Bord Gáis Energy Index
Understanding energy

MARCH 2017

BGE/EI/UE/0417

Bord Gáis Energy

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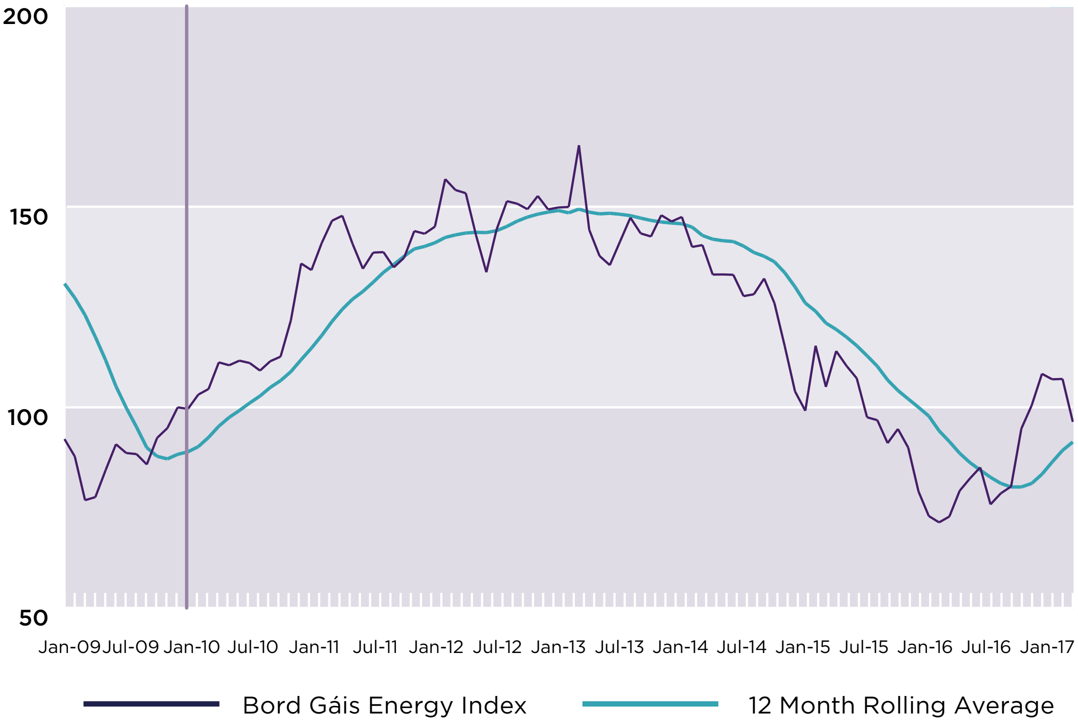
March 2017

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



%	
-10	1 Mth
-11	3 Mth
32	12 Mth

Summary

The Bord Gáis Energy Index fell 10% in March but is higher by 32% over 12 months. Unusually, all four constituents of the Bord Gáis Energy Index fell in March. Oil dropped 6% as increasing U.S. production and expanding U.S. inventory levels dealt a blow to OPEC's efforts to rebalance the market. Warmer weather and increased supplies caused gas prices to fall 20% while the coal market was lower by 6% as prices continued to readjust having nearly doubled in 2016. Finally, wholesale electricity prices dropped 14% in line with gas prices as it is the biggest cost in producing electricity.

In March, the Bord Gáis Energy Index stood at 96.

Bord Gáis Energy Index

March 2017

Oil Index

%	
-6	1 Mth
-8	3 Mth
42	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The Brent crude benchmark weakened in March as increasing U.S. production and expanding U.S. inventory levels dealt a blow to OPEC's efforts to rebalance the market. Oil prices finished the month at $53 a barrel, a drop of 6% from February's close.

The Baker Hughes rig count continued to rise in March with U.S. drillers adding 10 rigs in the last week of March to bring the total number to 662 active rigs, over double the level seen in May last year. Not surprisingly, this increasing rig count has fed through to higher U.S. production, which the latest EIA (Energy Information Administration) figures put at 9.2 million barrels a day, an increase of 377,000 barrels since the start of the year.

Oil has traded in a relatively tight range of $50-$58 since late November, when OPEC and key non-OPEC producers agreed to cut production for the first time since 2008. Higher prices resulted in increased supply from North American producers, supported by an accommodative Trump administration and operational improvements. Meanwhile lower prices increased the probability of continued production cuts from key OPEC and non-OPEC producers.

In November, OPEC and non-OPEC producers, including Russia, agreed to cut supply by about 1.8 million barrels per day for the six months to June 2017. Unsurprisingly, Saudi Arabia has done most of the heavy lifting in relation to these production cuts. In fact the Kingdom has gone beyond the production cuts it agreed to undertake, helping compensate for lower compliance among other producers and increased production from Nigeria, Libya and Iran; all of whom were exempted from the production deal. The key question is whether the Kingdom is prepared to continue to shoulder this burden at a cost to its own market share. Market participants are looking to the upcoming OPEC meeting, at the end of May, where members will discuss extending the current production deal for the answer to this question.

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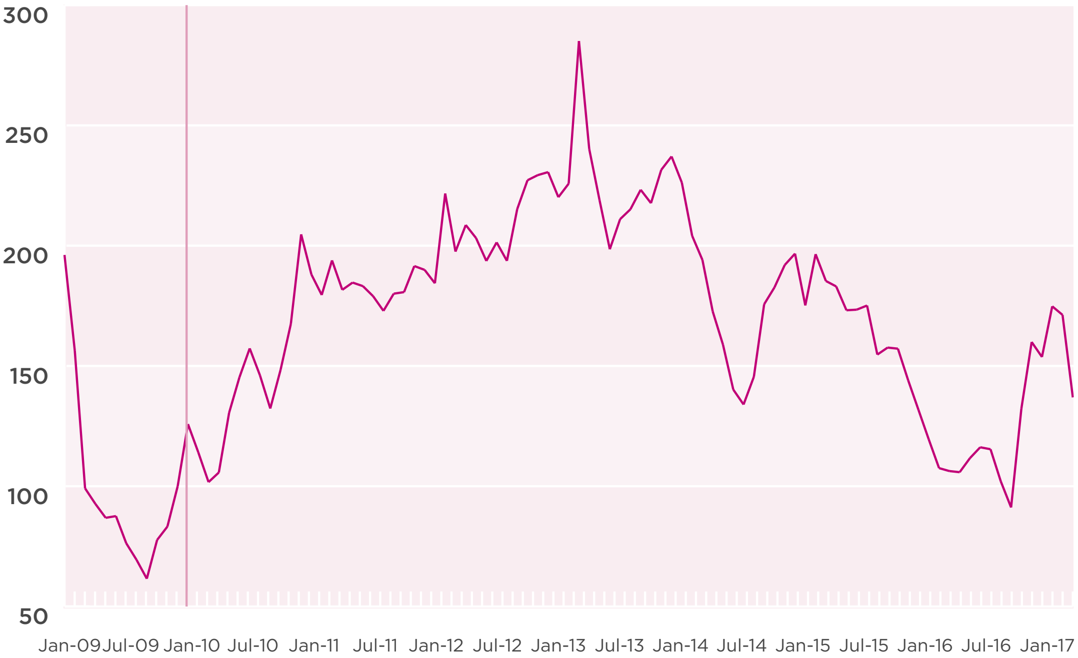
Natural Gas Index



%	
-20	1 Mth
-11	3 Mth
29	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

Within-day gas prices fell 20% in March, in euro terms, but remain 29% higher on average than March 2016. The benchmark UK NBP day-ahead contract, the price for gas delivered tomorrow, averaged 41p/th on the month compared to an average of 51p/th in February. Wholesale gas prices had been rallying for much of 2016 but have reversed somewhat over February and March of this year.

Prices fell as short-term oversupply in the UK market and milder weather forecasts weighed on demand. New cargoes of LNG (liquefied natural gas) continued to arrive in the UK over the month which boosted supply. The UK and European market have been undersupplied with LNG in recent months as higher prices had diverted cargoes to Asian countries. The expectation in the market is that more gas will be exported around the globe over the coming years as new LNG facilities come on stream in countries such as the US and Australia, however initial technical issues with some of these plants have caused delays to production starting.

The weakness in the prompt (short term) market also filtered through to the forward contracts as the prices for the benchmark Summer '17 and Winter '17 contracts fell 11% and 7% to settle at 40p/th and 47p/th respectively. The Summer '17 contract expired at the end of March making the Winter '17 contract the new front seasonal contract. While the prompt market in gas is usually driven by the fundamentals, curve contracts also tend to track the wider energy complex and oil in particular. So it comes as no surprise that the weakness in oil prices seen over March would feed through to longer term gas contracts.

Continuing technical problems with the Rough storage facility, located off the east coast of England, ensured that it was closely monitored by market participants again in March. Rough is the UK's largest storage facility representing more than 70% of the UK's storage capacity. Storage facilities inject gas in the lower demand summer months for withdrawal and use during the colder winter months when it plays a crucial role in helping balance the UK system. Any further 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 and ability to meet peak demand on high demand days.

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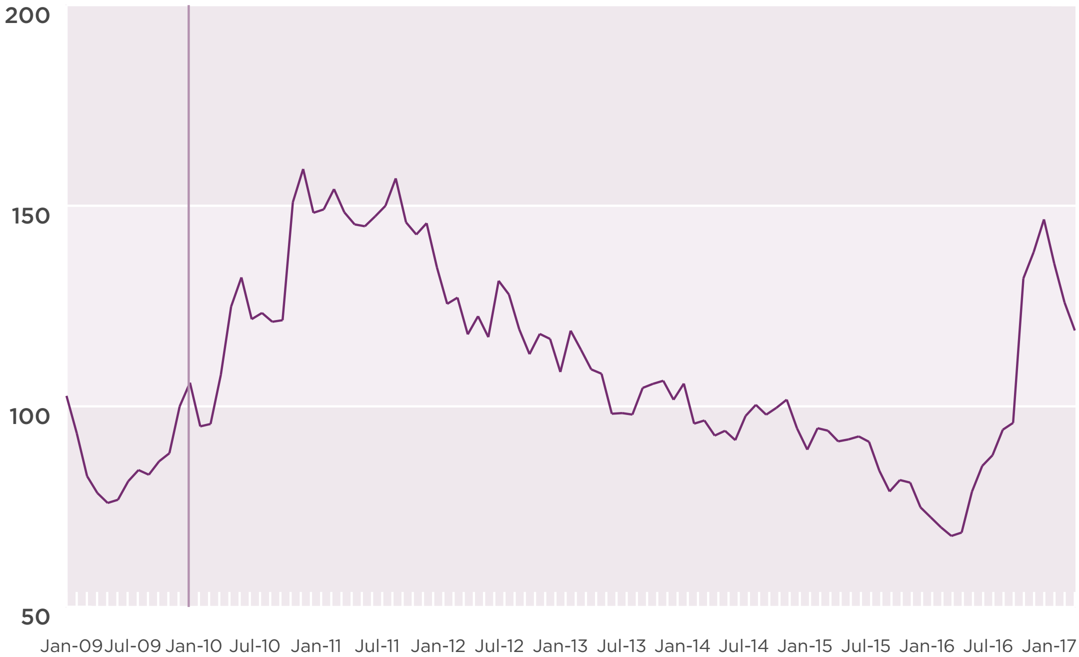
Coal Index



%	
-6	1 Mth
-19	3 Mth
76	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Having hit multi-year highs in late 2016, coal continued its recent retreat in March with prices falling 6% in euro terms to $74 per tonne. Prices remain 76% higher than one year ago.

In March, coal prices continued the trend seen over the first two months of the year as prices fell. To keep this in perspective, it is worth remembering that prices had almost doubled in the second half of 2016 due to strong demand and continued supply tightness in China resulting from government restrictions.

The main state planner, the National Development and Reform Commission (NDRC), implemented strict controls on domestic mines, limiting their operations to 276 days a year. The idea was to eliminate outdated capacity and improve industry profitability. However, the market was unprepared for the changes, which effectively reduced production by 16% and increased the country's demand for coal imports.

The authorities were forced to change tack when prices hit over $100 per tonne. From November 2016, all mines were allowed to return to operating at 330 days a year which reduced the pressure on prices. Chinese supply and demand dynamics together with government policy play a major role in driving global coal prices.

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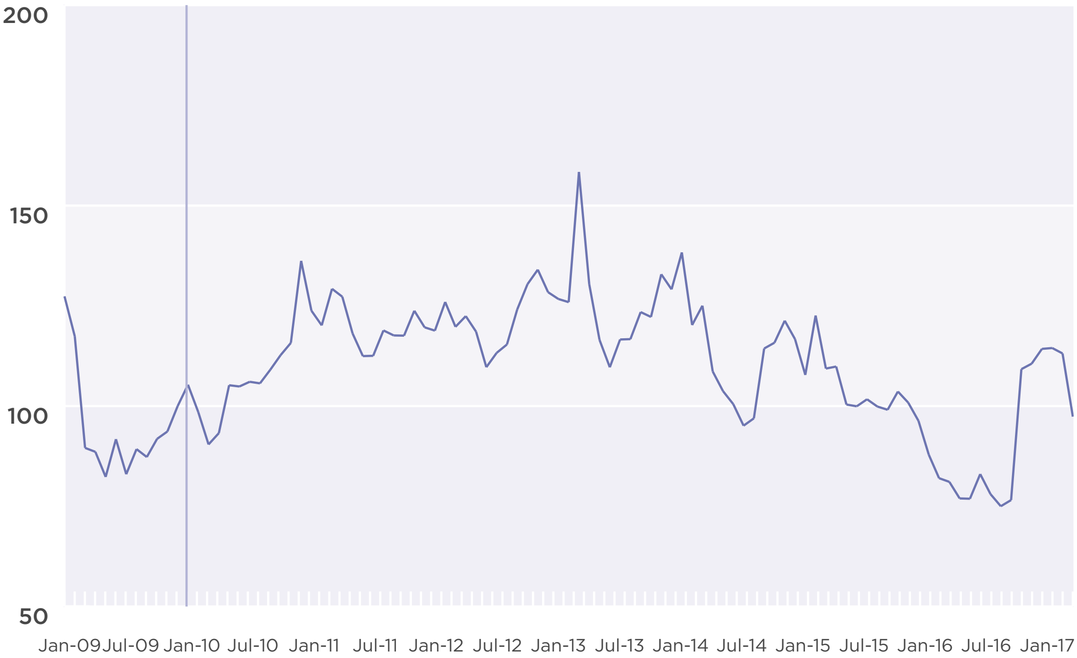
Electricity Index



Data Source: SEMO

%	
-14	1 Mth
-15	3 Mth
20	12 Mth

Electricity

The average wholesale price of electricity in Ireland decreased 14% in March.

Excluding supplier capacity payments, the average wholesale price for March was €45.14/MWh compared to €55.31/MWh in February, a decrease of €10.17/MWh on the average monthly wholesale price.

The average wholesale cost of imported gas from the UK decreased by 20% in euro terms in March. 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 March, which is down from €13.21/MWh observed in February (a decrease of 12.03%). The proportion of demand met by wind in March increased to 26.6% from 20.0% in February.

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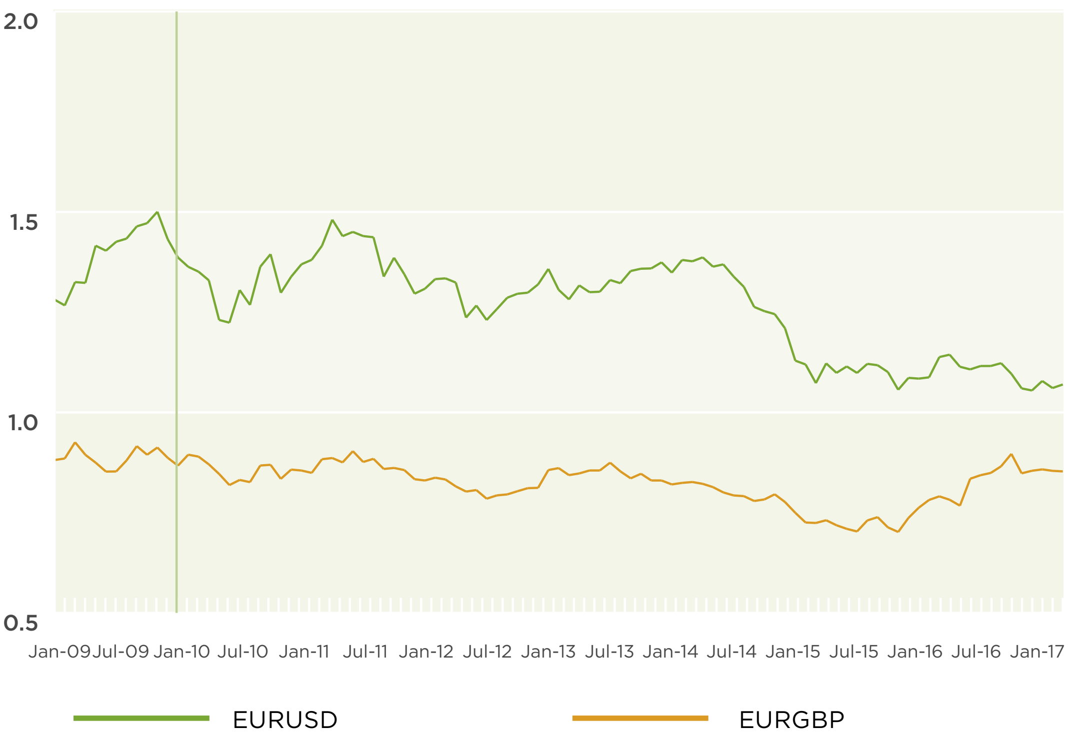
FX Rates



EURUSD %

1	1 Mth
1	3 Mth
-6	12 Mth

EURGBP %

0	1 Mth
0	3 Mth
8	12 Mth

FX Rates

It was a mixed month for the euro. It was almost unchanged against the pound but stronger versus the US Dollar. The single currency finished the month at 0.8529 versus the pound and gained almost 1% versus the dollar settling at 1.0697.

The U.K. finally triggered Article 50 of the Lisbon Treaty on 29th March, sounding the starting pistol on formal negotiations around Britain's exit from the European Union. The triggering of Article 50 starts a two-year process of departure, the eventual outcome of which is impossible to determine. For now the one certainty appears to be that we are set for a prolonged period of rumour, speculation and uncertainty.

The U.S. Federal Reserve hiked interest rates by 25 basis points at its March meeting. The hike had been widely anticipated and marked the second hike in four months taking the target rate to 1%. Despite the hike in rates, the dollar weakened in the days following the move as the Fed statement wasn't as hawkish as many market participants had feared. The Fed chair, Janet Yellen, stressed the next move would be data-dependent and the risks for now remained "roughly balanced".

For more information please contact:

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