International incidents, supply concerns, weakened demand and increased price volatility reflected in Bord Gáis Energy Index

Bord Gáis Energy Index shows decline of 4% reflecting changes in wholesale day-ahead gas price, Brent crude oil, and Irish wholesale electricity prices

Monday, 11th August 2014: Despite significant geopolitical uncertainty, the Bord Gáis Energy Index decreased (-4%) as Brent crude oil, gas and wholesale electricity prices all weakened over the month. The Index also reflects the ongoing tensions between Ukraine and Russia which have increased price volatility in the wholesale energy commodity markets.

In July 2014 the Index stood at 127.

Commenting on the Bord Gáis Energy Index for July, John Heffernan, Gas & Power trader at Bord Gáis Energy said:

"The drop of 4% in the Energy Index this month conceals some extreme wholesale gas price volatility that was in the markets this month. The uncertain backdrop of the conflict in eastern Ukraine and Ukraine's ongoing gas war with Russia has created an uneasy trading environment and at times wholesale prices rose dramatically day-on-day in reaction to breaking news. However, despite the uncertainty created by the Ukraine crisis and rapid day-on-day price rises, wholesale gas and electricity prices were lower month-on-month. Overall supplies of oil and gas remained undisrupted despite the volatile geopolitical environment and the high number of LNG cargoes arriving to Britain ultimately resulted in both electricity and natural gas hitting a four year low."

"The return of volatility to the wholesale gas market in July and the rise in prices from their yearly lows following the downing of Malaysian Airlines flight MH17 in mid-July may have signalled the end a period of continuously falling prices. There are factors that suggest that prices will remain soft in the near term such as healthy stocks, summer weather and gas supplies. However, the rapid escalation and decrease in wholesale prices seen this month suggests that the market felt a little exposed at the yearly lows. The gas dispute between Ukraine and Russia has not yet disrupted supplies of Russian gas to Europe or had a sustained impacted wholesale gas prices so far. However with winter approaching the continual threat of direct military engagement and the possibility of increased sanctions against Russia may increase anxieties which could result in increased wholesale prices."

Oil (-4%)
Month-on-month the front month Brent crude price fell 4% in euro terms as a lack of serious supply disruptions coupled with weak demand triggered a price fall.

Despite on-going violence in various regions, including Ukraine, Iraq and Libya, oil production has yet to be disrupted and global supplies remain steady. The market received a big boost in July as there were tentative signs that Libya's oil production capabilities were improving and production reportedly hit 580,000 b/d having been reduced to an estimated 150,000 b/d following a wave of protests, strikes and blockades. News that Iran and the West agreed to extend the deadline for a negotiated settlement of Tehran's disputed nuclear programme also weighed on prices.

Natural Gas (-4%)
In euro terms the average Day-ahead gas price for July was 4% lower month-on-month. At an out turned monthly average price of 37.48p a therm, the July price was the lowest monthly price in over four years. At one point, the Day-ahead gas price hit 34.50p a therm which itself was the lowest closing Day-ahead gas price since 21 September 2010.

In the first half of July the Day-ahead gas price continued its path lower and this has been a strong trend in 2014. Typically bouts of cold weather in the first quarter lead to price events. However this winter was unseasonably mild and prices softened amid ample stocks and sufficient gas supplies to leave the market comfortably balanced. Recent events in the Ukraine have greatly increased price volatility this summer and the market is likely to remain volatile in the short-term fearing that Russia may retaliate to the announcement of the toughest sanctions against it since the end of the cold war following the downing of a Malaysian passenger jet. These anxieties will be amplified given that the third gas war is simmering unresolved in the background.

Bumper supplies this month helped to weigh on prices in periods when geopolitical issues were not evident. The UK is currently experiencing brisk LNG imports due to high inventories of gas in Asia and low prices.

Coal (+7%)
Unlike wholesale gas, oil and electricity, the European wholesale coal futures contract rose 7% month-on-month to close at US$76.30.

It has been reported that the European physical markets have been locked in a battle between buyers and sellers for months now, and up until the last week of July it was the sellers who seemed to have the upper hand. These sellers has successfully pushed the ICE Rotterdam Monthly Coal Futures physical price down to a close of US$72.25/mt on 24 June, which was a level not seen since March 2010. This month however the selling interest has waned somewhat as geopolitical tension rose and as a result the physical market started to rise.

Electricity (-6%)
In July the monthly average Irish wholesale electricity price fell a further 6% month-on-month. This has been the fourth month in a row where the average monthly electricity price has fallen and the weakness is associated with softer wholesale gas prices in the UK (as gas powered generation dominates the generation mix on the island of Ireland, the price of imported gas from the UK has a significant influence on Irish wholesale electricity prices). In July, gas plants set the wholesale electricity price 63% of the time. Similar to the price pattern seen in gas, at close to a monthly average of €48MWh, the average monthly electricity price hit a level not seen in over four years.

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