

**Bord Gáis**

**Energy Index**

Understanding energy

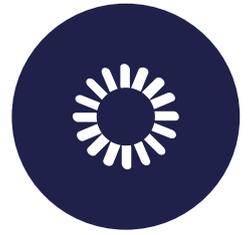
MAY 2016

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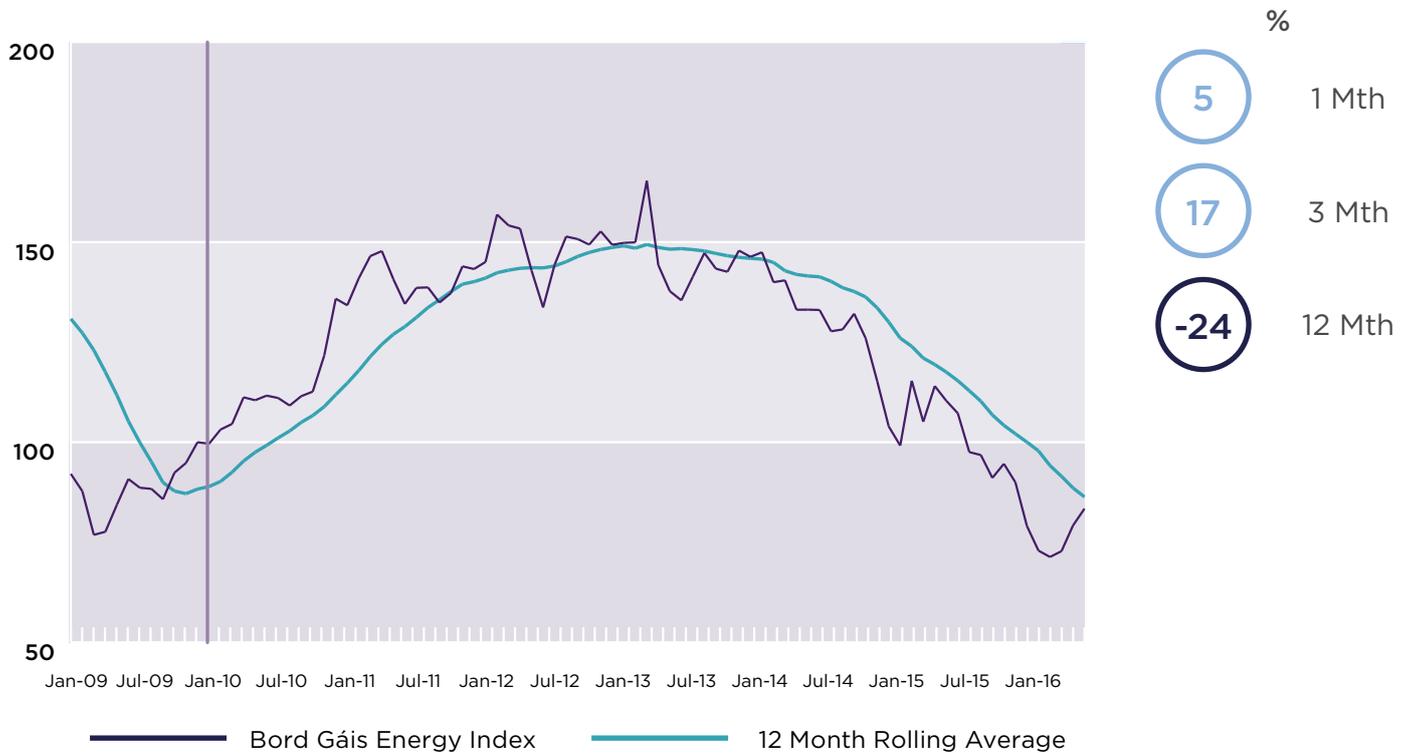


# Bord Gáis Energy Index

May 2016



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



## Summary

In May 2016 the Bord Gáis Energy Index increased by 5% month-on-month as oil increased 6% in the month. Performance among the remaining components of the Energy Index was also positive with UK prompt wholesale gas up 6% on the month, European coal 15% higher and Irish wholesale electricity prices increasing by 4%.

In May, the Index stood at 83.

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## Oil Index



Index adjusted for currency movements.

Data Source: ICE

## Oil

Brent prices had another positive month in May as the Brent crude benchmark finished the month up 3%, 6% in euro terms, at a fresh 2016 high of \$49.69 a barrel. This marks the fourth consecutive month of increasing oil prices.

A global supply glut in the oil market, driven by strong growth in non-OPEC production, drove oil prices from \$115 a barrel in June 2014 to a low of \$27 in January 2016. However, since January 2016 sentiment in the oil market appears to have turned as the market looked beyond the oversupply to a rebalanced oil market in the second half of the year. Prices rallied in anticipation of falling non-OPEC production and increasing demand bringing the oil market into equilibrium. This anticipated rebalancing has been accelerated in recent weeks by supply disruptions in Nigeria and Canada.

The disruption in Nigeria is the result of attacks on key oil infrastructure by militants, calling themselves the Niger Delta Avengers, reducing oil production in the country from 2.2 million barrels a day (mbd) to 1.4mbd. In addition the well-publicised wildfires in Canada's oil-producing Alberta province have knocked an additional million barrels off Canadian production.

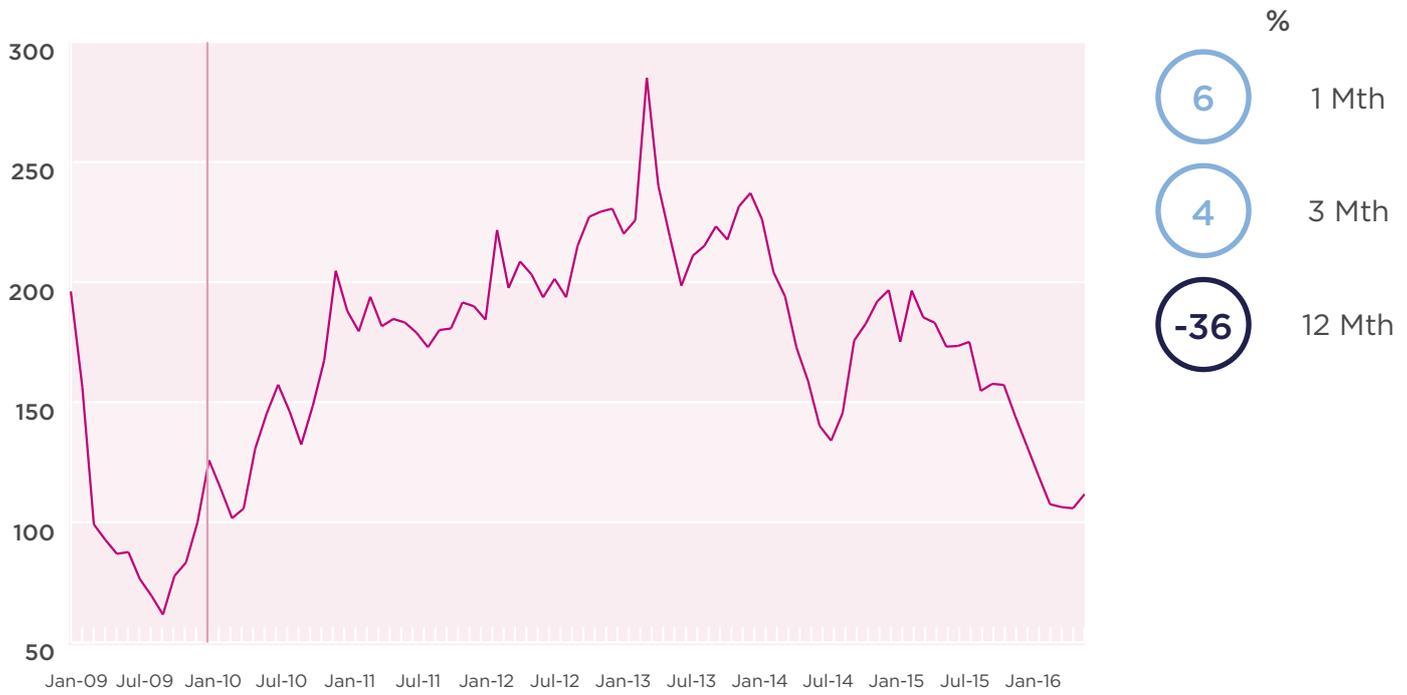
An oil market which was in surplus by about 1.5mbd has been pushed toward deficit for the first time in two years as a result of these supply disruptions.

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## Natural Gas Index



Index adjusted for currency movements.

Data Source: Spectron Group

## Natural Gas

The UK NBP day-ahead contract averaged 30.14 pence per therm for May. This represents a 4% increase, 6% in euro terms, from April's day-ahead average of 29.11p/th. However, wholesale gas prices remain 31% lower than the equivalent average price in 2015.

The average daily demand in May exceeded the seasonal norm by approximately 25 mcm a day. Gas for power demand has increased by more than 50% so far in 2016 and exports through the IUK pipeline are at five year highs. This more than offsets the declines in heating demand. Despite the high demand and some Norwegian and UK supply outages, the system has remained well balanced and LNG flows have remained strong throughout the month.

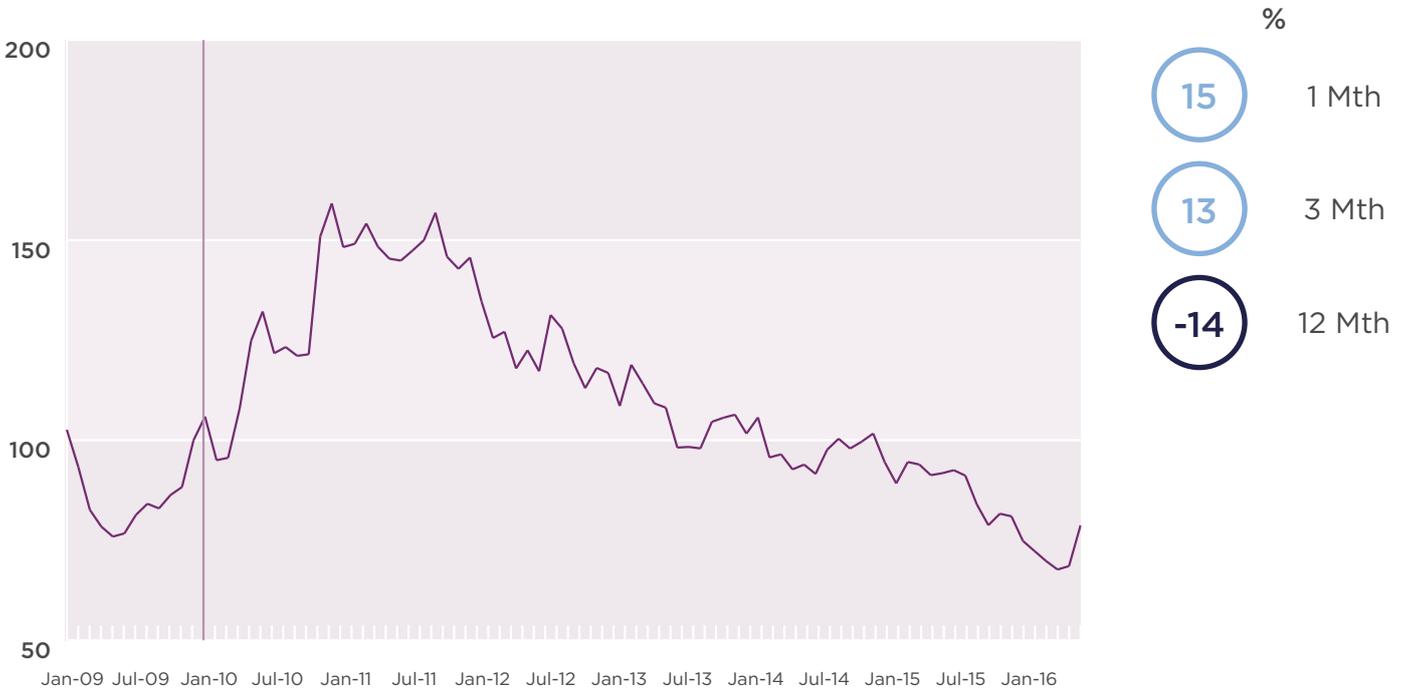
Since our last report, and after the strong rally in the second half of April, the forward curve paused for breath in May and traded in a range for most of the month. The benchmark Winter 16 contract traded between 34.5p/th and 37.65p/th; the market rallied in the final week of the month to settle at 37.5p/th. This represents a 5% increase over the April price. Gas prices were supported by gains in crude oil and Norwegian supply outages. Intraday prices have been more volatile this month with 2-3% daily movements being common. Fundamentally, the gas market looks well supplied but April's rally has increased volatility in the market and this has supported prices over the past month.

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## Coal Index



Index adjusted for currency movements.

Data Source: ICE

## Coal

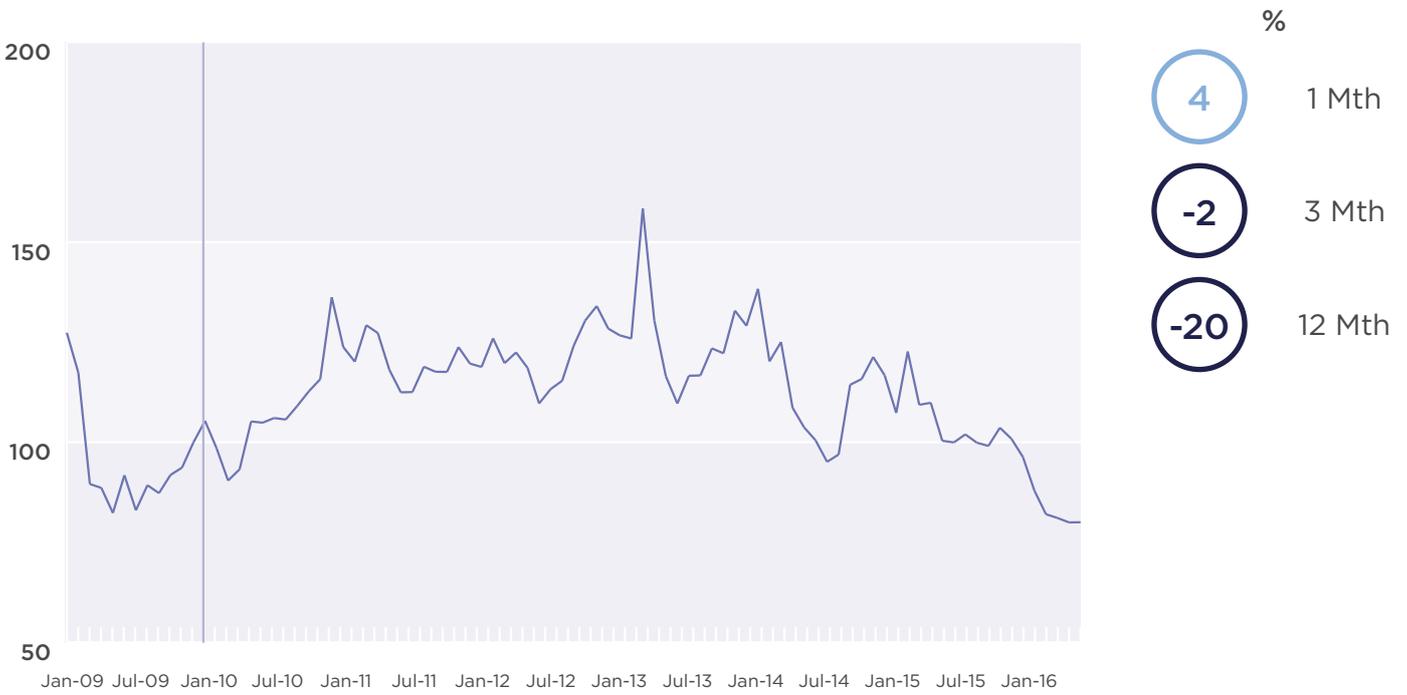
Coal prices closed the month at \$51.15 per metric tonne, an increase of almost 12% over the month in dollar terms. When adjusted for currency moves, coal prices were 15% higher in euro terms. The sentiment around coal was positive in May due to a number of factors; the recent strength in energy prices such as gas and oil has supported coal, an improving economic outlook in China and a view among observers that 2016 may mark the bottom for coal. Many believe that we may see capacity taken out of coal as we see industry consolidation. This consolidation will come in a number of forms; through bankruptcies, companies merging or producers simply getting out of the industry altogether.

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## Electricity Index



Data Source: SEMO

## Electricity

Month-on-month the average wholesale price of electricity increased by 4% in May. Excluding supplier capacity payments, the average wholesale price for May was €37.17 compared to €36.38 in April, an increase of €0.79/MWh on the average monthly wholesale price.

The wholesale cost of imported gas from the UK increased month-on-month by 4% 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. Also, the average price of carbon, another input cost into electricity production, increased by 6.7% in May.

A monthly clean spark of approximately €8.12/MWh was recorded in the month, which is down from the €8.62/MWh observed in April (a fall of almost 5.9%). The decreased spark could be attributed to more consistent running by the larger Combined Cycle Gas Turbines (CCGT), due to reduced fluctuations in wind levels which results in fewer starts for CCGTs. The proportion of demand met by wind in May fell to 13.8% from 16.8% in April.

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## FX Rates



EURUSD %

**-3** 1 Mth

**2** 3 Mth

**2** 12 Mth

EURGBP %

**-2** 1 Mth

**-2** 3 Mth

**7** 12 Mth

## FX Rates

In May the euro lost value versus both the British Pound and the US Dollar. The euro was 2% lower against the Pound and 3% lower versus the Dollar.

The month of May saw a continuation of the risk-on sentiment seen in April, with oil leading commodities higher and developed equity markets rising. The main driver of the strength in the Pound over the month was on the political front with a rise in support in the second half of the month for the remain camp in polls on the upcoming Brexit referendum. The Bank of England suggested that uncertainty related to the referendum was already negatively impacting economic activity and in the event of a vote to leave the EU, a technical recession with at least two quarters of negative growth was likely. The outcome of the vote on 23 June could remain in balance right up to the voting day and a poll on the final day of May showed a swing back in favour of the UK leaving the EU. The Pound strengthened over the month versus the euro by 2% and settled at 0.7674.

The US Dollar received a boost as the US Federal Reserve indicated that it expected to raise interest rates again during the summer. The minutes for the April meeting of the Fed's open market committee confirmed that if upcoming data was consistent with a pickup in growth, Fed members believed that a rate rise might be appropriate. This followed comments from prominent Fed speakers which suggested that an earlier rate rise than investors were previously expecting was possible. However, in a subsequent speech Fed Chairperson Janet Yellen emphasised that the pace of any rate increases would be gradual. The Dollar strengthened over the month versus the euro by 3% and settled at 1.1139.

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**For more information please contact:**

**Bord Gáis Energy**

**Pressoffice@bge.ie**

**Claire Smith 087 027 9075 or Irene Gowing 087 267 3964**

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