

## **Structural factors continue to impact energy index**

**15 May 2015:** The April Bord Gáis Energy Index rose by 8% month-on-month as Brent crude prices rose nearly US\$12 month-on-month. Falls in the average UK day-ahead UK gas price (-2%) and weaker European coal prices (-3%) were surpassed by the 16% month-on-month rise in Brent crude oil prices. In April 2015 the Index stood at 114.

### ***OIL***

In US dollar terms, the front month Brent crude price rose nearly US\$12 over the course of the month to close April at a 2015 high of US\$66.78.

Prices reacted to a number of news stories that supported higher prices such as a falling US rig count to 703 rigs at the end of April (oil production from the fastest-growing US shale plays is expected to drop by 45,000 barrels a day in May, which would be the first monthly decline in over 4 years). A weakening US dollar also supported prices as signs of a US economic slowdown accumulate. Late in the month it was revealed that US GDP growth slowed more sharply than expected in the first quarter. In Q1 2015 the economy expanded at a 0.2% annual rate which was lower than expected and significantly lower than the 2.2% pace recorded in the previous quarter.

### ***GAS***

The average day-ahead gas price for April was 46.89 pence per therm (p/th), in line with the March average of 47.19p/th.

Norwegian deliveries fell sharply over the month as extensive maintenance was carried out on key infrastructure resulting in deliveries into the UK falling from an average of 96mcm per day in March to 68mcm per day in April. In addition, interconnector flows from the Netherlands to the UK dropped to zero from 18mcm for much of the month, as the Dutch market held gas to compensate for lower Groningen production and Norwegian flows. Despite these lower flows into the UK market, the system was able to use storage withdrawals to comfortably balance the system and prompt prices remained relatively stable. This has left storage at its lowest levels in the last five years with the Rough storage facility, which accounts for over 70% of UK storage capacity, only 15% full. Prices were also held steady due to the sustained weakness in Asian LNG prices that has resulted in continued strong LNG flows into the UK.

As storage facilities move from storage withdrawals to injections, prices suggest that the market remains confident that periods of undersupply over the coming months should be rare.

### ***ELECTRICITY***

Month-on-month there was no change in the average wholesale price of electricity. However there was an increase in the average clean spark. Excluding supplier capacity payments, the average wholesale price for April was €55.51/MWh compared to €53.32/MWh in March. The wholesale price of electricity can be broken into three components (gas, carbon and spark) and month-on-month the spark element was over €2/MWh higher.

Over the course of the month the average clean spark was nudged higher on the combination of sudden drop in wind and a lack of wind in the second half of the month. The wind pattern recorded early in the month was erratic as it changed suddenly from trading period to trading period. This pattern required thermal plant to start to fill the production gap left by wind powered units. These starts fed through to the wholesale price of electricity in the form of higher sparks. The lack of wind also had a significant influence as consistently low wind powered production in the second half of the month resulted in a number of thermal gas plants of varying efficiencies being called on to meet demand. These plants put upward pressure on sparks but

they also alleviated price events as the system operator ran them consistently and wholesale prices remained steady. During the month a new gas powered generation unit became operational on the shores of Waterford Harbour at Great Island, Co. Wexford. This plant increases the island's capacity of gas powered generation units which, combined with ever increasing wind powered capacity, has added further pressure on the economics of existing gas powered plant.

### **COAL**

In US dollar terms the front month ICE Rotterdam Futures Contract gained US\$0.95/mt to close at US\$59.80 on April 30. During the month the price hit a low of US\$57.40 and a high of US\$59.95 with prices trading in a very tight range. At US\$57.40 prices hit a low not seen since March 2009. In short, European coal prices are stable amid faltering demand.

Prices did receive a boost on unconfirmed news that US producer Drummond might have cancelled some Colombian coal shipments due to the ongoing Fenoco night rail ban. However, the market did not overreact to these rumours as data released during the month showed Colombian March thermal coal exports at record high levels. For some, this is a proof that the country had sidestepped any serious burden from the Fenoco ban, which started in February. News that a landslide severed a rail line in Russia's Kuzbass region provided some additional price support. It is being reported that the Kuzbass landslide will take as much as two months to clear, but there is reportedly little evidence of market participants trying to defer cargoes or of a build-up in shipments. Russian coal producers have reportedly sufficient flexibility to replace the material from the mines affected by the landslide. Rising oil prices and a weaker US dollar also contributed to a firming of wholesale prices from the US\$57.40/mt low as did further evidence that the euro zone economy was recovering.

### **FX**

As stated in the Oil Section, signs of a slowdown in the US economy have been accumulating and these concerns are feeding through to a weaker US dollar. The dollar weakened noticeably on the news that US GDP growth slowed more sharply than expected in the first quarter of 2015. The dollar also reacted to the Fed downgrading its view of the US labour market and economy in a policy statement that reportedly suggests that the central bank may wait a little longer to begin raising interest rates. Other economic data releases reinforced the view that the US economy is still in need of the stimulus provided by ultra-low interest rates. Consumers are holding back, despite lower petrol prices: their wages are growing only slowly, because the labour market still has plenty of slack. Investment is also stalling as oil companies, smarting from lower prices, cut back. Add to all this a negative inflation rate—of -0.1%, year-on-year, in March—and it is clear that the world's biggest economy still needs very loose monetary policy. Given the recent economic data, a rate increase in June, although long awaited, now looks less likely according to the experts.

In April the European Commission raised its forecast of the euro zone's economic growth this year to 1.5%, from 1.3% in February. Surveys of business activity and consumer confidence during the month suggest that preliminary first-quarter GDP figures, will show a strong start to the year, with growth probably exceeding the 0.3% of the last three months of 2014 (itself the best since a faltering recovery began two years ago). German GDP is expected to continue growing strongly, and there are hopes that the Italian economy might at long last revive after suffering not just a double- but a triple-dip recession. Euro-area consumers and businesses are benefiting from the collapse in the world oil price, which works like a tax cut, while exporters are being helped by the cheap euro, a consequence of the European Central Bank's monetary policy, including the launch of quantitative easing in March.

For the majority of the month, the pound was gaining versus the euro and on April 23 it hit a monthly low of 0.7117 having traded as high as 0.7379 on April 3. Over this period the pound

benefited from a number of positive economic releases indicating that the British economy was doing well. Specifically these releases during the month pointed to strength in the UK services and manufacturing sectors, in the UK jobs market, in retail sales and growth in average pay. However, uncertainty surrounding the outcome of the UK election and news that Britain's GDP growth rate slowed in the first quarter, to 0.3% (the weakest since late 2012) weighed on the pound in the latter days of the month. On April 30 the pound hit an intra-day high of 0.7334.

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