MEDIA RELEASE

Bord Gáis Energy Index drops 4% in January

In January, the Bord Gáis Energy Index fell 4% month-on-month following a broad drop in wholesale energy market prices, with the notable exception of oil prices. Wholesale gas prices fell 10%, mainly due to milder than normal temperatures and the return of key gas infrastructure in North Sea. Wholesale electricity prices also fell in line with gas prices and coal also followed suit posting an 8% drop. **In January, the Bord Gáis Energy Index stood at 108 (-4%).**

Darragh Crowley, *Energy Trader with Bord Gáis Energy said, 'The Bord Gáis Energy Index dropped for the first time since June 2017 as all components lowered, with the exception of oil prices which began 2018 on a continued bullish trend. However, oil prices were flat in Euro terms as the weakness of the dollar meant that any gains were negated. Having rallied strongly in December, wholesale gas prices fell due to milder than normal temperatures and the return of key oil and gas infrastructure in the North Sea.'*

<u>Oil</u>

Oil began 2018 on a continued bullish trend with the Brent crude, the global benchmark, trading as high as $71 dollars per barrel before finishing the month at $69. Overall, prices were flat in Euro terms as the weakness of the dollar meant that any gains were negated.

US crude oil production rose to more than 10 million barrels per day (bpd) during January, with the remarkable recovery of shale oil since the depths of the oil price crash in early 2016. Since then, oil prices have more than doubled and demand has surged from 96 million bpd to almost 100 million bpd. This has also coincided with a pact by Russia and OPEC to restrict output. The final piece of the puzzle driving prices is the low levels of investment over the last three years.

Looking ahead, oil consumption is expected to rise by around 1.7 million bpd this year and US shale production growth is expected to meet around 800k of the demand growth. Older exploration projects should satisfy the rest of global demand growth and, should the pace of global demand continue to expand, the market will be more tightly balanced in 2019. One of the key drivers of futures prices is how quickly the US shale producers can expand their production. This is not certain given that shale production is still a relatively new industry.

<u>Gas</u>

The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 50.38p/th in January. This was a decrease of over 10%, in Euro terms, on the December average of 57.14p/th and 2.3p below the comparable period last year.

Cold weather and outages to key infrastructure supported prices in December. However, in January, prices retreated due to milder weather and strong flows into the UK system from the Forties pipeline system.

Further out the curve, prices also retreated as prompt weakness and the return of supply infrastructure weighed on prices. The Summer ‘18 contract fell over 3p/th or 8% to 42.18p/th, while the Winter ‘18 contract settled at 50.91p/th, a drop of 2.18p/th.

There were some concerns around production at Europe’s largest gas field, Groningen in the Netherlands. Production at the gas field has been reduced significantly in recent years following increasing seismic activity in the area, which is widely accepted to be a result of gas extraction from the Groningen region. When the largest earthquake since 2012 hit the region in early January, there were calls for further reductions in gas extraction.

Coal

Coal prices fell by 8% in January, in Euro terms, to settle at $89.60. Prices retreated despite expectations that China would import almost 21 million tonnes of coal in January, both thermal and coking, which would be an increase from 17 million tonnes in December. There were also reports that Japan, Asia’s third largest coal importer, is also ramping up imports. Almost 18 million tonnes is expected to have arrived in January. Exports to Asia are primarily from Australia and Indonesia.

Despite the attempts to phase out coal in Europe on environmental grounds, it is still making up 40 percent of energy consumption in emerging markets. China’s ongoing battle against air pollution is likely to result in continued curbs on coal use, and demand for imported coal may suffer as domestic production increases. In 2017, domestic Chinese miners produced 3.45 billion tonnes of coal, a rise of over 3% from 2016.

Electricity

Excluding supplier capacity payments, the average wholesale price for January, was €50.65/MWh compared to 56.88/MWh in December – a decrease of €6.23/MWh. When supplier capacity payments are included, wholesale electricity costs fell by 7% 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.

FX

The weak Dollar remained the dominant story in foreign exchange markets in January. The single currency finished January at $1.2415 versus the Greenback, a gain of 4 cents over the month. Despite rising US bond yields, and the prospect of a continuing Federal Reserve tightening, the dollar remained under pressure. The market grappled with increasingly harsh trade rhetoric and conflicting dollar policy messages out of the Trump administration. At the January close the Dollar Index, which measures the Dollar against a basket of currencies, was trading at levels not seen since 2014.

Against sterling, the Euro was 1.5% lower closing the month at £0.8753 from December's close of £0.8889, as sterling sentiment was lifted by rising confidence that the UK would achieve a softer Brexit.

For more information, see the full Energy Index at https://www.bordgaisenergy.ie/energyindex/.

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About Bord Gáis Energy
Bord Gáis Energy is a gas, electricity and energy services supplier in the Republic of Ireland. The company has been in operation since 1976 and currently supplies energy and services to over 690,000 business and residential customers. In 2014, Bord Gáis Energy became part of the global Centrica plc Group.