Bord Gáis Energy Index
Understanding energy

SEPTEMBER 2016

BGE/EI/UE/1016

Bord Gáis Energy

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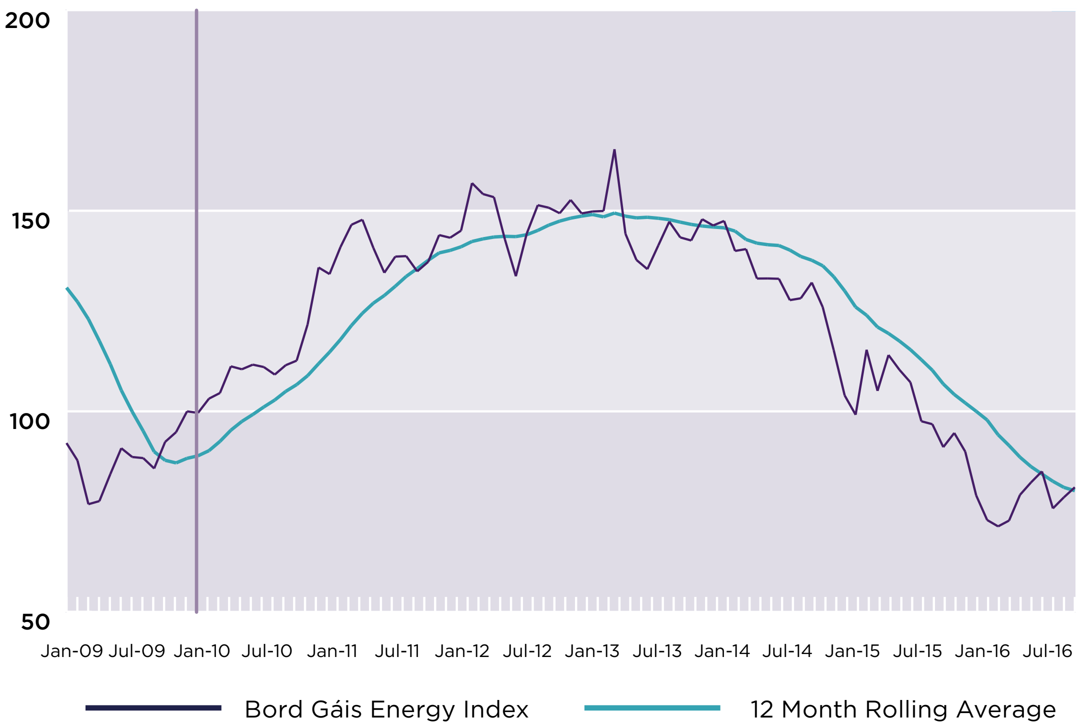
September 2016

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



%	
3	1 Mth
-5	3 Mth
-11	12 Mth

Summary

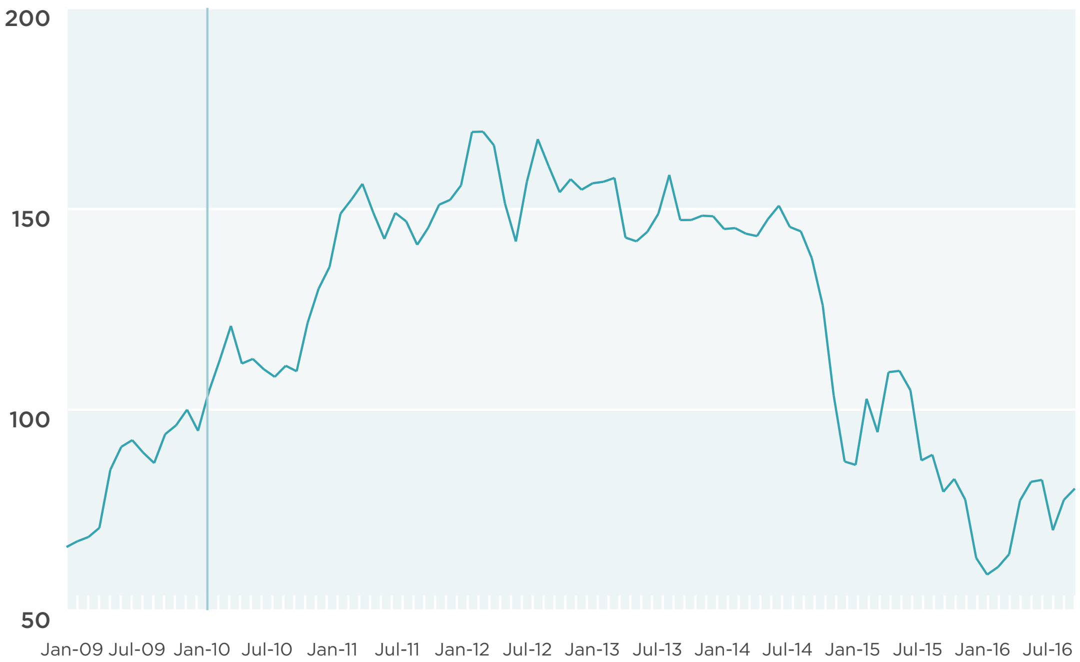
In September 2016, the Bord Gáis Energy Index was 3% higher as oil rallied 4% on a potential agreement between key OPEC producers to cut production. Among the other components of the Index, UK prompt wholesale gas prices were 11% lower, Irish wholesale electricity prices were up 5% while coal finished the month 2% higher in euro terms.

In September, the Index stood at 81.

Bord Gáis Energy Index

September 2016

Oil Index



%	
4	1 Mth
-3	3 Mth
1	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Brent crude oil, the global benchmark for oil prices, was higher by 4% in September finishing the month at $49.06 per barrel in what has been a volatile period for oil.

The "will they, won't they" battle of wills within OPEC culminated with an announcement of a cut in production on September 28th. The cut, which is the first co-ordinated effort to control supply since 2008, is effectively an admission of defeat in the Saudi led cartel's battle to crush US shale oil producers. The OPEC strategy of pumping oil flat out to maintain market share and heap pressure on US shale producers has battered the public finances of many of its members. The announcement served as a sharp reminder to those that had predicted the demise of OPEC, that the cartel still has the power to surprise markets.

It also marks a new chapter in the normally fractious relationship between Saudi Arabia and Iran, its great regional rival. Iran appears to have reached consensus that they will not have to take part in any cut in production until they reach at least 4 million barrels a day, their pre-UN sanction production level. A previous agreement in April had fallen apart due to Iran not taking part in any freeze. OPEC members have agreed to cap production between 32.5 and 33 million barrels per day. In August, total OPEC production stood at around 33.3 million barrels per day.

However, there are many risks to the agreement. It is yet to be decided which members will curb output and by how much, this decision was kicked down the road until the next meeting in November so renewed disagreement between now and November cannot be ruled out. Opinion remains divided on the likely success of executing a cut due to the lack of detail about where the proposed cuts will fall. Even so, it is an important statement of intent from OPEC and marks the end of a two year experiment instigated by Saudi Arabia, where OPEC pumped flat out and stepped back from active market management. The key test going forward will be the execution of the proposed cut and whether OPEC can convince Russia to join it in curbing supply.

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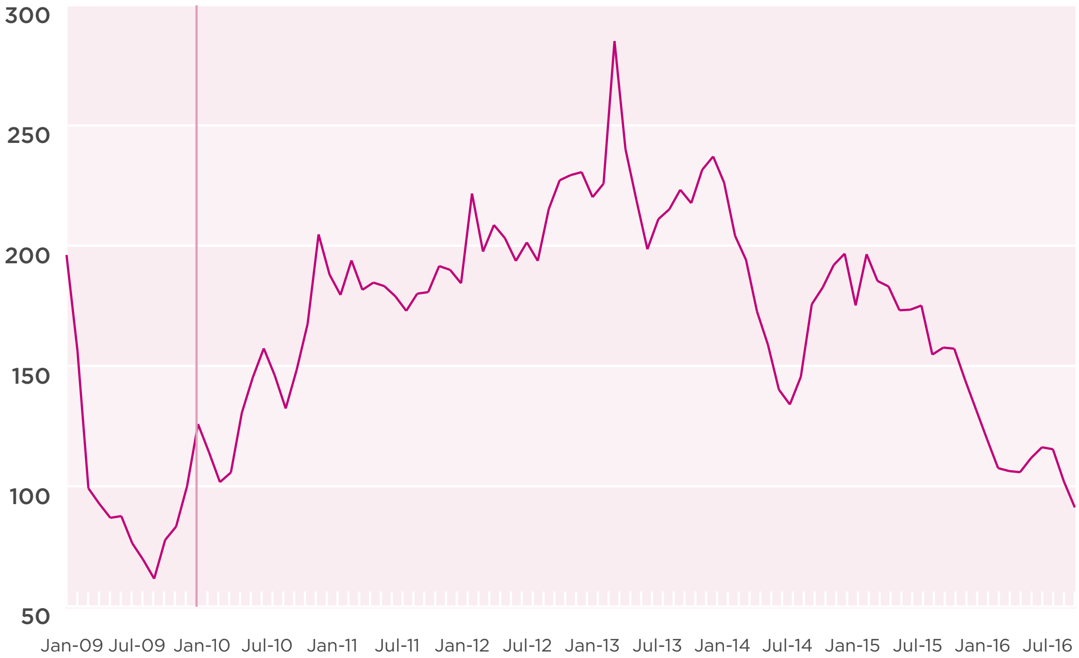
Natural Gas Index



%	
-11	1 Mth
-22	3 Mth
-42	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The UK NBP day-ahead contract averaged 27.75pence/therm for September, a drop of 9% (11% in Euro terms) compared to August's day-ahead average of 30.46p/th and 32% below the comparable day-ahead average price of 40.98p/th in September 2015.

The price for day-ahead gas, the contract for gas delivered tomorrow, fell to levels not seen since 2009 during September. Despite gas demand above season norms for the time of year, the UK gas system was oversupplied through much of September.

This was particularly true in the first two weeks of the month when maintenance to key Norwegian infrastructure reduced gas flows from Norwegian fields to the continent. This gas, which was unable to flow to the continent, was instead diverted to the UK. A potential outlet for this excess gas is the IUK interconnector, a natural gas pipeline between the United Kingdom and continental Europe, which crosses the North Sea between Bacton Gas Terminal in Norfolk and Zeebrugge in Belgium. However, on a number of days in early September the interconnector was already running at maximum capacity and the excess gas was trapped in the UK system pushing prompt prices to multi year lows of 18p per therm.

This weakness in prompt prices, that is contracts for delivery within month, was not replicated in the forward market, contracts for delivery beyond current month. The Winter 16 contract, which expired at the end of September, traded 11% higher to settle at 43.21p/th, while the Summer 17 contract was also pushed higher by 2.4p to 38.74p/th.

The combination of higher oil prices on the back of an unexpected agreement among key OPEC producers to cut production at an informal OPEC meeting in Algiers and continued sterling weakness both supported curve prices in September. The oil price still impacts gas prices through oil indexed gas contracts prevalent in LNG supply contracts and some European pipeline contracts. A weaker pound also supports NBP prices higher as the sterling denominated market has to rise to attract the imports required to balance the gas system.

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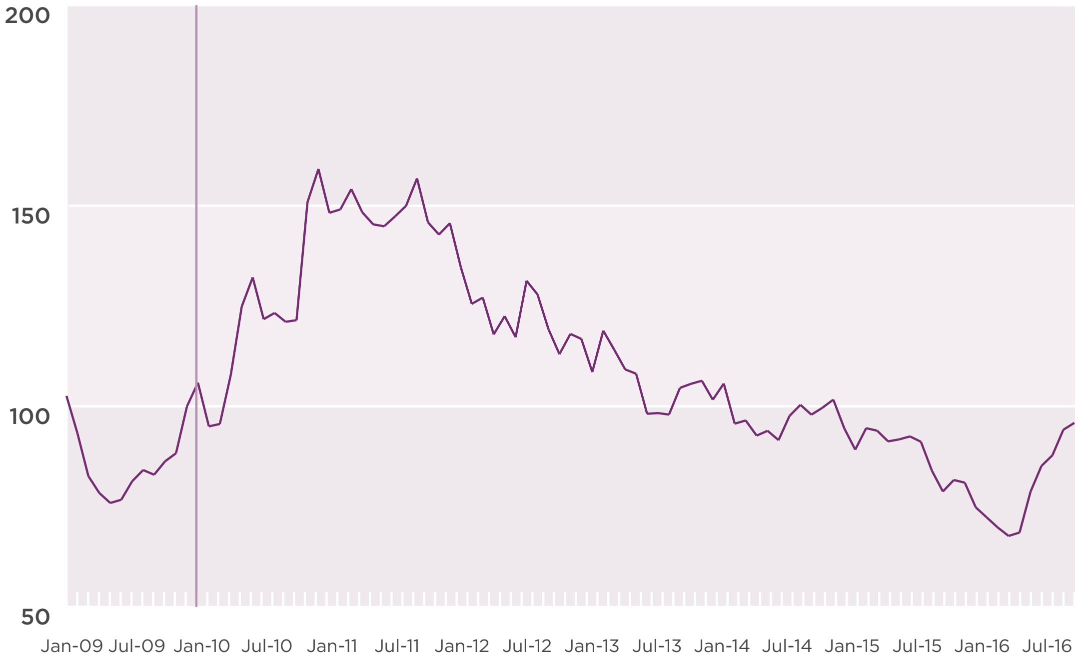
Coal Index



%	
2	1 Mth
13	3 Mth
22	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices finished the month at $62.80, a 2% increase from the closing price in August and the 6th consecutive monthly increase. Prices have jumped to fresh 2016 highs as stricter rules in China for transporting the world's most important power generation fuel add to the impact of earlier Chinese caps on coal mining. Coal prices began to soar after China introduced regulations to rein in rampant overcapacity in April, limiting the numbers of days that miners can operate. Prices were given a further boost in late September when China's Transport Ministry introduced stricter land transport rules, pushing up freight costs.

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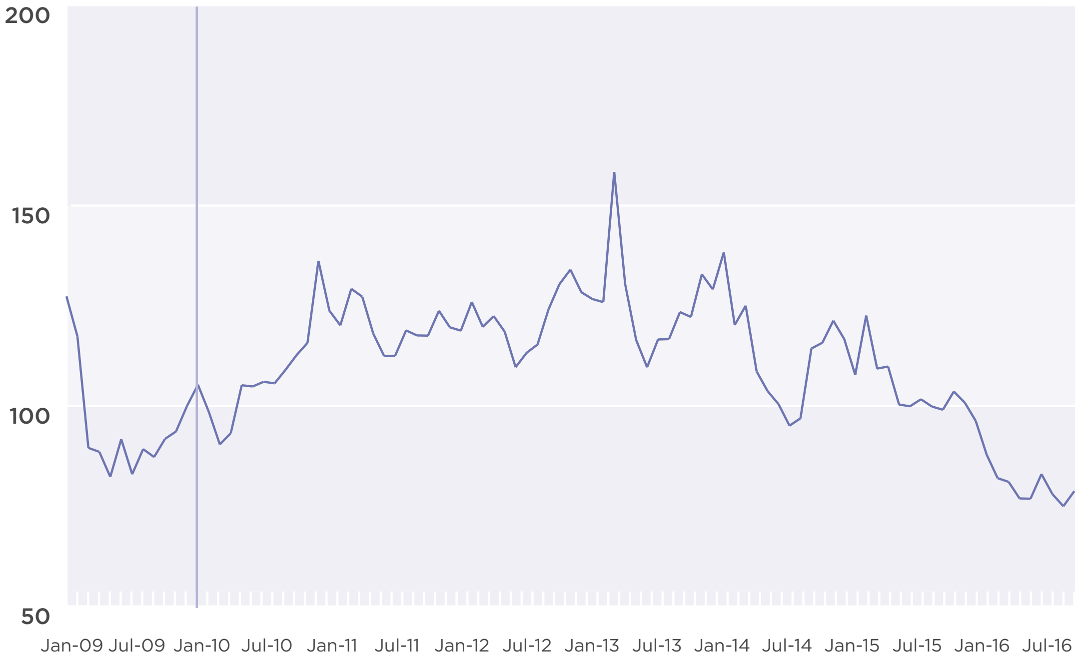
Electricity Index



%	
5	1 Mth
-5	3 Mth
-20	12 Mth

Data Source: SEMO

Electricity

Including capacity payments, the average Irish wholesale electricity price rose 5% month-on-month.

Excluding supplier capacity payments the average wholesale price for September was fairly static at €36.05/MWh compared to €36.2/MWh in August, a decrease of €0.15/MWh on the average monthly wholesale price.

An average monthly clean spark of approximately €11.71/MWh was recorded in the month, which is up from the €9.51/MWh observed in August (an increase of 23.1%). The proportion of demand met by wind in September increased to 21.4% from 19.8% in August. Although the proportion of wind on the system increased during the month, there were a number of plant outages (including Dublin Bay) which, along with some volatility in the wind, contributed to significantly higher sparks.

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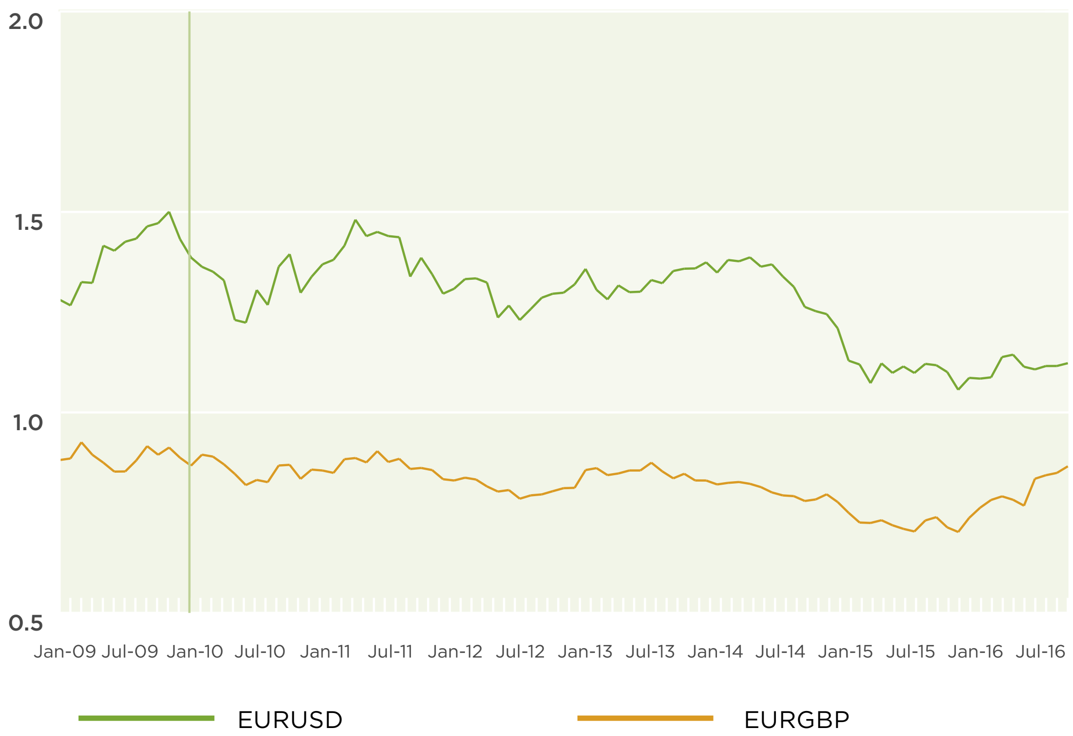
FX Rates



EURUSD %	
1	1 Mth
1	3 Mth
0	12 Mth

EURGBP %	
2	1 Mth
4	3 Mth
17	12 Mth

FX Rates

In September, the euro gained in value against both the British pound and the US dollar. The euro was 2% higher against the pound, finishing the month at 0.8656p, and 1% higher against the dollar at $1.1228.

A combination of potential unfavourable exit terms for the UK in Brexit negotiations and rumours that the ECB would taper its QE programme pushed the Pound to new multi-year lows against the euro in September.

The UK Prime Minister Theresa May's announcement that Article 50 will be triggered by March next year was the key driver of sterling weakness in September. She outlined a definitive timetable for negotiations which focused minds on the potential risks of an unfavourable outcome to exit negotiations. This view was reinforced by uncompromising comments from European leaders that the UK would face a hard Brexit from the European Union with limited access to the single market.

The euro was marginally higher versus the dollar over the month even as the Fed appeared to inch closer to raising rates. The market hadn't expected a rate increase at the Fed's September meeting but, crucially, three members of board did vote to increase rates at this meeting and the Fed signalled that the case for a rate increase "has strengthened". The current expectation is that the Fed will wait until after the US presidential election and hike rates by a quarter of a percent at the December meeting.

For more information please contact:

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