Bord Gáis Energy Index falls by 4% in April as US continues to increase oil production

Index remains up 14% year-on-year

14th May 2017: The Bord Gáis Energy Index fell 4% in April, with falling prices across oil, gas and electricity. Though the index has fallen steadily over the first four months of the year, it remains 14% higher than this time last year.

Oil dropped 4% in April, further erasing the gains seen since OPEC agreed a deal to cut supply last November. Wholesale gas prices were 3% lower, as temperatures continued to rise and there was plentiful supply to the market. Electricity prices also fell by 3%, while coal was unchanged after falling over the last three months.

In April, the Index stood at 92.

Commenting on the latest Index, **Darragh Crowley Energy Trader with Bord Gais Energy, said:**

"*Oil is the main factor leading a further drop in the Bord Gáis Energy Index this month, as sentiment sours and investors start to lose faith in OPEC's ability to reduce the global glut of oil and effectively curb supplies. This, coupled with rising temperatures, has seen an almost across the board drop in wholesale energy prices. However, despite the Index falling every month in 2017 it is still up 14% year-on-year – which again emphasises the gains made in 2016.*

"Looking ahead all eyes will be on oil, and the response of OPEC to the increased production of oil from the US. The Vienna meeting on May 25th between oil ministers to discuss extending the production cuts will be key, as market participants will need to be convinced that OPEC can indeed balance the market."

Oil

The price of Brent crude fell again in April to $52 per barrel, further erasing the gains seen since OPEC agreed a deal in November 2016 to curb supplies. Sentiment turned negative on oil over the second half of April as market participants began to lose faith in OPEC's ability to reduce a global glut of oil. Higher prices at the start of the year have encouraged greater production of oil from the US.

Additionally, there is some evidence that although OPEC producers have cut production, export levels have been higher than expected. This has led some speculative players in the oil market that had bet on prices going higher to liquidate their positions.

The response of OPEC and non-OPEC countries, including Russia, will be key to the future direction of prices. Oil ministers are due to meet in Vienna on May 25th to discuss extending the cuts agreed last November, when supply was cut by about 1.8 million barrels per day. It appears that the most likely outcome is that the cuts will be extended, but the key questions of who cuts how much and for how long remain to be decided. The recent fall in price is evidence that market participants believe the current level of cuts, although sizeable, are not enough to rebalance the market in the face of higher US shale production.

Gas

The NBP day-ahead contract, the price for gas delivered tomorrow, dropped by almost 3% in euro terms on the previous month's close – despite this, gas prices are still 26% higher than this time last year.

Short-term prices fell as temperatures continued to rise and we saw strong indigenous, Norwegian and LNG flows in April. The weaker Summer '18 contract performance is the consequence of two key announcements during the month: the Dutch government announcement that it intends to reduce gas production at the key Groningen gas field from October 2017; and the Centrica announcement that the Rough Storage Facility, the UK's largest long-term storage facility, will be unavailable until April 2018.

Rough's removal until April 2018 is negative for gas prices this summer, but supportive of prices for next winter as its increases the UK's reliance on LNG & continental pipeline imports winter prices.

Coal

The recent decline in coal prices, from multi-year highs of $90 a tonne seen in early 2017, stalled in April as coal closed the month unchanged in euro terms at $75.50.

A key driver was a supply disruption caused by Tropical Cyclone Debbie. The Cyclone lashed the eastern Australia state of Queensland, a key producer and shipper of coal, with destructive winds of more than 160 miles an hour, causing floods and landslides and forcing the closure of many port-and-mining operations.

BHP Billiton declared force majeure for all coal products from its joint venture projects in response to damage sustained by the rail network, and prices rallied to around $78 in early April. We have started to see some of these gains dissipate as key infrastructure starts to return.

Electricity

The average wholesale price of electricity in Ireland was lower by 3% in April, while prices remain 13% higher than April 2016.

Irish wholesale electricity prices typically track the cost of imported gas as it is the most significant cost in the production of electricity. However, it can vary on a month-to-month basis.

An average monthly clean spark of approximately €11.28/MWh was recorded in April, which is up from €10.23/MWh observed in March (an increase of 10.25%). The proportion of demand met by wind in April decreased to 14.43% from 22.15% in March.

FX

It was a mixed month again for the euro, as the single currency gained in strength versus the dollar and lost ground against the pound. The euro finished the month down 1% at .8418 versus the pound and gained almost 2% versus the dollar settling at 1.0901.

Geopolitics were front and centre in April as gains in the euro came on the back of a positive global market reaction to the outcome of the first round of the French presidential election, which was regarded as being supportive of the on-going European recovery.

In the UK, the pound strengthened sharply as Prime Minister Theresa May called for a snap general election in June. Much of the market commentary has suggested that if she and her Tory government are returned to office with a greater number of MPs as is expected, this will give her greater scope to negotiate a softer Brexit as she won't have to pander to the Euro sceptic element of the party. This is seen as a positive for the UK economy.

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

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For further media information:
Rachel McFaul, Teneo PSG, T: 085 782 7230
Irene Gowing, Communications Manager, Bord Gáis Energy, T: 01 233 5425

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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