Bord Gáis Energy Index
Understanding energy

NOVEMBER 2017

BGE/EI/UE/1217

Bord Gáis Energy

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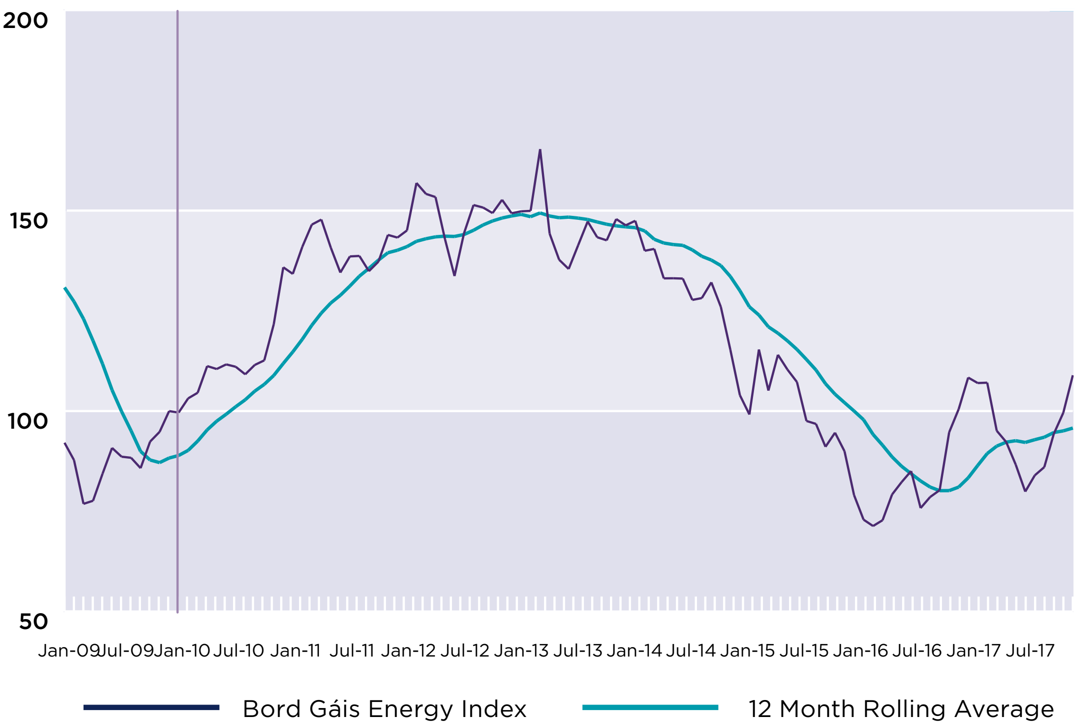
November 2017

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



%	
9	1 Mth
27	3 Mth
8	12 Mth

Summary

The Bord Gáis Energy Index for November is 9% higher, as the wholesale prices of oil, gas and electricity all rallied during the month. Gas prices rallied a hefty 17% from October levels as cooler temperatures and higher demand meant that more imported gas was needed to heat homes and businesses. Oil prices were also 1% higher as OPEC agreed a deal to extend production cuts for a further 12 months. Oil prices are up by over a third since mid-year. Wholesale electricity prices rallied by 21% in line with the increase in gas costs. Coal was the sole component of the index to buck the trend in November by falling 4%.

In November, the Bord Gáis Energy Index stood at 109 (+9%).

Bord Gáis Energy Index

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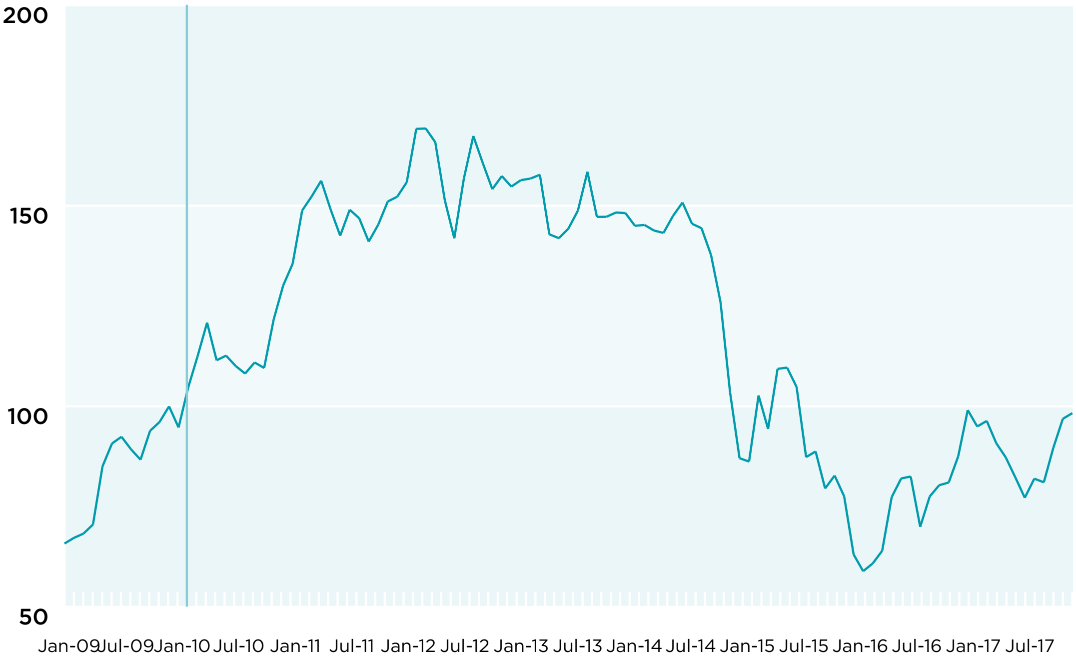
Oil Index



%	
1	1 Mth
21	3 Mth
12	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices continued their upward movement in November, with Brent crude settling at $63.57 a barrel at the end of November. This is a 1% increase, in euro terms, compared to October.

Oil prices at the start of November were at the highest levels last seen in mid-2015, trading as high as $64.27 per barrel, with the price recovery underway since June, as crude demand starts to outpace supply. The tightening in the market has been driven by OPEC's decision - in co-ordination with Russia and other large producers since January - to cut 1.8 million barrels a day of crude, which equates to about 2% of global supply from the market. Demand is also strengthening due to the strongest period of global economic growth since the financial crisis.

On November 30th, OPEC ministers met in Vienna to discuss extending curbs to the cartel's oil production. They agreed to extend the existing deal, which has removed 1.8 million barrels from the market, until end of 2018. The deal also includes some non-OPEC countries, led by Russia, who agreed that more work was needed to clear a persistent global oil glut. The participants in the deal did allow themselves one caveat, whereby they can assess market conditions in June 2018 and may alter production at that point if it appears the inventories are being run down more quickly than they currently expect. While OPEC has said that the aim of the cuts is to reduce global supplies back to five year average levels, it is accepted by many observers that Saudi Arabia, OPEC's de facto leader, has a tacit price target of $60 per barrel or higher. That price level would ensure that the kingdom has the ability to carry out a swathe of planned social and economic reforms which include selling a portion of the state energy company Saudi Aramco.

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Natural Gas Index

%	
17	1 Mth
29	3 Mth
6	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 52p/th in November, over 17% higher than the October price of 45p/th.

Gas prices were stronger in November as cooler temperatures and higher demand lifted prompt and near-term contracts while higher oil and coal supported seasonal contracts. November saw imports from Europe via the IUK and BBL pipelines rise to help meet the higher demand. Norwegian gas flows to the UK also increased over the month but there is little flexibility to further increase their exports. One positive note in terms of supply is that European storage levels are at healthy levels, around 5-year averages, as the mild October allowed gas traders to inject excess flows into storage providing a buffer during cold snaps.

The UK, and by extension Ireland, is particularly dependent on pipeline and LNG imports this winter to help meet demand due to the absence of the Rough storage facility. This may lead to more short-term price volatility during cold spells. LNG imports to the UK have continued to disappoint over recent months as nuclear outages in Asia and higher demand from Chinese domestic gas users have meant that Asian LNG prices are trading at a significant premium to European prices.

In terms of curve prices, the front quarter 2018 contract took its lead from the colder weather over November and continued to build a substantial premium over prices for the front seasonal Summer ’18 contract. The Q1 ’18 contract settled almost 10% higher over the month at 56p compared to a much more modest 4% gain for the Summer ’18 contract which finished the month at 44p. Gains on the Summer ’18 were capped as there is an expectation in the market that Europe will receive a greater share of global LNG exports over the milder months as Asian demand reduces. This will have to be seen to be believed.

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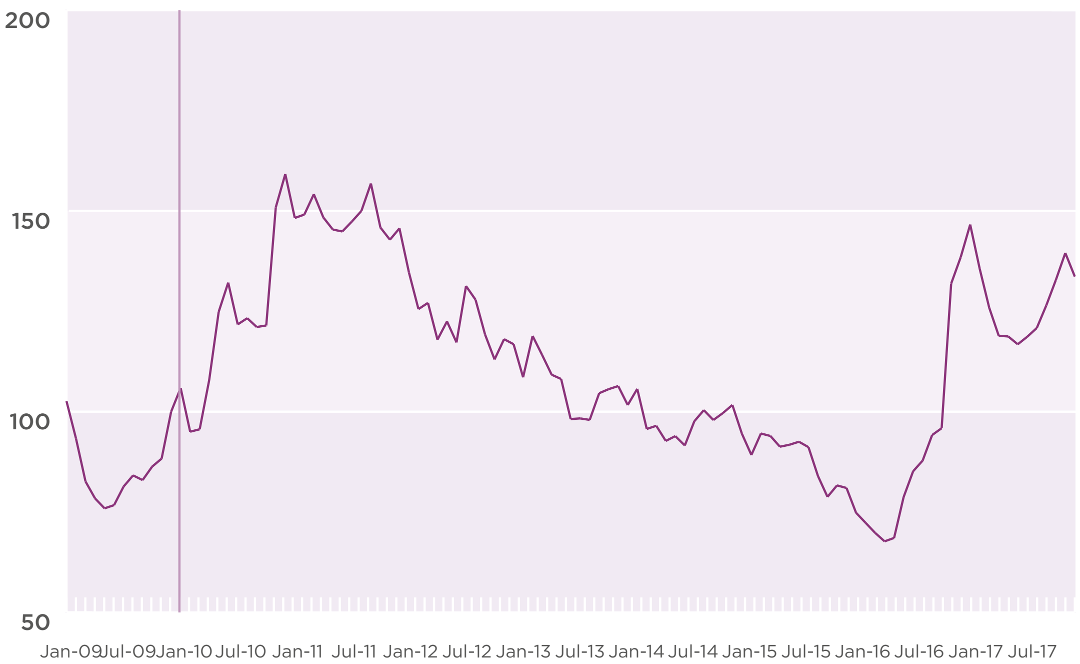
Coal Index



%	
-4	1 Mth
6	3 Mth
-3	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $92.70 a tonne in November, a fall of 4% in euro terms, compared to October. The strength in coal prices this year continues to be dominated by strong demand from China as economic growth continues to grow at a significant pace. China is now on track to add another 120 gigawatts of coal-fired capacity by 2020, with nearly 70% of capacity being added since 2005.

The US coal industry is being supported by President Donald Trump as his administration looks at ideas that might help the industry, including proposing new regulations to support coal-fired power plants in competitive electricity markets. The new proposed rules would in effect subsidise coal power plants on the basis that they are essential for keeping the lights on in a crisis.

China has relented on a policy to ban the use of coal to heat homes, after cold weather and increased demand has driven up prices. The policy was brought in against the industrial and domestic use of coal for heating with the aim of cutting the smog problem. The curbs on coal are part of Beijing's efforts to meet environmental targets this year.

The UK and Italy have made commitments to stop burning coal by 2025 and the Netherlands aims for 2030. As a result of these targets, there are few coal plants currently being built in Europe or North America. However, worldwide, more than 30% of the total energy supplied and 40% of the electricity generated is still from coal. Coal plants are still being built in China, India, Southeast Asia and parts of Africa. The reason that they are still being built is because coal is still cheap, readily available and is a reliable source of power. The Paris Agreement of 2015 includes a commitment from nearly all nations to limit global temperature increases to 2 degrees Celsius and preferably 1.5 degrees Celsius.

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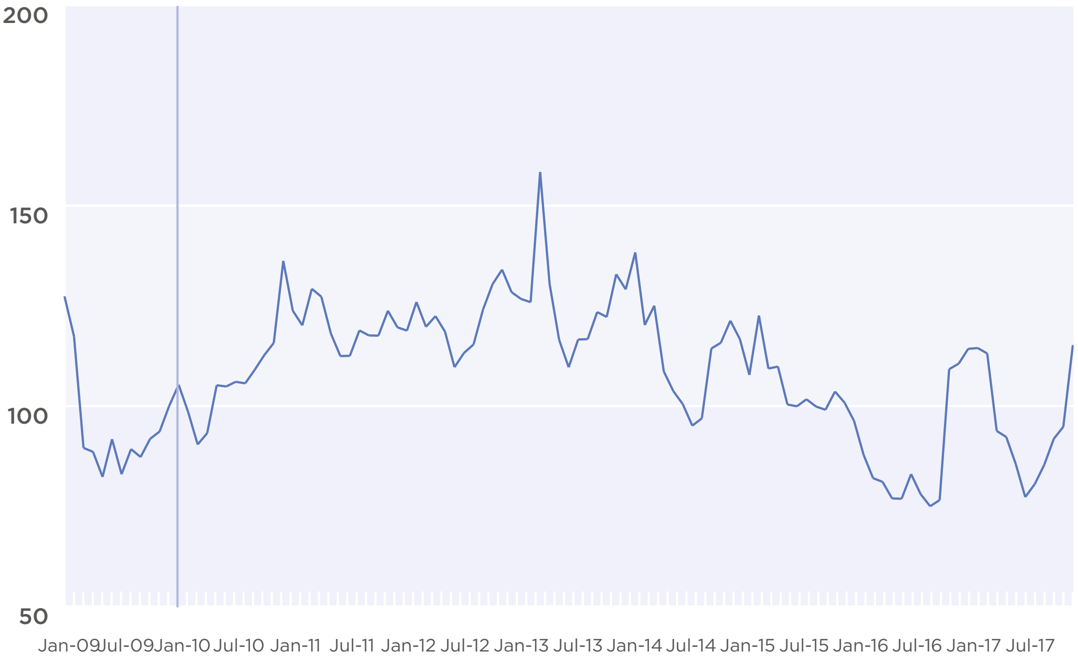
Electricity Index



%	
21	1 Mth
35	3 Mth
4	12 Mth

Data Source: SEMO

Electricity

Excluding supplier capacity payments, the average wholesale price for November was €55.55/MWh compared to €45.88/MWh in October – an increase of €9.67/MWh. When supplier capacity payments are included, wholesale electricity costs rose by 21% 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 increased from €8.34 in October to €11.88 in November. The price of gas was 17% higher over the month, while wind output decreased month-on-month from an hourly average of 1,168GW down to 1,122GW – a decrease of 4%. The proportion of demand met by wind in November was 26%.

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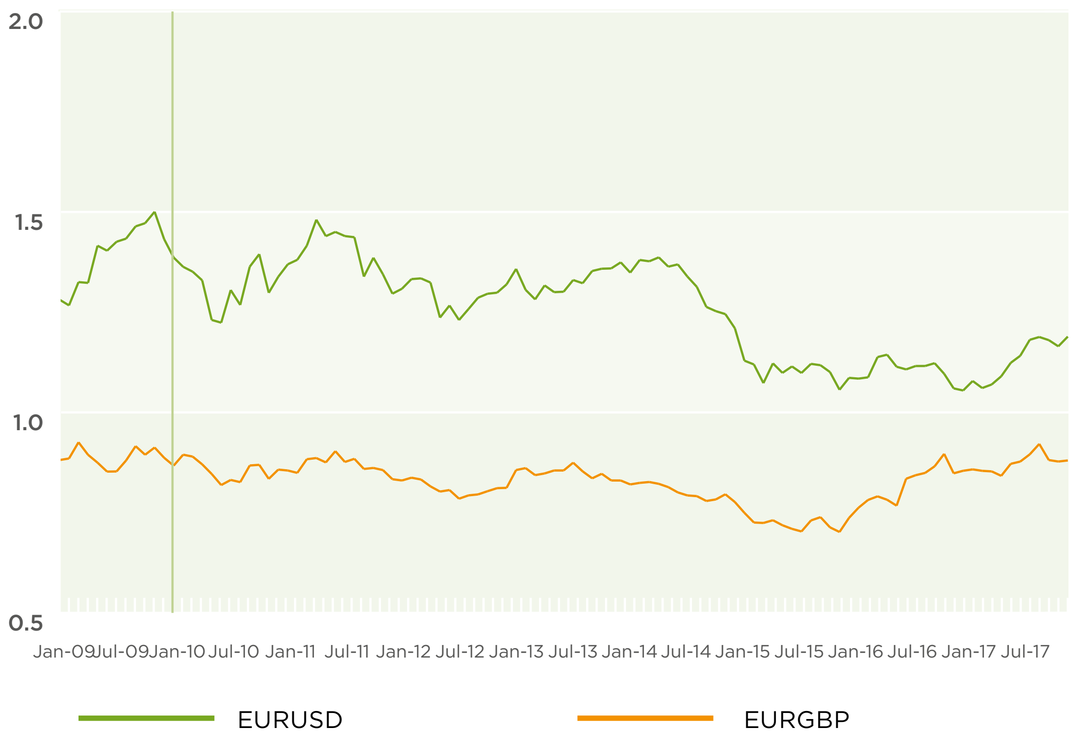
FX Rates



EURUSD %

2	1 Mth
0	3 Mth
12	12 Mth

EURGBP %

0	1 Mth
-4	3 Mth
4	12 Mth

FX Rates

The euro was broadly flat versus sterling in November and was stronger against the US dollar. The single currency settled at £0.8802 against sterling, less than half a percent stronger while it gained 2% against the dollar to finish the month at $1.1891.

The fact that the euro only marginally strengthened against sterling in November could be attributed to the Bank of England raising its interest rates for the first time in more than ten years at the beginning of the month. The Bank said it expected “very gradual” rises in rates over the coming cycle. The Monetary Policy Committee’s 9 members voted 7-2 to increase its benchmark bank rate by 25 basis points to 0.5%. This reversed the emergency cut implemented in August 2016 in the wake of the Brexit vote. Governor Mark Carney has stated that the resolution of “Brexit uncertainties” could lead to a “recalibration” of policy.

Across the Atlantic, in the US, the Federal Reserve minutes suggested that interest rates will be raised by 25bps in December and that further gradual rate rises are likely in 2018. The dollar lost some ground as there appeared to be some division among Fed members over whether inflation will rise towards its 2% target over the medium term. This may mean that pace of any interest rate increases is reduced.

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