

## Bord Gáis Energy Index

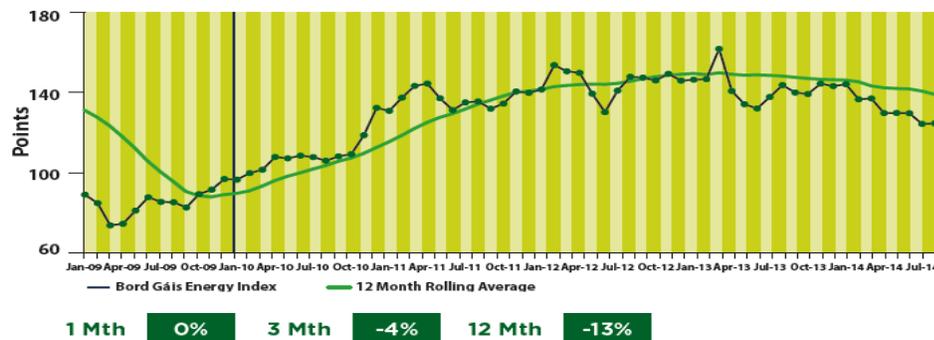
# Stronger Wholesale Gas, Coal and Electricity prices offset lower Brent Crude prices as Bord Gáis Energy Index remains unchanged

**Monday 8<sup>th</sup> September:** The Bord Gáis Energy Index was unchanged in August with stronger wholesale gas, coal and electricity prices offsetting lower Brent crude prices. The crisis in Ukraine and the potential slide toward all-out war between Ukraine and Russia dominated the energy debate in August. This led to significant price volatility in UK wholesale gas prices which contributed to higher wholesale electricity and European coal prices. Brent crude oil prices were mainly insulated from events in Eastern Ukraine and fell month-on-month amid robust supplies and weak global demand.

The euro continued to weaken in August which made the cost of importing oil, gas and coal more expensive. During August there was a growing expectation that the ECB would introduce unconventional policies and this anticipation will weaken the euro. However, a weaker euro would help to combat the possibility of deflation taking hold in the eurozone.

In August 2014 the Bord Gáis Energy Index stood at 128.

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



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

*“As well as events in Ukraine, supply restrictions and rising demand provided further impetus that pushed UK wholesale gas prices higher. As it stands Ukraine is not receiving gas from Russia's Gazprom and both parties are locked in a dangerous dispute over the unit price of gas and outstanding debts. As we approach winter, the gas markets throughout Europe will become increasingly concerned that in the absence of an interim solution, European gas supplies will look increasingly vulnerable as Ukrainian gas demand rises and European stocks are eroded. With Ukrainian stock levels far below where they are required heading into winter, the markets fear that Ukraine may be forced to siphon off Russian gas bound for Western Europe, leaving it more exposed in the peak demand period. The potential for peace*

*became a possibility at the start of September but the threat of sanctions and the on-going Gas War will remain a concern. ”*

*“With a glut of crude oil in the Atlantic basin and positive supply developments, the market ignored the threat posed by Islamic State to vital Middle Eastern oil production and prices fell. The fact that Brent crude oil prices weakened in August may be a surprise given the numerous bloody and shocking geopolitical events that occurred over the month. The return of Libyan production and the growing wave of tight oil from the US weighed on prices despite threats to global supplies. For a long time now we have been waiting for the tight oil revolution to push global prices lower but it’s beginning to happen.”*

#### **Oil (-1%)**

Month-on-month the front month Brent crude price fell 1% in euro terms as increased African supply weighed on near-term crude markets. At one point the front month Brent crude price hit a 14 month low of US\$101.07 per barrel. In early September prices headed toward US\$100 on slower manufacturing data in China and Europe. Despite mounting geopolitical risks spanning a large swathe of the oil-producing world, oil prices have remained "eerily calm" according to the International Energy Agency (IEA). Despite very real threats to Middle Eastern production, the impact of the tight oil revolution in the US is a key factor keeping global oil prices low. Robust supplies, including US tight oil, coupled with anaemic demand calmed the market in August amid escalating geopolitical tensions.

#### **Natural Gas (+9%)**

In euro terms the average Day-ahead gas price for August was 9% higher month-on-month as supply restrictions and rising demand nudged wholesale prompt prices higher. Continuing the softness seen in wholesale prompt prices during July, the Day-ahead price of gas traded consistently below 40p per therm in the first half of August. However prices started to trade above this level to hit a monthly high of 45p a therm as UK gas demand rose in tandem with supply restrictions. At certain points during the month, UK gas demand remained above seasonal norms due to strong exports to the continent, cooler weather and on-going rising consumption from the power sector due to the forced closure of a number of nuclear plants.

#### **Coal (+3%)**

European wholesale coal futures contract rose 3% month-on-month to close at US\$76.95. Despite being relatively stable month-on-month, European coal prices remain elevated due to the crisis in Ukraine. Despite the avoidance of sanctions on Russia's energy exports in late July, prices were a little tense in early August post the announcement in anticipation of the reaction from Russia. After this brief and modest rally, prices remained steady for the rest of the month. According to some analysts, Vladimir Putin's grip on power depends less on economic growth than on wages and as a result of energy exports (oil, gas, and coal) and a bloated state sector, wages may remain stable for a while, even as the economy contracts. Given Europe's energy dependency and Russia's reliance on energy exports revenue, European coal prices were stable despite escalating tensions in Ukraine as the market did not perceive any risks to European coal supplies.

#### **Electricity (+1%)**

In August the monthly average Irish wholesale electricity price rose by 1% month-on-month. This was the first month-on-month rise since March 14. The increase is associated with rising 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). Despite rising month-on-month, at close to a monthly average of €48MWh, the average monthly electricity price remains close to a levels not seen in over four years. The rising cost to abate carbon emitted when producing electricity by burning coal and gas applied some additional upward wholesale price pressure.

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**For further information contact:**

James Dunny, FleishmanHillard 086 388 3903