Bord Gáis Energy Index
Understanding energy

Bord Gáis Energy

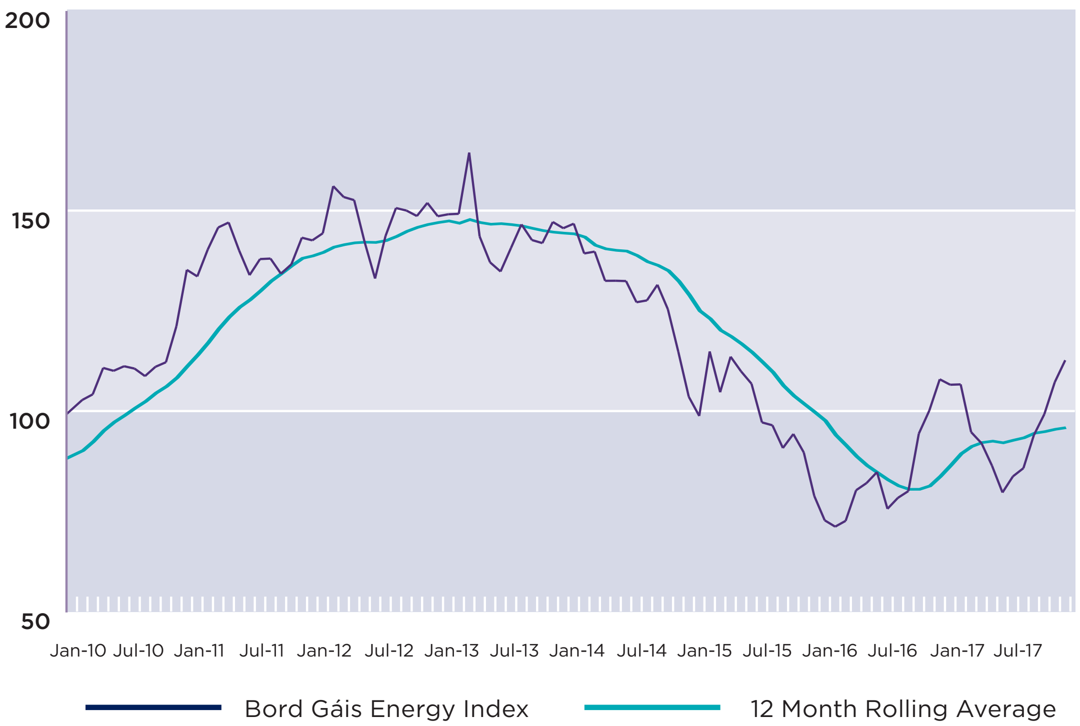
December 2017

BGE/EI/UE/0118

Bord Gáis Energy Index

December 2017

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



%	
5	1 Mth
20	3 Mth
4	12 Mth

Summary

The Bord Gáis Energy Index for December is 5% higher as the wholesale price of oil, gas, coal and electricity all rallied during the month. Gas prices jumped the most, rising by 8% as news broke in the middle of the month of a shutdown of the key Forties pipeline, which brings oil and gas to the UK from the North Sea. Reports of an explosion at a key European gas hub in Baumgarten, Austria, in which one person tragically died followed the next morning. Oil prices also continued the march higher in December as strong demand and political tensions in Iran helped push prices towards $70 per barrel.

In December, the Bord Gáis Energy Index stood at 113 (+5%).

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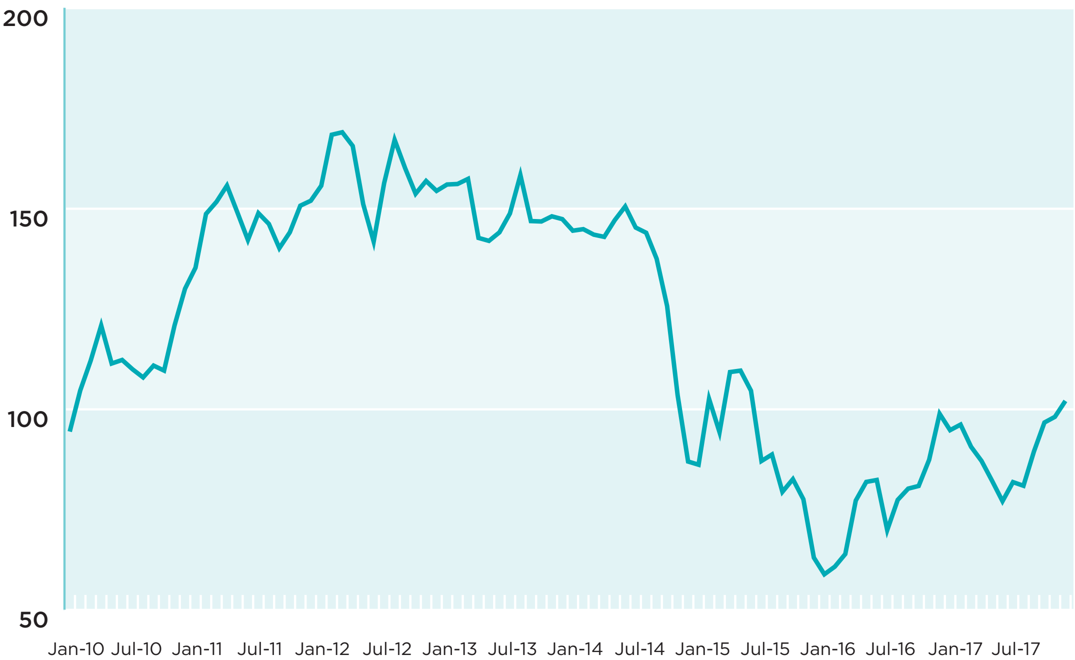
Oil Index



%	
4	1 Mth
14	3 Mth
3	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil finished 2017 on a bullish note with Brent crude, the international benchmark, settling at $66.87. This marked a 4% rise on the month and a 3% rise over the year in euro terms. The rise has been tempered by the weakness in the U.S. dollar. When we look at the rise in dollar terms, oil is just over $10 per barrel or 18% higher than at the end of 2016 when it settled at $56.82.

Brent crude has rallied more than 50% since June as strong demand combined with OPEC and Russia's production cuts have tightened supply. As well as a tightening of fundamentals, geopolitical risks have also helped to support prices. Political protests in Iran have caught the market's attention. Iran is the third largest producer in OPEC and has an output of around 3.8m barrels per day. While the protests have had little impact on oil output, the market will continue to watch events in Iran closely.

US shale and non-OPEC supply is expected to grow further in 2018. This expected increase has been incentivised by the recovery in prices from under $30 early in 2016. The US Energy Information Administration (EIA) is forecasting that US shale output will increase by 780,000 barrels per day in 2018. This is more than double the 380,000 barrels per day it expanded by last year. There are also large-scale conventional projects in Brazil and Canada that were commissioned before the crash in prices that are expected to come on stream this year. Total supply from outside OPEC is expected to grow by about 1.6m barrels per day in 2018 according to the International Energy Agency (IEA).

The strength in demand growth has been the untold story of the oil price recovery with consumption rising by almost 5 million barrels per day between 2015 and 2017. This compares to annual demand growth of less than 1 million barrels per day when oil was over $100 per barrel. This pick up in demand can be attributed both to lower prices and the growth of global GDP to 3.6% this year, the highest since the financial crisis.

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Natural Gas Index

%	
8	1 Mth
24	3 Mth
19	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 57.14p/th in December. This is an increase of over 8% on the November price and 19% above the comparable period last year.

We saw heightened volatility over the month, particularly in the near curve as a number of outages impacted gas flows into the UK and further afield. The January contract hit an Intraday high of 88p/th in the middle of the month on news of a shutdown of the Forties pipeline followed by reports of an explosion at a key European gas hub in Baumgarten, Austria next morning.

Further out the curve, price movements were relatively muted by comparison as prompt strength and higher oil supported seasonal contracts. The Summer '18 contracts finished the month 0.78p higher at 45.13p/th, while the Winter '18 contract settled at 53.09p/th, an increase of 1.3p/th.

UKCS production suffered one of the largest unplanned disruptions seen for many years as a crack was discovered in an onshore section of the key Forties oil pipeline. Most UK gas produced in the northern part of the North Sea comes from condensate fields in which associated gas is produced from crude oil wells. Given the Forties pipeline issue, oil production was halted in many of these fields resulting in reduced gas production and flows into the UK grid. As a result, UK domestic gas production has been cut by 40mcm/d by the Forties outage for almost three weeks.

Entirely independent to the events on Forties and following hot on the heels of the Forties announcement, we had an explosion at Baumgarten halting gas flows across Austria and cutting off a key route for Russian gas to Italy. In the immediate aftermath of the event, in which tragically a person was killed, there was acute uncertainty as to how long disruption would last. This uncertainty escalated price upside caused by Forties outages.

To exacerbate the issues, both events happened against a backdrop of outages to key Norwegian infrastructure as production from Troll and other fields was disrupted by power supply issues. The combination of events saw market participants rush to cover short positions, pushing prompt prices to multi-year highs.

However, over subsequent trading sessions Norwegian and Baumgarten flows recovered, helping calm market fears and prices retreated. This retracement continued toward the end of the month with news that the Forties pipeline outage had ended and we had a benign weather forecast for the coming month.

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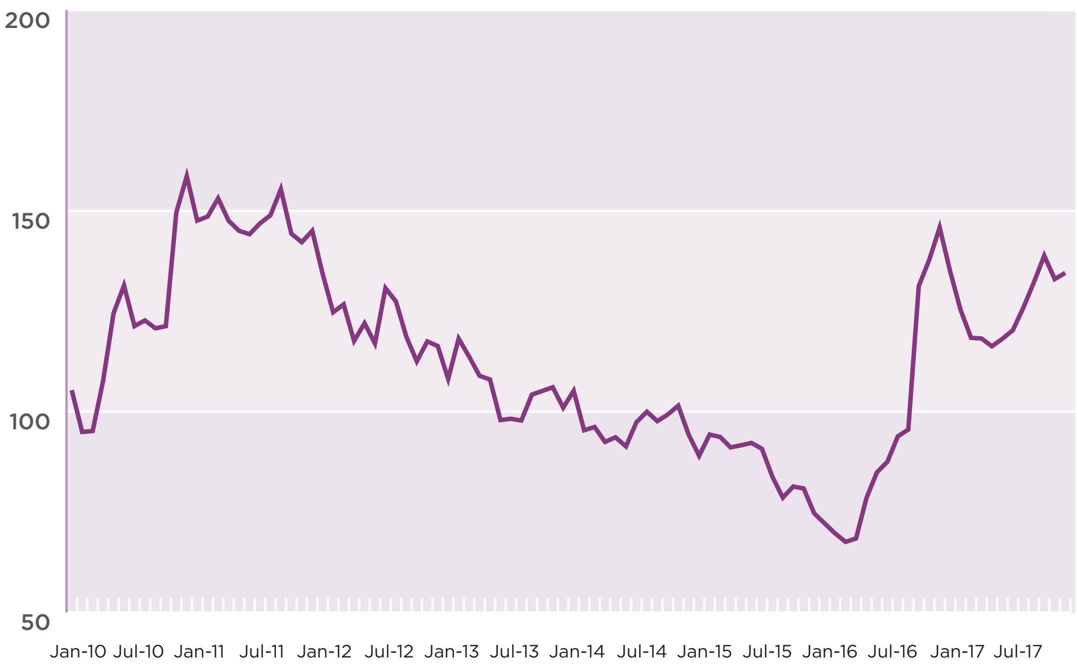
Coal Index



%	
1	1 Mth
2	3 Mth
-8	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $94.80 a tonne in December, this is an increase of 1% in euro terms compared to November. The strength in coal prices continues to follow stronger than expected Chinese industrial activity. Coal prices have also been tracking the overall strength in the global economy and strong sentiment in the broader commodity market, with Brent Crude continuing its bullish movement.

China's efforts to tackle air pollution were dealt a blow in December, as some regions were told to revert to burning coal after shortages of natural gas left people without heating due to freezing winter temperatures. China remains the world's key consumer and producer of coal and the drive to switch to natural gas remains a work in progress as issues with the natural gas infrastructure and supply are likely to keep markets tight for the next two to three winters. Regulators efforts to reform the energy sector to tackle pollution resulted in residential customers that had been switched to gas being left without heating. Beijing, which had stopped using coal for heating and power since March, was asked to restart its coal fired units because of gas shortages.

The International Energy Agency (IEA) said in its Coal 2017 market report that despite China's efforts to move away from coal, India and other Asian nations will ensure the dirtiest fossil fuel continues to supply more than a quarter of the world's energy. According to the IEA, global coal consumption is still expected to rise by 0.5 percent a year to 2022. The expectation is that the price volatility surrounding coal will continue as China's national policies continue to drive the global market, with the front month coal price up over $10/tonne since the start of the year. The five countries with the highest growth rate are expected to be Pakistan, Indonesia, Vietnam, Malaysia and the Philippines, which currently have many coal-fired plants under construction. The report says that India will lead the pack with an increase of 135 million metric tons over the five-year period, equivalent to about 2.5 percent of global demand last year.

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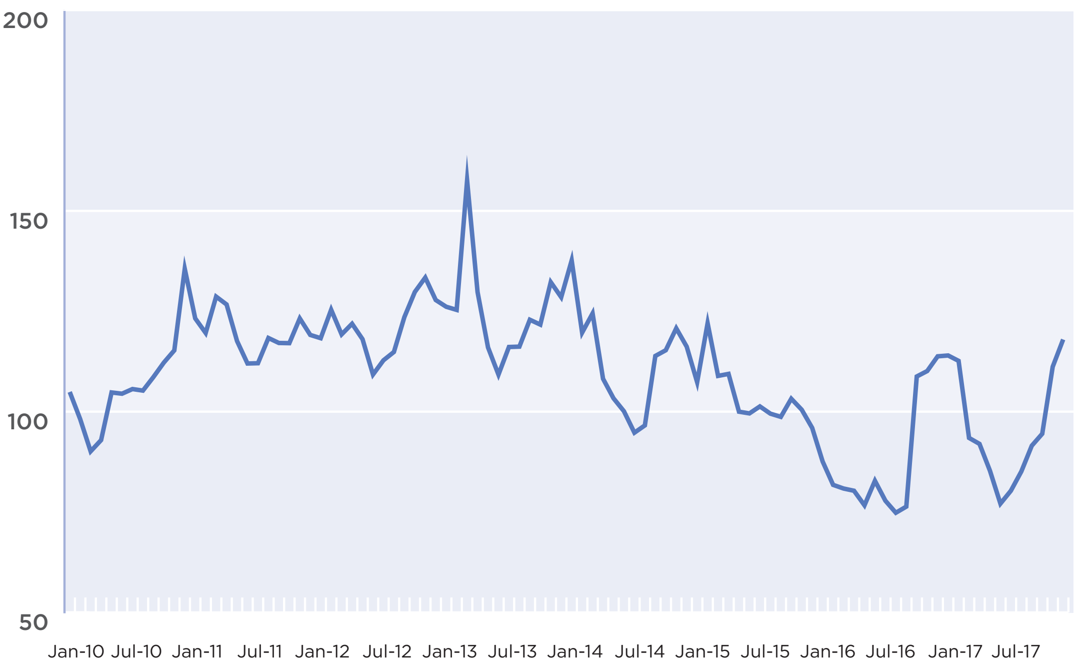
Electricity Index



%	
6	1 Mth
29	3 Mth
4	12 Mth

Data Source: SEMO

Electricity

Excluding supplier capacity payments, the average wholesale price for December was €56.88/MWh compared to €55.55/MWh in November – an increase of €1.33/MWh. When supplier capacity payments are included, wholesale electricity costs rose by 6% over the month. Wholesale electricity prices typically track the cost of imported gas as it is the most significant cost in the production of electricity. However, this can vary on a month-to-month basis.

The clean spark decreased from €11.88 in November to €8.72 in December. The price of gas was 8% higher over the month, while wind output also increased month on month from an hourly average of 1,122GW down to 1,373GW – an increase of 18%. The proportion of demand met by wind in December was 32%.

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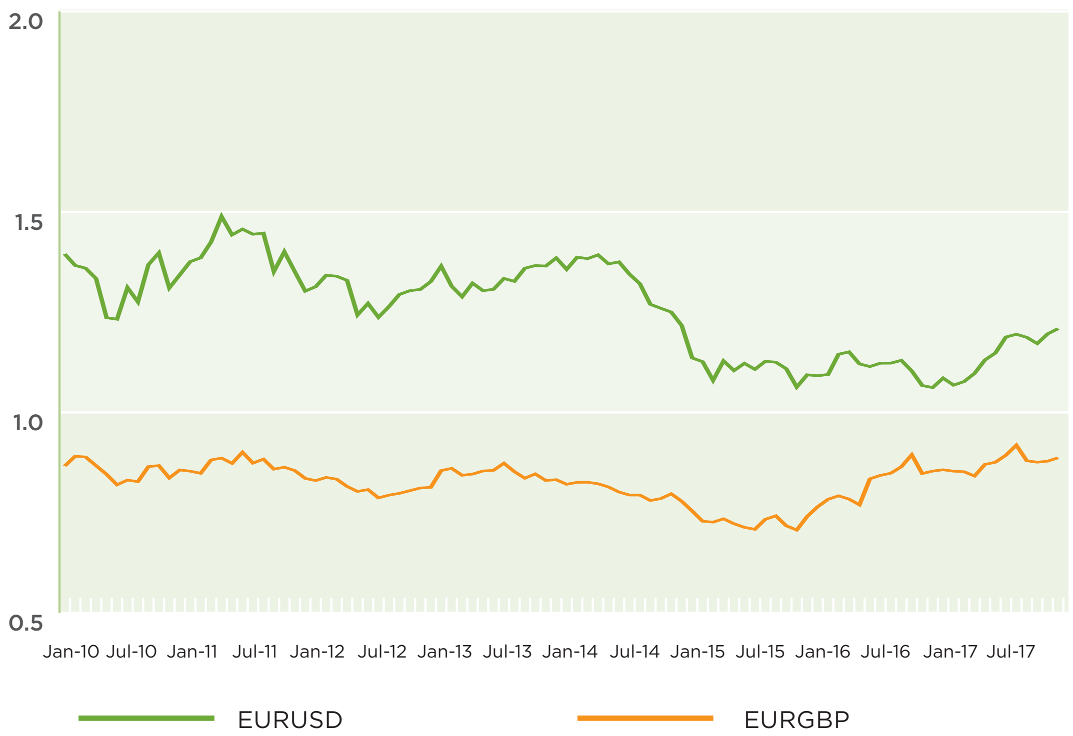
FX Rates



EURUSD %

1	1 Mth
2	3 Mth
14	12 Mth

EURGBP %

1	1 Mth
1	3 Mth
4	12 Mth

FX Rates

The euro continued the trend and finished the year on a strong note versus both sterling and the US dollar posting a 1% gain against both currencies. The single currency settled at £0.8889 versus sterling and €1.2022 against the US dollar.

The strength in the euro has been helped in the final quarter of year by the ECB announcement in October that it will reduce its monthly quantitative easing purchases down to €30bn per year. This lower pace of purchases will start in January and last until at least September 2018. The euro also continued to strengthen against sterling even as the Bank of England increased interest rates in November for the first time since 2007.

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For more information please contact:

Bord Gáis Energy **Pressoffice@bordgais.ie**
Rachel McFaul 085 782 7230 or Claire Smith 086 027 9075

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