Bord Gáis Energy Index

Understanding energy

JUNE 2016

BGE/EI/UE/0716

Bord Gáis Energy

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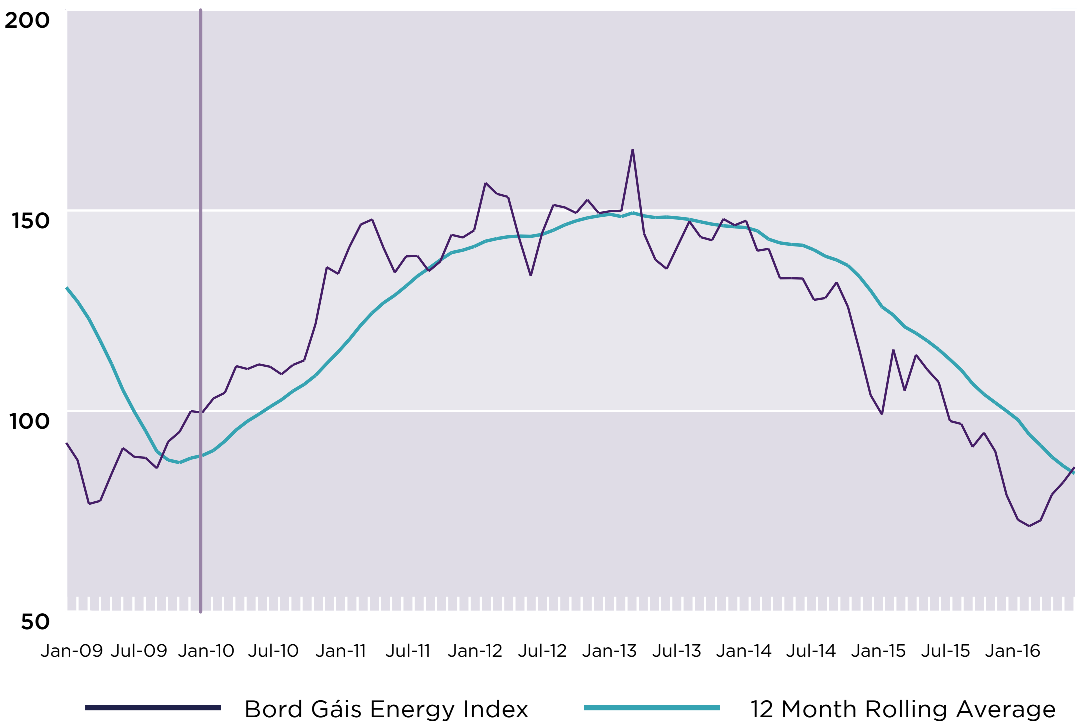
June 2016

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



%	
5	1 Mth
18	3 Mth
-20	12 Mth

Summary

In June 2016 the Bord Gáis Energy Index was 5% higher as we saw increases across all energy commodities. Among the individual components of the Index oil was 1% higher, UK prompt wholesale gas prices were up 4% while European coal and Irish wholesale electricity prices were 8% and 12% higher respectively.

In June, the Index stood at 86.

Bord Gáis Energy Index

June 2016

Oil Index

Index adjusted for currency movements.

Data Source: ICE

Oil

Brent prices were flat in June, finishing the month at $49.68 a barrel, a one cent drop on the previous month's close of $49.69 a barrel. In euro terms the price of oil was 1% higher as the euro fell marginally versus the US dollar over the month.

We entered the month with speculation rife that OPEC would freeze production at its biannual meeting in Vienna in the first week of June. The proposal to freeze production at current levels failed largely, due to Iran's unwillingness to participate given its objective to regain market share lost when sanctions were imposed.

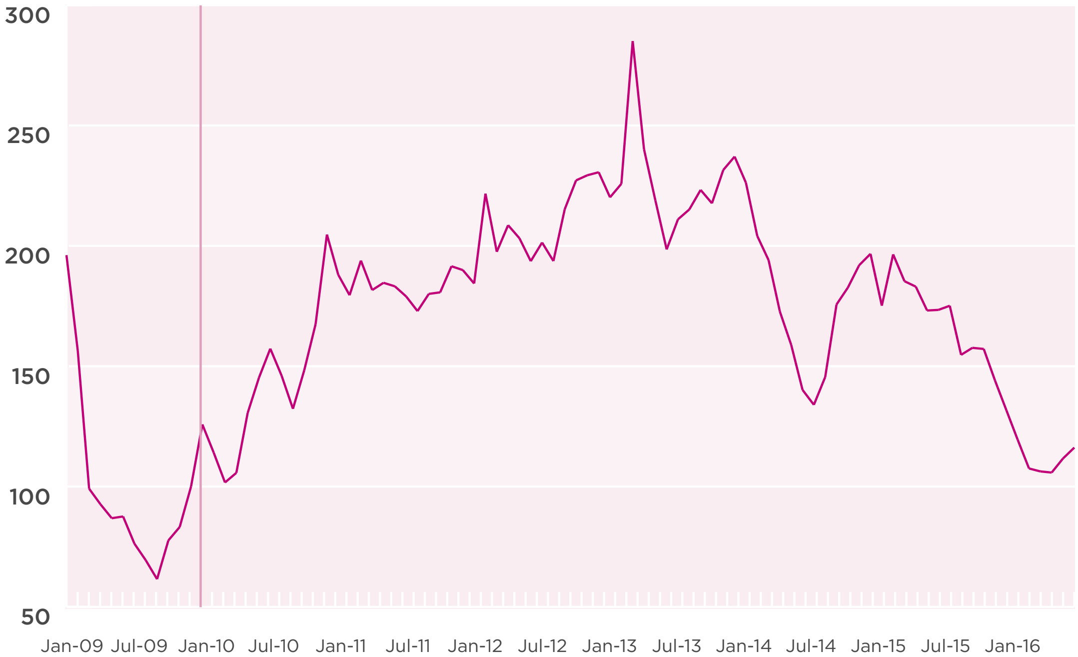
The message from OPEC, following the meeting, was there was no need to change strategy. The price of oil has rebounded substantially from the lows of $27 seen in January as non-OPEC oil production declined as a result of low prices and reduced investment.

Data from the Energy Information Administration in the US showing draws on domestic crude stockpiles supported oil prices and pushed prices to fresh 2016 highs of $52.50 in the second week of June. However, concerns about the economic impact of the Brexit vote in the UK weighed on oil prices and other risk assets towards the end of the month. The Brent crude benchmark dropped by over 7% in the days following the Brexit result to $47.16 before rallying in the final days of the month to close at $49.68 a barrel.

Bord Gáis Energy Index

June 2016

Natural Gas Index



%	
4	1 Mth
9	3 Mth
-33	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The UK NBP day-ahead contract averaged 34.1 pence/therm for June. This represents a 13% increase, 4% in euro terms, from May’s day-ahead average of 30.14p/th. However, wholesale gas prices remain 33% lower, in euro terms, than the equivalent average price in 2015.

Prompt prices rose significantly over the month as a combination of reduced flows from Norway due to both planned and unplanned outages, maintenance at key UK gas infrastructure and lower than expected LNG send out left the system in short supply. There was some relief for the front end of the curve towards the end of the month with the announcement of an unexpected halt of injections into the Rough storage facility for at least 42 days. This meant that more gas stayed in the system.

While the Rough outage had a negative impact on prompt prices, it drove prices higher on the forward curve as the market viewed the outage as an increased supply risk for next winter. The benchmark Winter 16 contract increased by 13% to 43.09p/th and Summer 17 was 14% higher at 39.55p/th. Other factors driving curve prices higher were a reduction in the production capacity of the Groningen gas field in the Netherlands by 3 bcm and of course the Brexit referendum result. This has led to higher volatility and risk premiums priced into all asset markets and we would expect that this will remain the case as the situation evolves.

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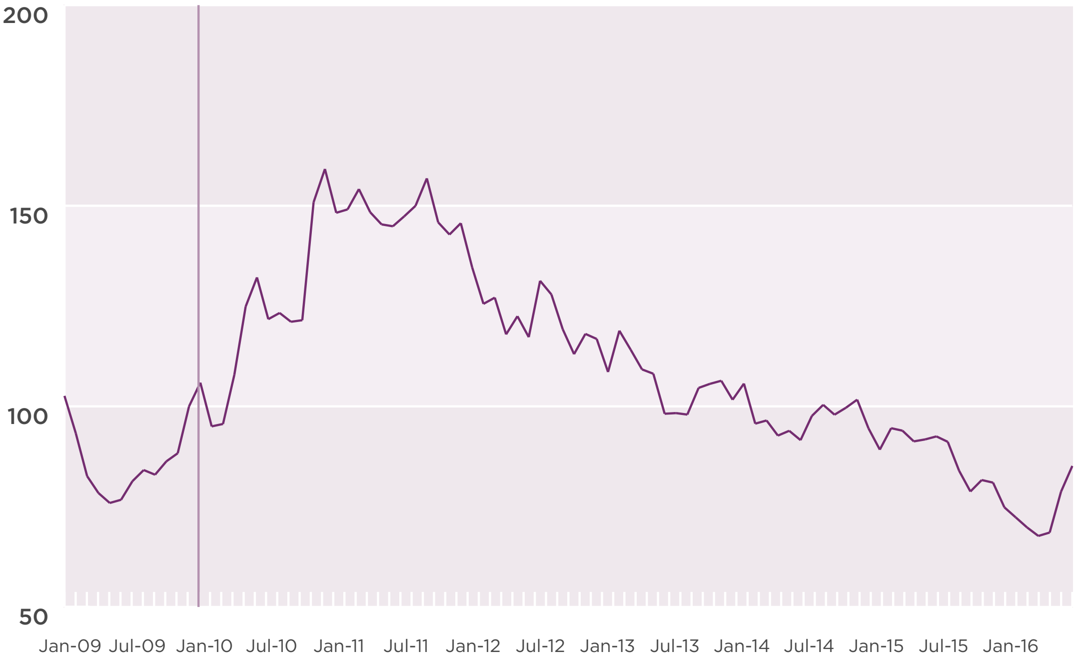
Coal Index



%	
8	1 Mth
26	3 Mth
-8	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices closed the month at $55 per metric tonne, an increase of almost 7.5% over the month in dollar terms. The positive sentiment around coal continued in June as higher Asian demand for Colombian coal that would normally go to Europe pushed prices higher. In addition, the profitability of European coal fired power production increased as lower carbon and higher gas supported coal generation by making it more competitive. Carbon prices dropped significantly on news of a Brexit vote, dropping by over 21% in the aftermath of the vote. The UK had been a leading advocate for a reform of the European Emissions Trading Scheme. Given its withdrawal from the European Union there are concerns that the pressure for reform could stall.

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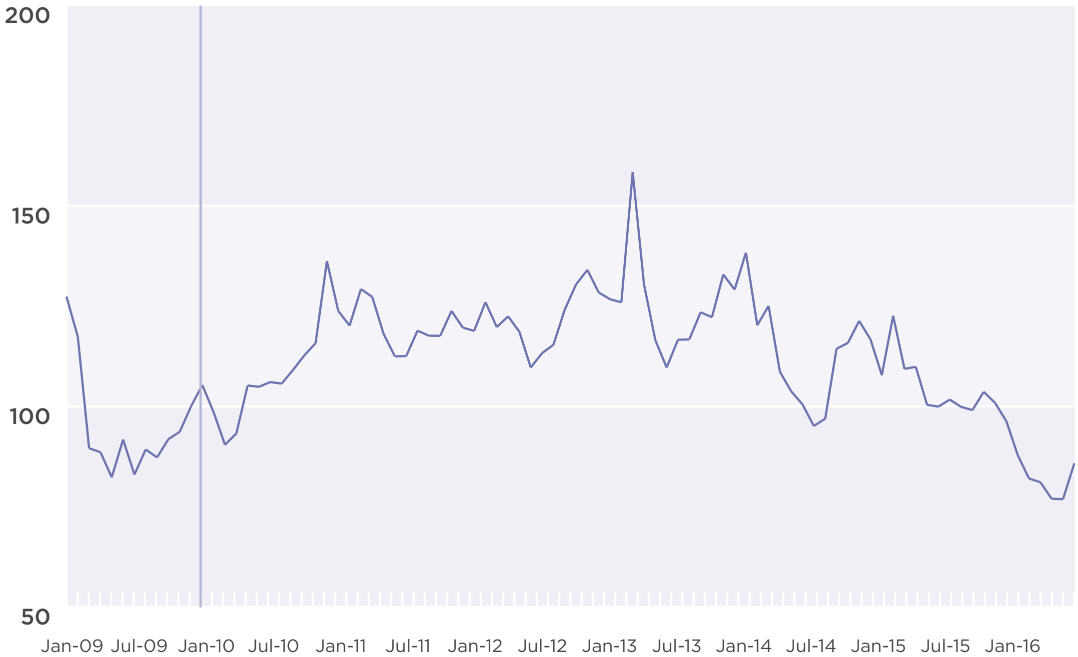
Electricity Index



Data Source: SEMO

%	
12	1 Mth
6	3 Mth
-14	12 Mth

Electricity

In line with increasing UK prompt gas prices, average Irish wholesale prices increased month-on-month; the average wholesale price of electricity increased by 12% in June. Excluding supplier capacity payments the average wholesale price for June was €40.77/MWh compared to €37.31/MWh in May, an increase of €3.46/MWh on the average monthly wholesale price.

The wholesale cost of imported gas from the UK increased month-on-month by 13% in sterling terms. Irish wholesale power prices typically tend to rise with the cost of imported gas as it is the most significant cost in the production of electricity.

A monthly clean spark of approximately €8.30/MWh was recorded in the month, which is up marginally from the €8.20/MWh observed in May (an increase of 1.2%). The proportion of demand met by wind in June fell to 11.9% from 13.3% in May.

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June 2016

$ € £ ¥

FX Rates

EURUSD %

-1	1 Mth
-3	3 Mth
-1	12 Mth

EURGBP %

9	1 Mth
6	3 Mth
18	12 Mth

FX Rates

In May the euro gained value versus the British pound and lost value against the US Dollar. The euro was 9% stronger against the pound and was 1% lower versus the dollar.

Foreign exchange markets were dominated by the Brexit referendum in June, leading to significant volatility across all asset classes. Bookmakers and financial markets had all but priced out any chance of a leave vote and were caught by surprise when the British electorate voted 52% to 48% to leave the EU. The resulting uncertainty with fears of economic and political fallout in the UK and across Europe caused a sell off of the pound and rally of the dollar as a safe haven asset.

The extent of any possible economic slowdown is uncertain but it has contributed to a general risk off mentality in markets. The political fallout of the referendum has led to the resignation of Prime Minister Cameron and a motion of no confidence in Labour party leader Jeremy Corbyn. The timing of any application by the UK under Article 50 of its intention to leave the EU is still to be decided, as is the length of any exit negotiations and the future nature of the relationship between the UK and EU.

Following the vote, the Bank of England governor Mark Carney indicated that the Bank will announce additional policy measures over the summer to help offset any potential negative impact of the Brexit vote. This will likely take the form of interest rate cuts and potentially the re-commencement of quantitative easing which may weigh further on the Pound over the coming months.

For more information please contact:

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