Bord Gáis Energy Index

Understanding energy

Bord Gáis Energy

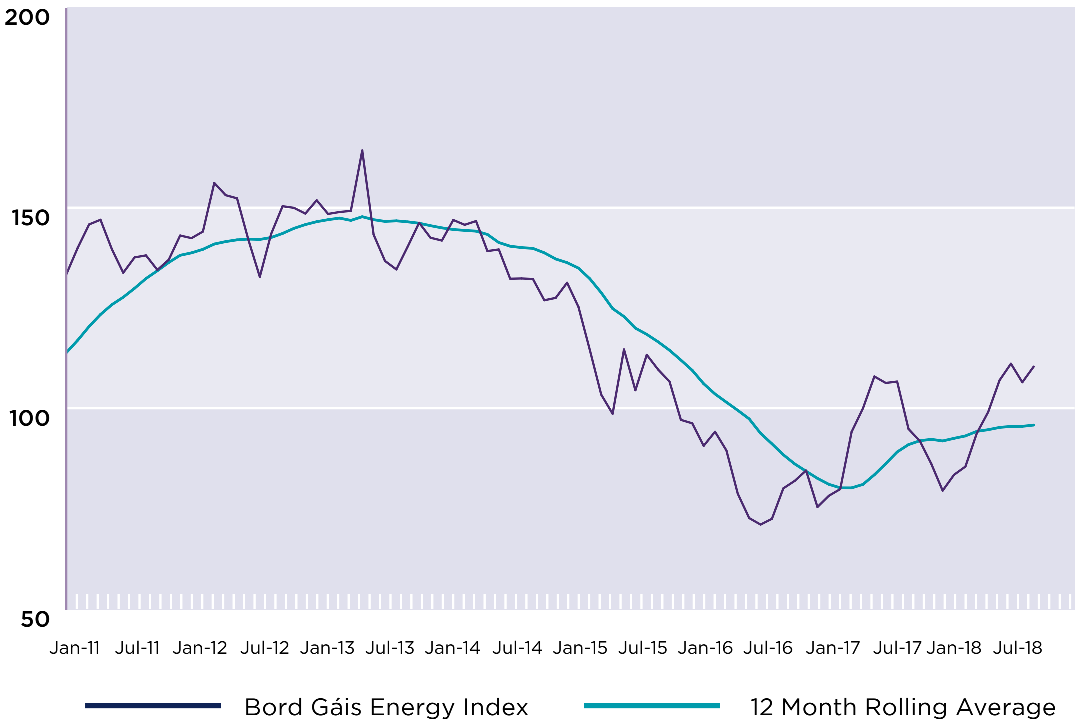
February 2018

BGE/EI/UE/0318

Bord Gáis Energy Index

February 2018

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



%	
4	1 Mth
3	3 Mth
4	12 Mth

Summary

The Bord Gáis Energy Index for February is up 4%. The rise was led by gas and electricity as cold weather swept across western Europe and weather forecasts predicted Europe would be hit with a particularly cold snap in late February and early March. The “Beast from the East” sent temperatures plunging across the Continent. In the UK gas demand hit a six-year high, over 400mcm, on 28 February. The impact of the freezing temperatures and record demand was exacerbated by supply outages and disruptions, all hitting a market under intense pressure and sending within-day prices to multi year highs.

In February, the Bord Gáis Energy Index stood at 111 (+4%).

Bord Gáis Energy Index

February 2018

Oil Index

%	
-3	1 Mth
1	3 Mth
3	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Having rallied for much of the last six months the price of Brent crude, the global benchmark, struggled to break the $70 dollar per barrel mark in February with prices finishing the month at $65.78. This was a fall of 3% in euro terms.

Concerns over rising US shale production have halted the recent rally. Market participants fear that the overhang of oil supply may last longer than previously expected. There have also been reports that the jump in US production has become a source of division among members of OPEC with some members, led by Saudi Arabia, targeting oil at $70 a barrel or higher. Iran on the other hand is targeting a $60 price of oil as it is concerned that anything higher will incentivise US shale companies to ramp up production leading to another price crash.

US output has reached record levels above 10 million barrels a day and is now expected to reach 11m b/d by the end of 2018. The trend rate of growth is accelerating with the US Energy Information Administration revising up production forecasts in successive months. Its forecast for average US crude production in 2018 has risen by 800,000 b/d in just six months, as production surged to meet stronger prices. This has led many commentators to suggest that OPEC would need to maintain current supply cuts well into 2019 as the recent rise in demand is being met by US shale oil. In fact, the International Energy Agency (IEA) sees the growth of US shale and production from non-OPEC countries, such as Brazil and Canada, meeting almost all demand growth up to 2020.

There is no doubt that the supply cuts have worked well for OPEC by mopping up the worst of the oil glut and sending prices back above $60 a barrel. Their options for action going forward now appear more limited; if they choose to keep supporting prices, which seems likely, this will mean conceding market share to their US rivals. Saudi Arabia, which is looking to have an initial public offering of the state oil company Saudi Aramco, is keen to keep the crude price as high as possible in the short term to ensure that the listing is well subscribed. It remains to be seen whether Saudi Arabia can keep the other members of OPEC and Russia on board as many are chomping at the bit to bring new projects online.

Bord Gáis Energy Index

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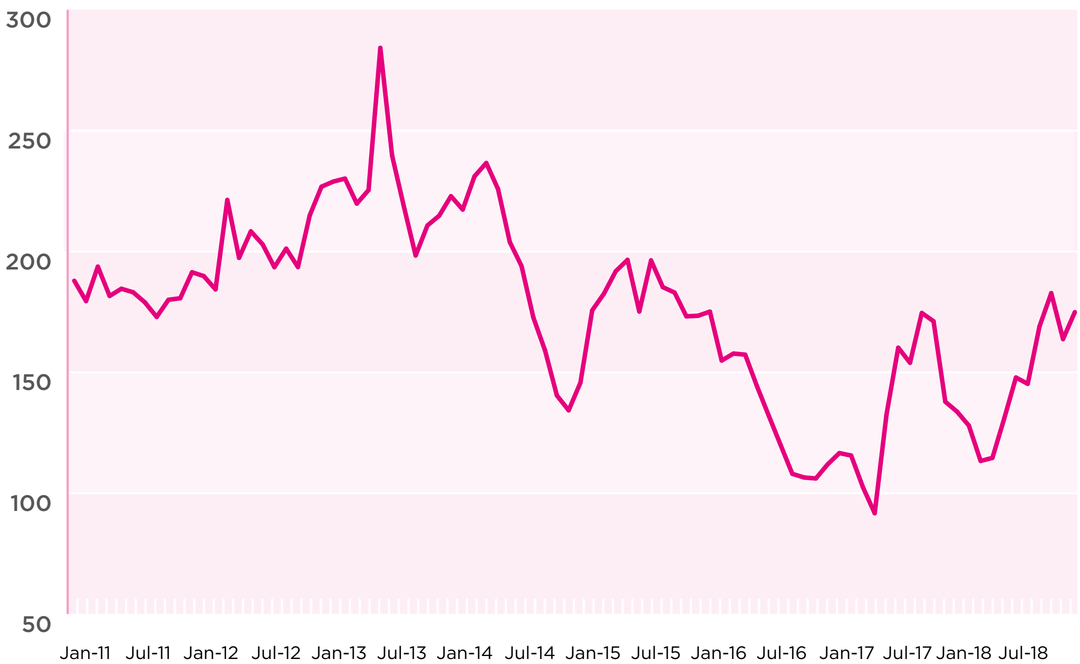
Natural Gas Index



%	
7	1 Mth
4	3 Mth
2	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 54.54p/th in February, an increase of 7% on the January average of 50.38p/th and over 3p above the comparable period last year.

The milder temperatures in January, when average temperatures were over 1.5°C above the seasonal normal, gave way to a colder February resulting in increased heating demand for gas. LDZ demand, which is most sensitive to temperature fluctuations, was consistently above seasonal norms over the month.

Prompt prices rose as we moved through February and cold weather swept across western Europe. Weather forecasts predicted Europe would be hit with a particularly cold snap in late February and early March. These forecasts proved prescient as Northwest Europe was hit by an Arctic weather front dubbed the "Beast from the East" sending temperatures plunging across the Continent.

In the UK gas demand hit a six-year high, over 400mcm, on 28 February. The impact of the freezing temperatures and record demand was exacerbated by supply outages and disruptions, reducing Norwegian flows through the Kollsnes gas processing terminal, continental flows through the BBL interconnector and production at a number of UKCS gas fields, all hitting a market already under intense pressure to balance. The rush to secure supplies saw within-day gas price soar to a 12 year high of £1.90 on the 28 February.

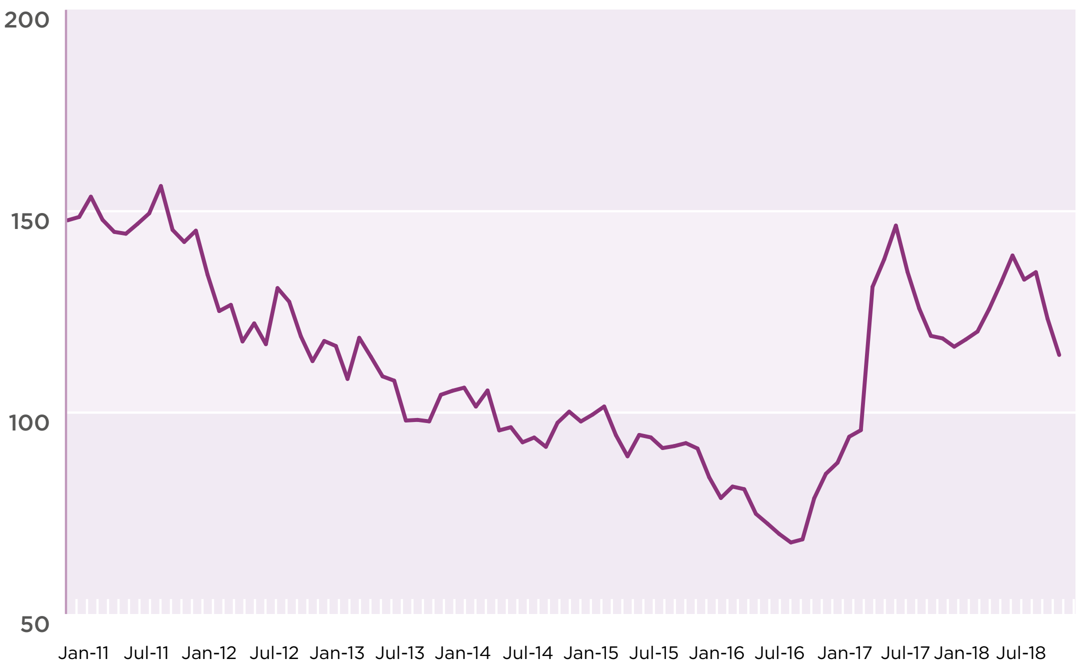
Activity further out the curve was far more muted as the squeeze was relatively concentrated, and temperatures were due to recover by the first weekend in March. The Summer 18 contract finished the month 0.28p higher at 42.46p/th, while the following Winter 18 closed 0.7p lower at 50.21p/th. The divergent performance explained by storage impact as the colder February and early March depleted storage stocks across the Continent, boosting injection demand for the coming summer.

In February the surge in prompt gas prices illustrated the UK's vulnerability to demand and supply shocks, particularly as its domestic production declines and Rough, the UK's largest storage facility, has been closed. Storage facilities, which inject in warmer summer months for withdrawal during higher demand winter months, play a key role in helping balance system on high demand days. The closure of Rough, which represented over 70% of the UK's storage capacity, increased the UK's import reliance and is likely to lead to greater volatility in gas prices.

Bord Gáis Energy Index

February 2018

Coal Index



%	
-7	1 Mth
-14	3 Mth
-9	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices fell another 7%, in euro terms, in February to settle at $81.55 a tonne from the previous month's close of $89.6 a tonne. Coal prices are almost 16% lower, in dollar terms, since the start of the year as we move beyond the colder winter months and demand declines in key Asian markets.

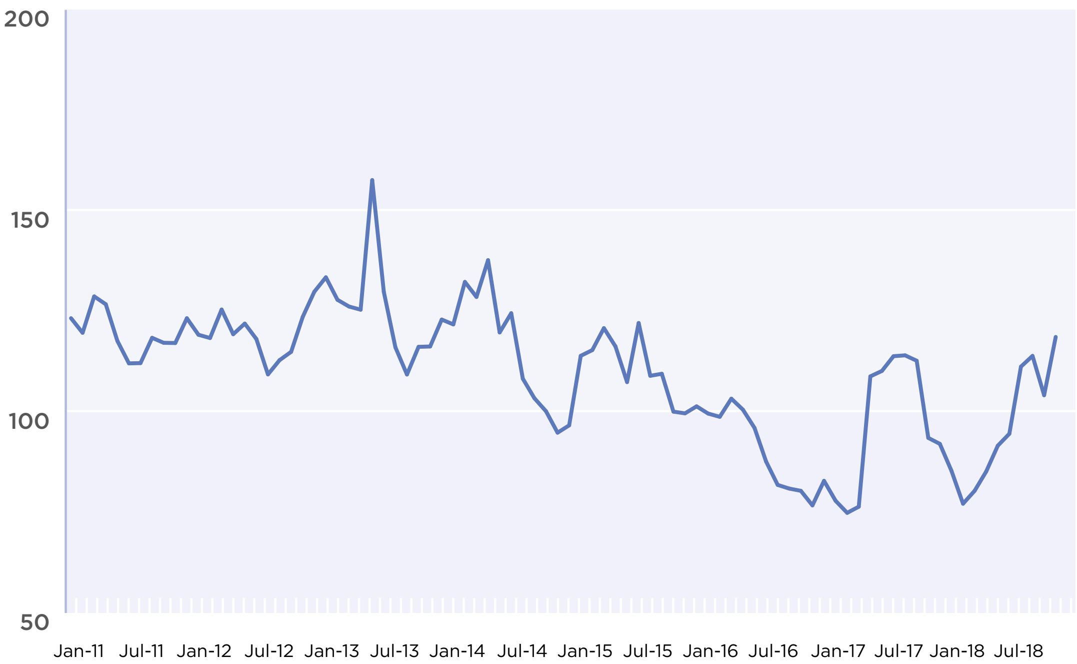
Chinese energy policy remains the key driver for coal prices as the resource hungry economic superpower accounts for over half the world's coal consumption. Coal has long dominated the Chinese energy mix. However, Chinese energy policy is shifting the country towards less carbon intensive energy sources as the regime attempt to tackle air quality issues in its large cities.

The National Energy Administration of China, responsible for formulating and implementing energy development plans and industrial policies, announced in February that China has set a 2018 target to reduce coal consumption to around 59% of the nation's primary energy mix while raising natural gas consumption to 7.5%.

Bord Gáis Energy Index

February 2018

Electricity Index



	%
14	1 Mth
7	3 Mth
5	12 Mth

Data Source: SEMO

Electricity

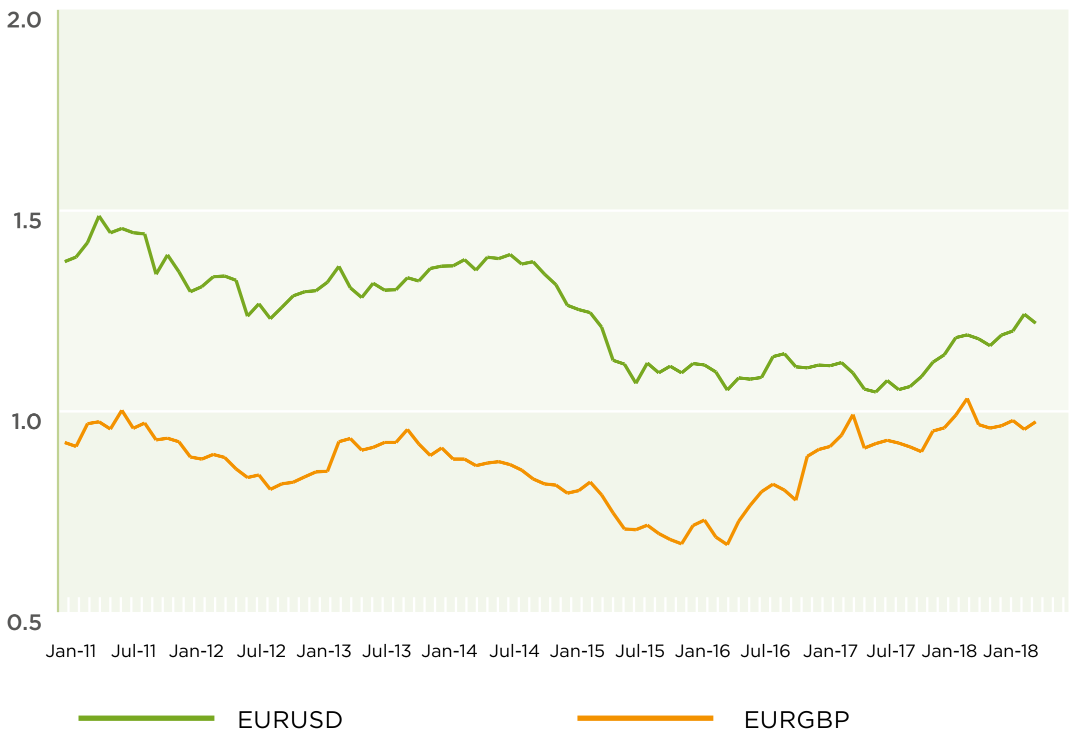
Excluding supplier capacity payments, the average wholesale price for February was €57.86/MWh compared to €50.65/MWh in January – an increase of €7.21/MWh. When supplier capacity payments are included, wholesale electricity costs rose by 14% over the month. Wholesale electricity prices typically track 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 increased from €7.84 in January to €11.99 in February. The price of gas was 7% higher over the month, while wind output decreased month on month from an hourly average of 1863GW to 1443GW – a decrease of 23%. The proportion of demand met by wind in February was 33%.

Bord Gáis Energy Index

February 2018

FX Rates



EURUSD %	
-2	1 Mth
2	3 Mth
15	12 Mth

EURGBP %	
1	1 Mth
1	3 Mth
4	12 Mth

FX Rates

The dollar rebounded somewhat versus the euro in February, gaining 2% against the single currency to settle the month at $1.2194. It was the opposite case with sterling as the euro outperformed the pound by 1% finishing the month at £0.8862p.

The new Fed chairperson, Jerome Powell, surprised investors with his hawkish stance in first public commentary on the US economy. This has led market participants to speculate that the Fed may raise guidance on the number of interest rate hikes that it expects to deliver in 2018 from 3 to 4. In Europe, the minutes of the January ECB meeting showed that despite some discussion around removal of the current easing bias, it was felt that it may be premature to do so as stronger growth in the European economy was being offset by subdued inflation.

The Bank of England also caught investors off guard in February when it signalled an earlier, and potentially more aggressive, pace of rate hikes than had previously been expected. It revised its growth expectations upwards and suggested the higher rate of growth may contribute to inflationary pressures.

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