Bord Gáis Energy Index
Understanding energy

March 2018

BGE/EI/UE/0318

Bord Gáis Energy

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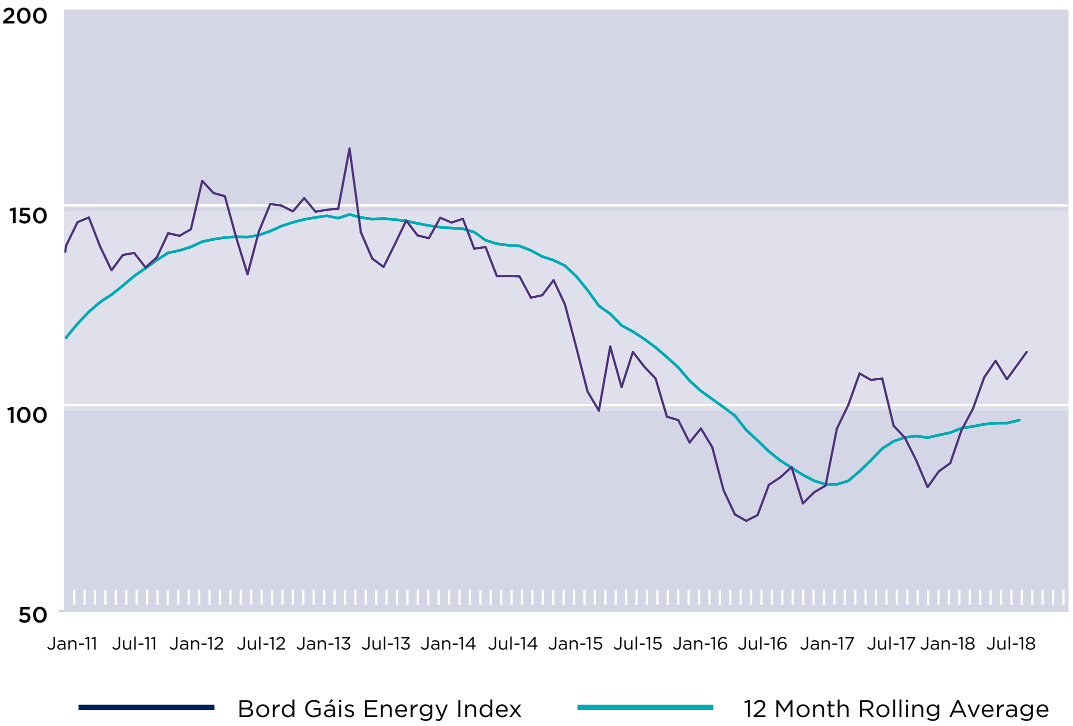
March 2018

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



%	
9	1 Mth
7	3 Mth
26	12 Mth

Summary

The Bord Gáis Energy Index for March is up 9%. The rise was led by gas and electricity as cold weather swept across Europe in late February and early March. UK gas demand hit levels not seen since 2010 as the arctic blast, dubbed the Beast from the East, hit Europe sending temperatures plummeting and pushing UK gas demand to an eight year high of 410mcm and prices to multi-year highs. Brent crude oil also posted a positive month as supplies continued to tighten and geopolitical risks continue to rise.

In March, the Bord Gáis Energy Index stood at 120 (+9% from last month).

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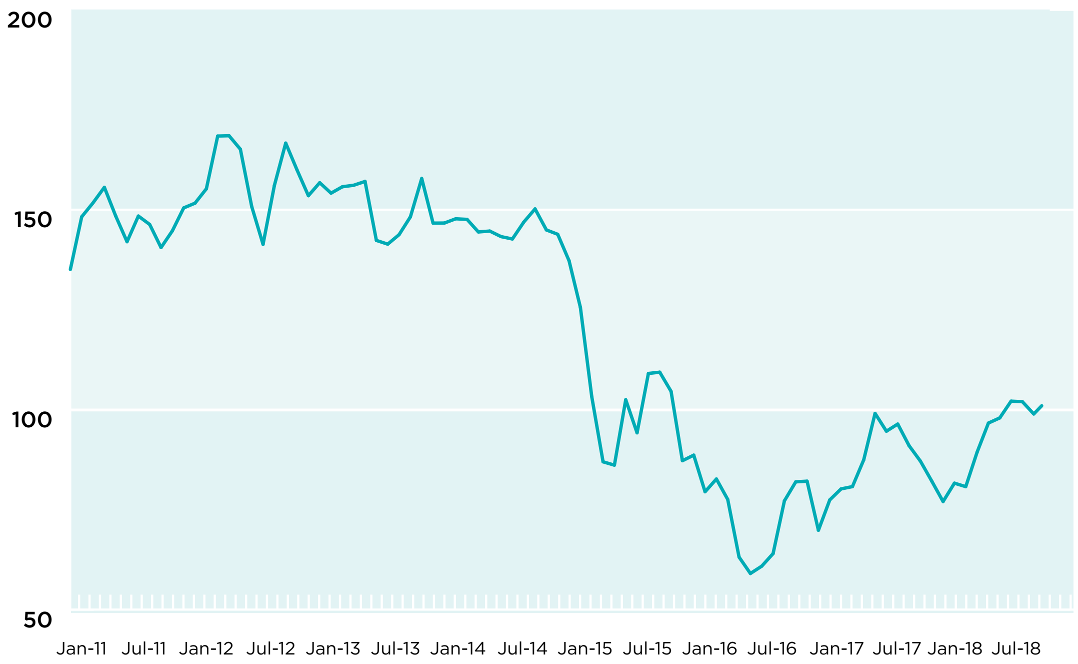
Oil Index



%	
6	1 Mth
2	3 Mth
15	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The price of Brent crude oil posted another positive month in March, rising by 6% in euro terms to settle at $70. The global benchmark has gained in value in four of the last six months as global demand for crude oil continued to rise while the supply outlook tightened due to OPEC supply cuts.

The question now remains whether the market can sustain prices above $70 per barrel. Brent has traded within a $10 range this year, hitting a high of about $71 per barrel but has failed to consistently hold levels above $70 per barrel for very long. As well as lower supplies due to the OPEC cuts, geopolitical risks have also been driving oil prices. There are fears of renewed sanctions on Iran's oil exports should President Trump decide to withdraw from a nuclear deal agreed with six western governments in 2015.

Rising tensions in the Middle East pose a threat to the oil market and supplies from that region. Saudi Arabia has recently faced a barrage of missiles aimed at Riyadh, the capital city, from Yemen. This is part of the proxy war that Saudi Arabia has been waging in Yemen against its age old enemy Iran. The fighting in Yemen, which has escalated since 2015, has meant that almost 400,000 barrels of Yemeni production have been disrupted. Houthi rebels, widely seen as enjoying the backing of Iran, have been blamed by Saudi Arabia for the recent attacks.

Saudi Arabia's powerful crown prince, Mohammed bin Salman, has recently been lobbying in the US for investment and partnership in his economic transformation plan which involves an initial public offering of shares in the state oil company, Saudi Aramco. It is also believed that he is lobbying for increased pressure on Iran, including the US pulling out of the Iranian nuclear deal. This would likely mean the US reimpose sanctions on Iranian oil exports. Although the crude volumes impacted are likely to lower as others, such as the European Union and China, continue to support the existing nuclear deal and could well decide against reintroducing sanctions.

The next time the Saudi Arabian and Iranian ministers will come face to face is at the upcoming OPEC meeting in Vienna in a little over two months' time. The expectation in the market is that an extension of the current supply deal with Russia will be ratified. However, that depends on Saudi and Iranian agreement which is by no means assured.

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Natural Gas Index

%	
15	1 Mth
10	3 Mth
47	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 62.22p/th in March, an increase of over 15% on the February average of 54.54p/th and almost 21p/th above the comparable period last year.

Prompt gas prices were sharply higher at the start of the month as a cold snap and significant infrastructure outages combined to send prices rocketing higher across Northwest Europe. The within-day contract traded as high as £4.50 a therm on March 1st, while the day-ahead contract settled at over £2.50 a therm.

UK gas demand hit levels not seen since 2010 as the arctic blast, dubbed the Beast from the East, hit Europe. This sent temperatures plummeting and pushed UK gas demand to an eight year high of 410mcm. The freezing temperatures also ravaged ageing infrastructure resulting in disruptions to key supply assets across Europe as gas hubs engaged in a grab for scarce gas resources. The National Grid was forced to issue a rare gas deficit warning in response “to a series of significant supply losses resulting in a forecast end of day deficit”.

The spike in prompt prices at the start of the month illustrated the growing potential for increased spot volatility. This is due to the UK’s increasing reliance on imports to balance in the face of demand and supply shocks. This winter was the first real test of UK flexibility since the closure of the Rough storage facility, which previously represented almost 70% of the UK’s storage capacity.

Further out the curve price moves were muted by comparison. The Summer 18 contract settled at 59.9p/th, an increase of 3.4p/th over the month. The cold snap saw European storage levels drop to seven-year lows ensuring robust injection demand for the coming summer. The Winter 18 contract gained a similar 3.3p/th to settle at 53.5p/th as the balancing risk in the colder winter months was to the forefront of traders’ minds following price spikes in late February and early March.

Toward the end of the month, the Dutch government provided some clarity regarding Groningen production levels going forward. Increasing seismic activity in the Groningen region has seen increasing stringent limits placed on production from the giant Groningen natural gas field in the Netherlands. The Economy Minister approved plans to reduce production at the field to below 12bcm by October 2022 and to cease production altogether by 2030. For the coming gas year production will be reduced under “normal” conditions to 19.3bcm from current level of 21.6bcm. There is some flexibility to increase production in the event of colder conditions. The market response was relatively muted as the moves had been well telegraphed and were in line with market expectations.

The continued reductions are, however, a further indication of falling domestic gas production and Europe’s increasing reliance on gas imports, particularly from Russia, to meet demand.

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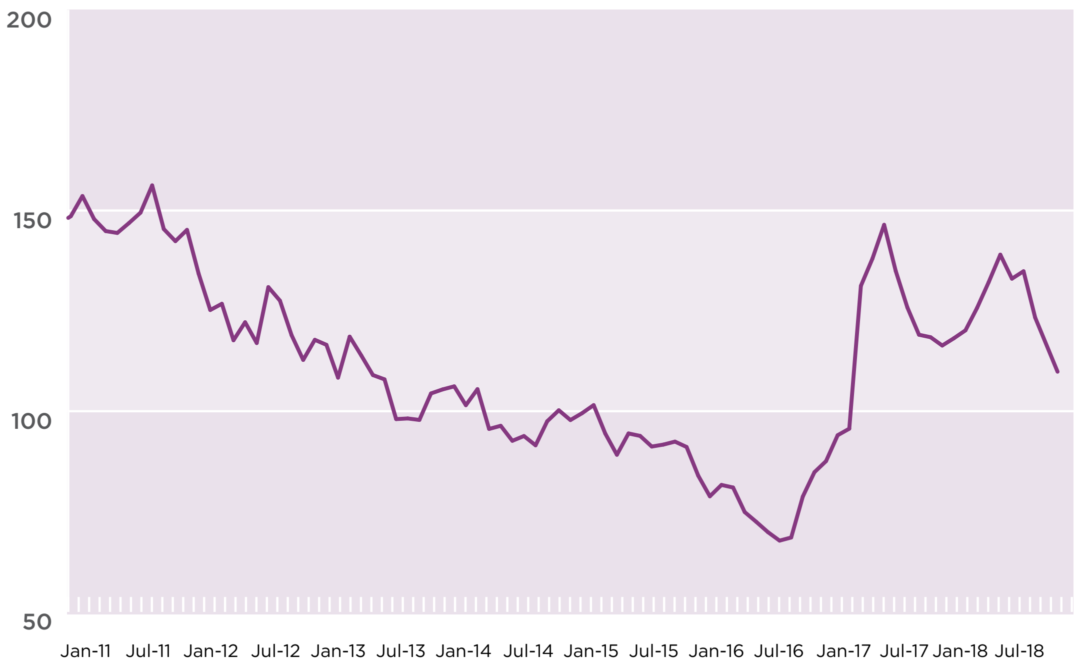
Coal Index



%	
-3	1 Mth
-18	3 Mth
-7	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices fell 3%, in euro terms, in March to settle at $79.5 a tonne from the February close of $81.55 a tonne. Coal prices have fallen since the start of the year as we move out of the colder, higher demand winter months.

We saw increased coal burn in Europe towards the end of the winter as Europe was hit by a severe cold snap, while coal demand in Asia was also higher due to the cold winter.

We saw carbon prices increase over 30% in March as the European Union's Emissions Trading System, the policy to tackle global warming by charging for the right to emit carbon, underwent structural reforms. The scheme has long proved ineffective due to excessive permits keeping the cost of burning carbon too low. The EU implemented changes, passed by the European parliament in February, to increase the rate at which the scheme's Market Stability Reserve (MSR) soaks up excess allowances beginning in January 2019.

By tightening the supply side, the MSR should support carbon pricing and increase the cost of burning carbon. In addition, coal faces structural headwinds from Chinese energy policy. China is the key global market for coal as it accounts for over half of global consumption. China has begun a move from coal to gas in a large part to address air quality issues in its large cities.

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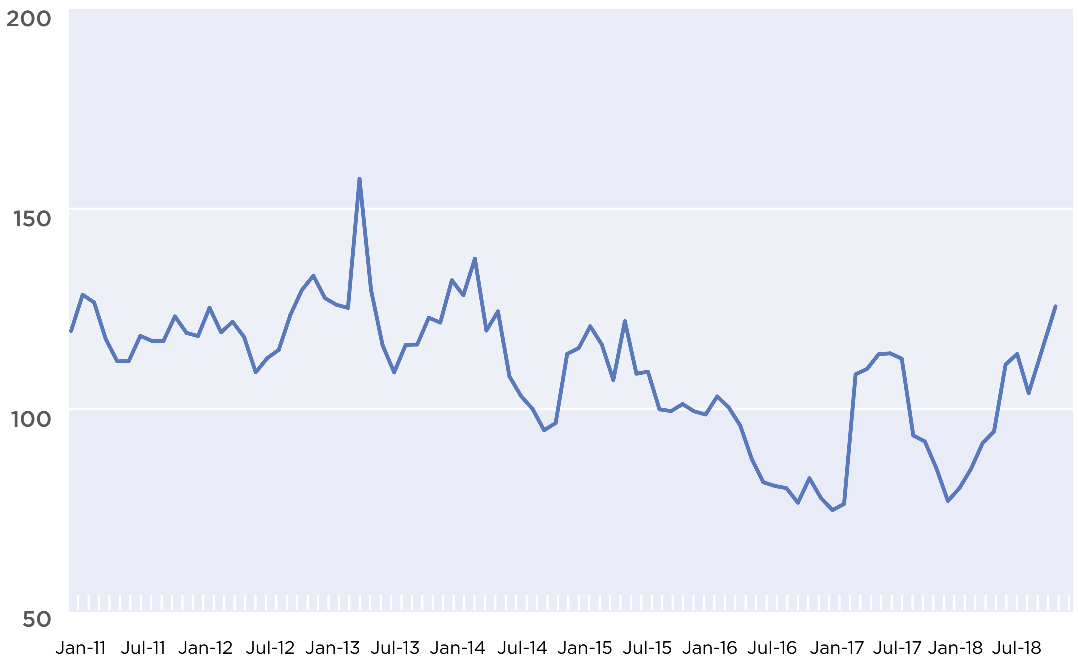
Electricity Index



%	
12	1 Mth
15	3 Mth
40	12 Mth

Data Source: SEMO

Electricity

Excluding supplier capacity payments, the average wholesale price for March was €66.74/MWh compared to €57.86/MWh in February – an increase of €8.88/MWh. When supplier capacity payments are included, wholesale electricity costs rose by 12% 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 €11.99/MWh in February to €10.86/MWh in March. The price of gas was 15% higher over the month, while wind output decreased month on month from an hourly average of 1443GW to 1194GW – a decrease of 17%. The average proportion of demand met by wind in March was 28%.

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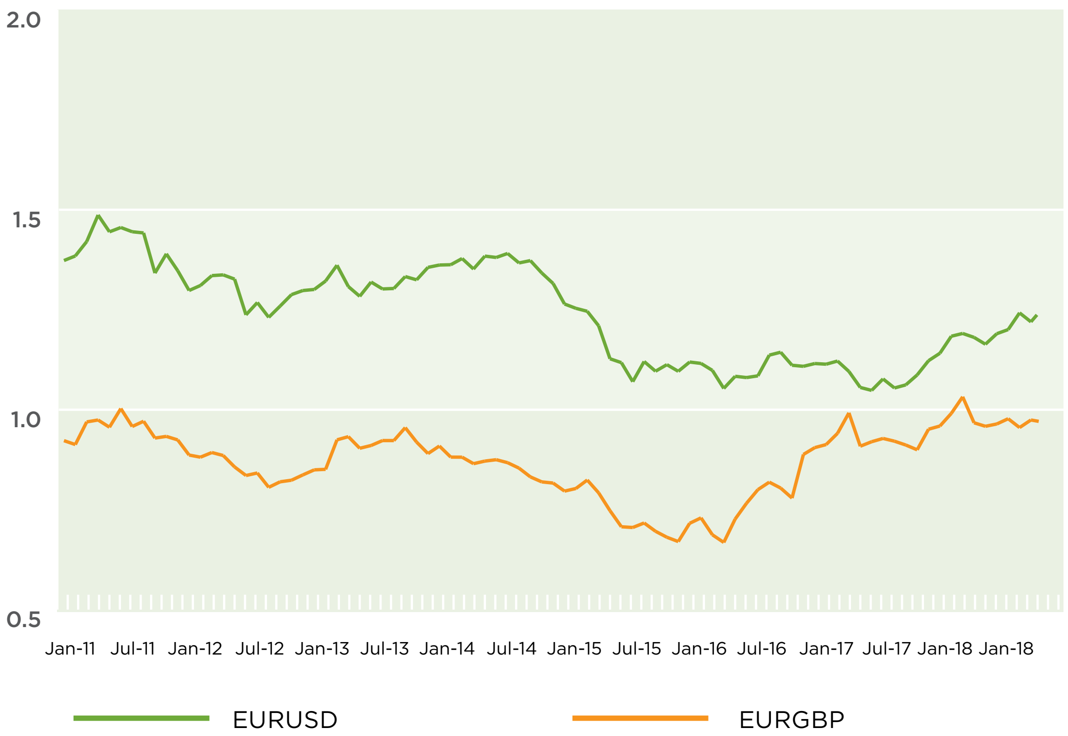
FX Rates



EURUSD %

1	1 Mth
3	3 Mth
15	12 Mth

EURGBP %

-1	1 Mth
-1	3 Mth
3	12 Mth

FX Rates

The euro fell by 1% versus the pound in March settling at £0.8782p while the opposite was the case against the US dollar where the single currency gained in value by 1% to settle at $1.2327.

The US dollar weakened marginally against the euro in March. Many market commentators highlight the risk that greenback may gain in value over the coming months as investors are tempted to buy the dollar in the short term because of interest rate differentials with the euro. The US Fed is likely to be the only major central bank to raise rates this year. Counterintuitively, the prospect of a trade war may also be bullish in the short term for the dollar as investors seek out haven assets such as the dollar and yen.

The pound gained in value against the euro in March as a member of the Bank of England's Monetary Policy Committee signalled that he was likely to vote for an interest rate rise soon. This has fuelled expectations that the central bank may raise rates as early as May. The remarks by Gertjan Vlieghe who was previously seen as one of the most dovish members of the MPC are a significant shift in stance.

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