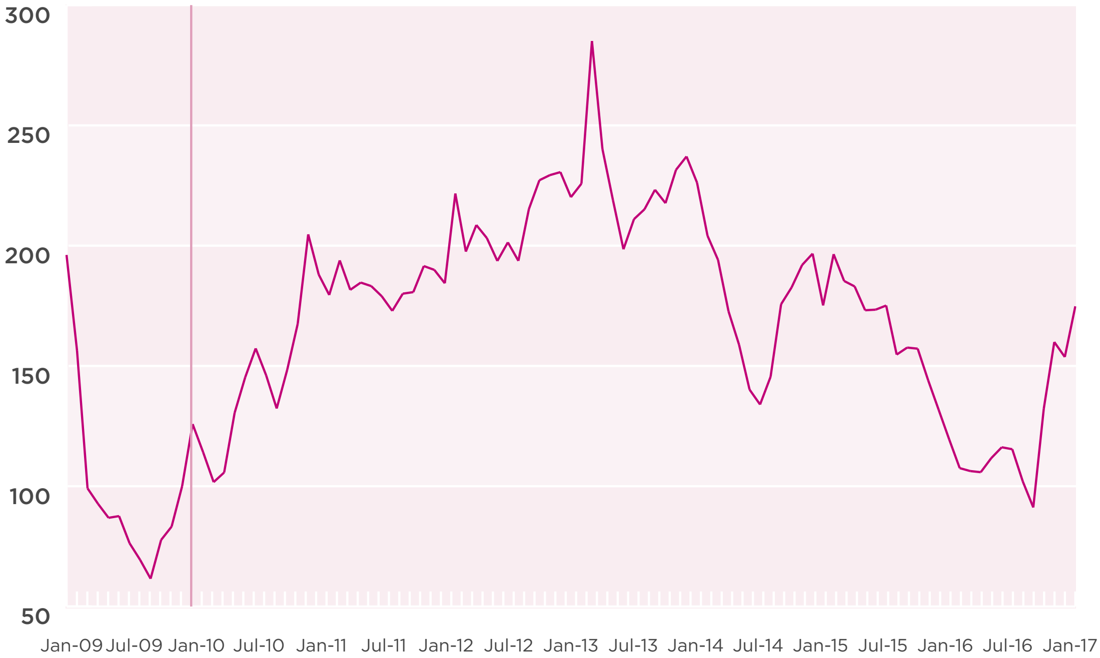
Natural Gas Index

%	
14	1 Mth
32	3 Mth
46	12 Mth



Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The UK NBP day-ahead contract, the price for gas delivered tomorrow, averaged 53p/th for January 2017, a rise of 14% in euro terms on the December average of 46p/th and 46% higher than a year ago.

Gas prices were volatile over the first month of the year with milder weather at the beginning of the month pushing prices lower. Intermittent outages at the Rough storage facility added to the volatility while worries over the low levels of gas in storage and continued low levels of liquefied natural gas (LNG) imports caused prices to rally towards the end of the month.

The majority of the action remained at the front end of the curve with the steepest increases seen in the day-ahead and month-ahead contracts. The forward curve led by the benchmark Winter 17 contract averaged 50.7p, a 6% increase over the month. Colder weather in the UK and across Europe kept demand high and a number of gas emergencies across Europe kept prompt prices high. There were gas shortages in the south of France, which led to the Southern Grid operator calling on emergency storage stocks. Cold weather in Italy put pressure on the system there and Turkish power stations had to be turned off to conserve natural gas.

The lack of flexible LNG arriving in Europe, due to high demand in Asia, meant that European storage was used heavily to balance the market but the emergencies in France and Italy saw prices briefly rise to the equivalent of 100p/th in some zones. The impact on the UK market was higher prices, despite the system being balanced for much of the month. The UK is drawing pipeline imports from Europe this winter as it cannot access more storage or LNG. This could lead to potential shortages in the latter part of the winter delivery period if there is another prolonged cold snap or pipeline outages.

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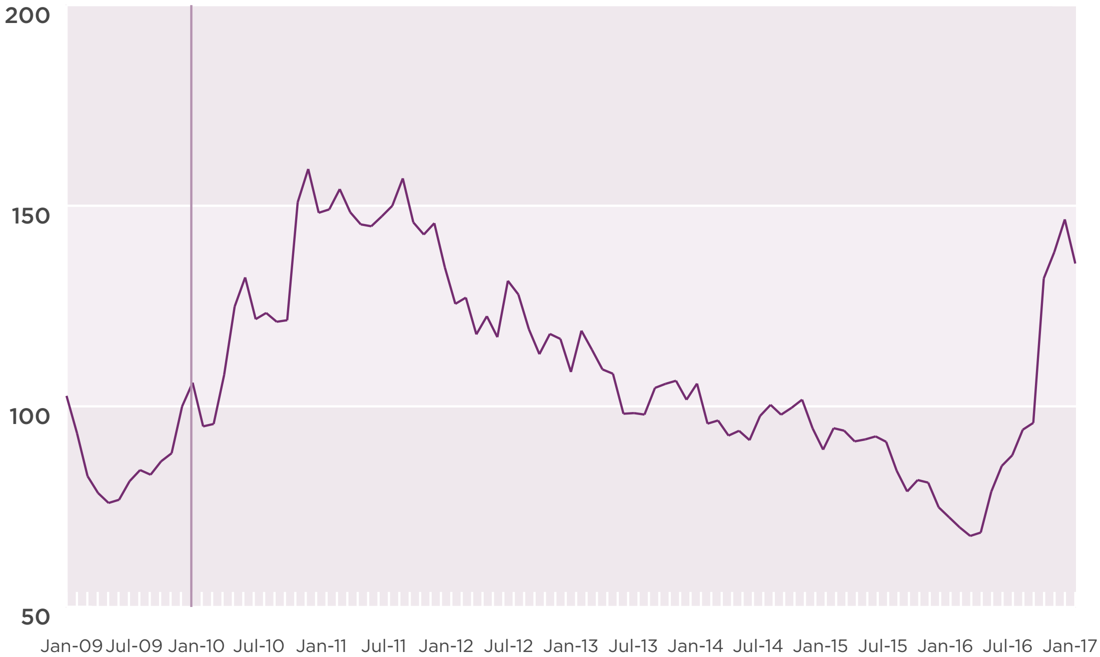
Coal Index



%	
-8	1 Mth
3	3 Mth
87	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal broke its winning streak in January as prices fell 8% in euro terms to $85 per tonne. On a yearly basis, prices have jumped by over 87%.

Coal prices fell in January after rising for nine months in a row. Soaring prices over the last 12 months were largely due to China's decision to limit output in a bid to tackle overcapacity in the coal industry.

The effects of those decisions were felt across world coal markets, as China is the largest consumer and importer of coal. The fall in the price of coal in January could be attributed to a decision announced in December to reverse the cuts and will see China boost its coal production by the end of the decade. Beijing is targeting an output of 3.9 billion tonnes of coal in 2020, an 18% increase on 2016.

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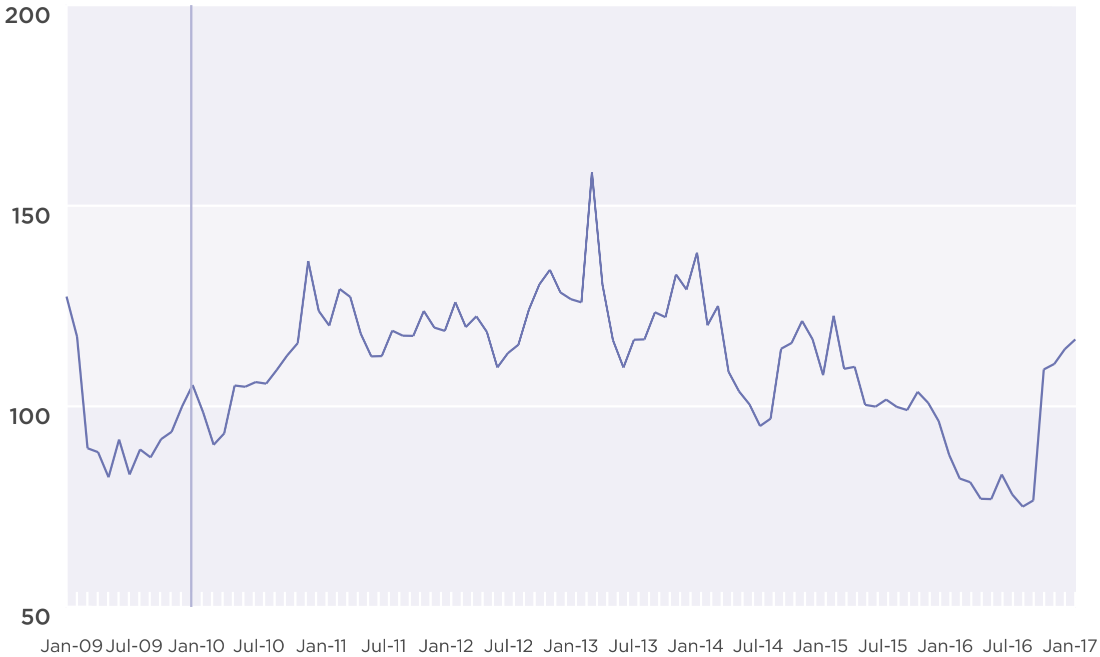
Electricity Index



%	
2	1 Mth
7	3 Mth
33	12 Mth

Data Source: SEMO

Electricity

The average wholesale price of electricity increased by 2% in January.

Excluding supplier capacity payments the average wholesale price for January was €57.51/MWh compared to €54.47/MWh in December, an increase of €3.04/MWh on the average monthly wholesale price.

The average wholesale cost of imported gas from the UK increased by 14% in euro terms. 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 €13.21/MWh was recorded in the month, which is down from the €14.59/MWh observed in December (a decrease of 9.5%). The proportion of demand met by wind in January decreased to 20.0% from 23.1% in December.

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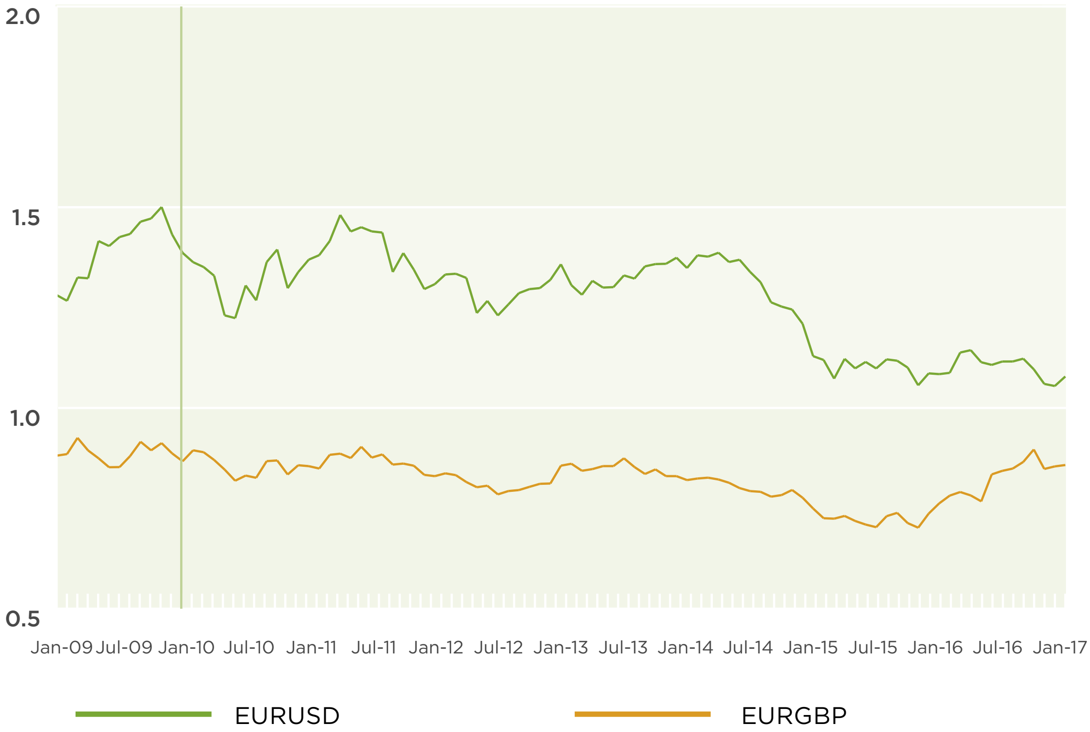
FX Rates



EURUSD %

2	1 Mth
-2	3 Mth
-1	12 Mth

EURGBP %

0	1 Mth
-4	3 Mth
13	12 Mth

FX Rates

The euro finished the month at 0.8579 versus sterling, a marginal increase on the December close of 0.8545p. The euro strengthened 2% against the dollar finishing the month at 1.0784.

The dollar having hit a multi-year high in December weakened against a basket of currencies on comments by President Trump that he favoured a weaker dollar. The December Fed meeting highlighted the potential for accelerated hikes in response to any significant US fiscal stimulus.

The ECB left policy unchanged but highlighted the potential for increased stimulus should conditions deteriorate. As the month drew to a close, attention turned to the upcoming French Presidential election where Francois Fillon, a former frontrunner, saw his campaign thrown into turmoil. The candidate faced accusations that he employed his wife, in a publicly financed position, in which she appears to have carried out little actual work.

Investment markets are watching the French election carefully as the Front National candidate, Marine Le Pen, has indicated that she will abandon the euro and hold a French referendum on EU membership. The obvious concern is, having witnessed the Brexit vote in June 2016 that the EU could face the even more serious prospect of a euro member vote to leave the single currency and European Union.

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