Bord Gáis Energy Index Records Slight Drop in January; Up 48% Year-on-Year

20 February 2017: The Bord Gáis Energy Index fell by 1% in January 2017, led by falling oil and coal prices. Broadly, the Index has recorded a year-on-year increase of 48% since January 2016, driven mainly by strengthening oil prices throughout the year.

In January, movements among the individual components of the index were mixed – gas and electricity prices rose due to colder weather across Europe, offset by a slight fall in oil prices and coal.

In January, the Index stood at 108.

Commenting on the latest Index, Darragh Crowley from Bord Gáis Energy said, *"The slight decrease in the Index this month is due mainly to a fall in coal and oil prices, which offset the rise in gas and electricity. However, the slight fall recorded this month is just a snapshot; the Index has in fact risen steadily over the past year, and we have recorded a year on year rise of 48% since January 2016. This rise is contributed to a number of factors, mainly surrounding oil prices following OPEC's deal to cut production late last year. We will continue to monitor the markets closely coming into 2017 in what is set to be an interesting year for geopolitical activity – which has a direct impact on energy markets."*

Oil

The production cut deal between key OPEC and non-OPEC countries, struck at the end of November, has supported oil prices over recent months. The deal saw these key countries cut production of oil, and has been responsible for rallying prices from multi-year lows seen in January 2016 where oil plummeted to €27 per barrel.

However, prices stalled in January as oil fell 4% in euro terms, to finish the month at $55.7 a barrel.

The focus now shifts to the US, who did not participate in the production deal, as all evidence points to OPEC deal compliance. It looks like we may see a robust response from US producers which could help offset some of the impact of the production cuts. In January, oil prices softened as figures showed US producers were adding more new rigs per month than at any time over the past two years. In addition, all the initial signs from the Trump administration suggest that the taxation, infrastructure and regulatory environment will be supportive of domestic US drilling.

Gas

The UK NBP day-ahead contract, the price for gas delivered tomorrow, rose by 14% in euro terms on the December average, and is 46% higher than a year ago.

Gas prices were volatile over the first month of the year with milder weather at the beginning of the month pushing prices lower. Intermittent outages at the rough storage facility added to the volatility, while worries over the low levels of gas in storage and continued low levels of liquefied natural gas (LNG) imports caused prices to rally towards the end of the month.

Colder weather in the UK and across Europe kept demand high and a number of gas emergencies across Europe kept prompt prices high. There were gas shortages in the south of France, which led to the Southern Grid operator calling on emergency storage stocks.

Cold weather in Italy put pressure on the system there and Turkish power stations had to be turned off to conserve natural gas.

Electricity
The average wholesale price of electricity increased by 2% in January.

The average wholesale cost of imported gas from the UK increased by 14% in euro terms. 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 €13.21/MWh was recorded in the month, which is down from the €14.59/MWh observed in December (a decrease of 9.5%). The proportion of demand met by wind in January decreased to 20.0% from 23.1% in December.

Coal
Coal broke its winning streak in January as prices fell 8% in euro terms to $85 per tonne. On a yearly basis, prices have jumped by over 87%.

Coal prices fell in January after rising for nine months in a row. Soaring prices over the last 12 months were largely due to China's decision to limit output in a bid to tackle overcapacity in the coal industry.

The effects of those decisions were felt across world coal markets, as China is the largest consumer and importer of coal. The fall in the price of coal in January could be attributed to a decision announced in December to reverse the cuts and will see China boost its coal production by the end of the decade. Beijing is targeting output of 3.9 billion tonnes of coal in 2020, an 18% increase on 2016.

FX
The euro strengthened 2% against the dollar in January with the dollar having hit a multi-year high in December weakened against a basket of currencies on comments by the President Trump that he favoured a weaker dollar. The December Fed meeting highlighted the potential for accelerated hikes in response to any significant US fiscal stimulus.

The ECB left policy unchanged but highlighted the potential for increased stimulus should conditions deteriorate. As the month drew to a close, attention turned to the upcoming French Presidential election where Francois Fillon, a former frontrunner, saw his campaign thrown into turmoil. The candidate faced accusations that he employed his wife, in a publicly financed position, in which she appears to have carried out little actual work.

Investment markets are watching the French election carefully as the Front National candidate, Marine Le Pen, has indicated that she will abandon the euro and hold a French referendum on EU membership. The obvious concern is, having witnessed the Brexit vote in June 2016, that the EU could face the even more serious prospect of another euro member vote to leave the single currency and European Union.

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