

18th August 2015

Energy index for July

The July Bord Gáis Energy Index in July 2015 dipped to 98 driven by a number of factors.

OIL

The price of oil declined in July, falling to a low of US\$52.21 a barrel. The key to falling price is that supply is currently abundant.

Saudi Arabia is pumping a record 10.6m barrels a day in a bid to keep market share. At the same time, the West's nuclear deal with Iran will bring more crude to an already over-supplied market. Iran wants to raise post-sanctions production to 4.7m barrels a day, up from 2.85m now. Chinese economic growth is also slowing.

Oil industry investment is in decline while debts are mounting.

NATURAL GAS

The average day-ahead price for July was 43.36 pence per therm (p/th), in line with June's average price of 43.31p/th. By way of comparison, the July outturn was 37.38p/th in 2014..

Forward prices over the month continued to hit fresh lows as the winter 2015 and summer 2016 contracts traded 1.7p and 2.1p lower respectively, driven in large part by accelerated weakness in oil prices.

Liquefied natural gas (LNG) arrivals in July were down 44% on this month last year. Historically July and August tend to be the cheapest months of the year spurring injection into storage for the coming winter. However, this year the September contract has been the weakest priced contract resulting in many market participants deferring injections until September. In addition, there were increased pipeline deliveries from Norway as much of the required maintenance on the key fields such as Troll was completed earlier in the summer.

Russian gas supplies to Ukraine remained suspended during July following the failure to agree a new gas deal for supplies in the third quarter. This has resulted in increased imports from Europe into Ukraine. The two parties are expected to resume talks on a deal in the next few weeks.

COAL

The ICE Rotterdam Monthly Coal Futures Contract continued its slow decline in July. In general, commodities suffered the biggest monthly decline in almost four years on concern that supplies are rising as demand slows. This sent copper to a six year low and oil into a bear market.

The Bloomberg Commodity Index retreated 10.6% in July, the most since September 2011. The prospect of higher borrowing costs in the US strengthened the dollar and drove gold to the lowest in five years.

ELECTRICITY

Including capacity payments, the monthly average wholesale price of electricity rose 2% in July with the monthly average wholesale price of gas rising to €51.55/MWh from €49.93/MWh. In terms of sterling, day-ahead gas prices were static but a weaker euro applied upward pressure on the cost of gas. This has a significant influence on the cost of producing electricity.

Amid a seasonal fall in demand, wind powered production contributed 17% of the power required to meet demand during July which compares favourably to the 14% figure in June.

FX

Amid expectations of rate hikes, in both the US and UK, the euro weakened versus both sterling and US dollar in July.

According to the Economist Magazine, America's first interest-rate rise since 2006 is approaching.

July's US employment report, which was released in early August, looks unlikely to change that. Economists expect another strong month; their median estimate is jobs growth of 225,000 above the year's already healthy average. Despite it coming in at 215,000, a US rate hike is still on track. US unemployment in June was down to 5.3% and GDP is growing steadily after an unsteady winter. Wages though, have been weak with hourly earnings struggling to rise by more than 2% year-on-year.

In July, the mood in the UK was perceived as equally positive and this fed through to a stronger pound.

Ends.

For further media information:

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