

Bord Gáis
Energy Index
Understanding energy

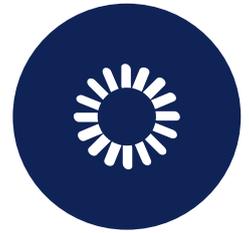
OCTOBER 2017

BGE/EI/UE/1117



Bord Gáis Energy Index

October 2017



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



Summary

The Bord Gáis Energy Index for October is 5% higher than the same period last year and 5% above last month's level.

October was another strong month, with prices higher across most components of the Energy Index. Oil, a key component of the Index, put in a particularly impressive 8% increase as OPEC production cuts drove market tightness and inventory drawdowns. A mild start to the winter season saw gas prices fall 2%, on lower demand and increased imports, while coal's unrelenting march continued as prices pushed 5% higher. Finally, electricity prices were 2% higher over the month.

In October, the Bord Gáis Energy Index stood at 99 (+5%).

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Oil Index



Index adjusted for currency movements.

Data Source: ICE

Oil

October saw oil prices continue their upward momentum, as Brent crude climbed 8% in euro terms over the previous month. Brent, the international benchmark oil price, settled at \$61.37 at the end of October.

Brent prices were supported by falling inventory levels, as OPEC's production curbs helped to tighten the global market. The Organization of the Petroleum Exporting Countries (OPEC), Russia and some other non-member producers are cutting their collective output by about 1.8 million barrels per day (bpd) until next March in an effort to run down a price-sapping supply glut.

OPEC and its allies are now considering extending the deal beyond the March endpoint. The group are due to meet in Vienna on the 30th of November to discuss the proposal to roll-over or possibly deepen cuts for another nine months. The current production is proving effective, pushing the oil price above \$60 per barrel, a level unseen since mid-2015.

Iraq's crude exports fell by 7 per cent in October after the Kurdish region held an independence referendum that resulted in fighting with federal troops, which interrupted pipeline sales. Exports from the disputed Kirkuk region stopped as a result of the dispute, which resulted in Brent crude supplies from northern Iraq dropping to less than half their normal pace of 600,000 barrels a day, in the second half of October. This supply disruption added to Brent's upward momentum.

We are also seeing Oil inventories being drawn down at a significant pace, as global oil consumption is growing rapidly, again supporting prices. Global consumption has risen by 1.6 million barrels per day (bpd) in 2016 and 2.0 million bpd in 2015 driven by low prices and global growth in most areas of the world, according to the Statistical Review of World Energy.

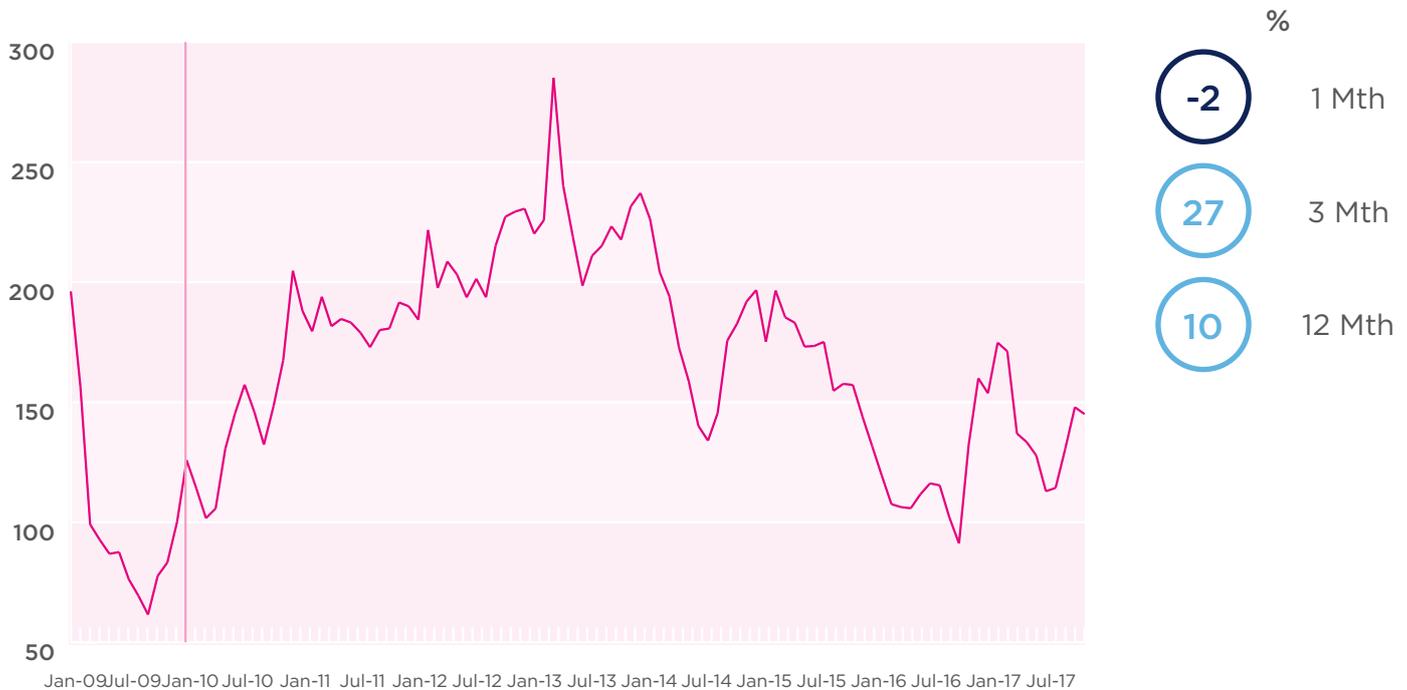
For 2017, consumption is forecast to increase by a further 1.6 million bpd and 1.4 million bpd in 2018, according to the latest Oil Market Report issued by the International Energy Agency (IEA). In the US, gasoline consumption hit a seasonal record in four of the five months between April and August according to the US IEA. Stockpiles of gasoline and distillate in the US have been cut significantly driven by strong demand and record exports to Latin America and the rest of the world. This all supports OPEC's drive to keep oil prices strong, by restraining production and allowing demand growth to absorb excess inventories built during the slump in 2014-2016.

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Natural Gas Index



Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 44.75p in October, over a penny below the September average of 45.83p, but an increase of 10% in euro terms on the comparable period last year.

We had a mild start to the winter season with October average temperatures over a degree above the seasonal norm. Average demand for October was 9mcm a day below expectations for the time of year.

On the supply side, Norwegian flows increased by 13% and LNG (Liquefied Natural Gas) flows also increased. The UK received a number of LNG cargoes in October as Asian prices fell for October delivery. The market, however, remains concerned that LNG outlook for the remainder of the winter is uncertain.

The UK and European markets tend to be residual markets for LNG, and often receive volumes not required elsewhere; particularly the higher priced Asian market. As a result, LNG into the UK is often dependent on events and demand elsewhere. This was clearly illustrated last winter when increased Asian demand, due to cold weather and nuclear disruptions, resulted in a dearth of LNG arrivals into the UK market.

Further out the curve, the first quarter 2018 contract, which covers the higher demand months of January, February and March, was a penny higher, while prices for the front summer season were around two pence higher. The divergence in performance was driven in large part by a strong recovery in oil prices which hit levels not seen since July 2015. Oil prices impact gas prices via oil indexed contracts which link the price of gas to oil via commercial contracts - often with a 6-9 month time lag.

The milder October helped European storage to continue to fill through October, helping to push European storage levels back up to a 5-year average. However, the UK's growing reliance on imports, via European pipelines and LNG, increases its vulnerability to a prolonged cold spell, particularly given the absence of the Rough Storage facility from now on.

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Coal Index



Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at \$94.80 a tonne in October, continuing to push through last month's 3-year high. This month's close is 5% above September's closing price of €91.4 a tonne in euro terms. The higher coal prices were driven by strong demand from China, continuation of French nuclear concerns and strengthening Brent Crude prices.

China's coal imports in September hit their highest level since December 2014. Imports for the first nine months of the year were up 13.7 per cent to 204.85 million tonnes, showing a strong appetite for coal despite the country's effort to cut consumption due to air quality issues in large urban centres.

Chinese authorities have encouraged utilities to sign long-term purchase contracts with coal producers as early as possible, as coal power plants ramp up inventories for winter. Demand for coal in Asia looks set to tighten in the upcoming peak-demand heating season, as many utilities are yet to stock up on the commodity. We are likely to see a wave of orders once the first cold spell of the winter bites. Analysts warn that such demand could come just as seasonal rainfalls disrupt mines' production in major exporting nations such as Australia and Indonesia.

Inventory levels across key coal-consuming countries declined in the past weeks, which supported coal prices during October. Coal prices for Calendar 18 broke \$85 a tonne mid-month, a key support level for the contract.

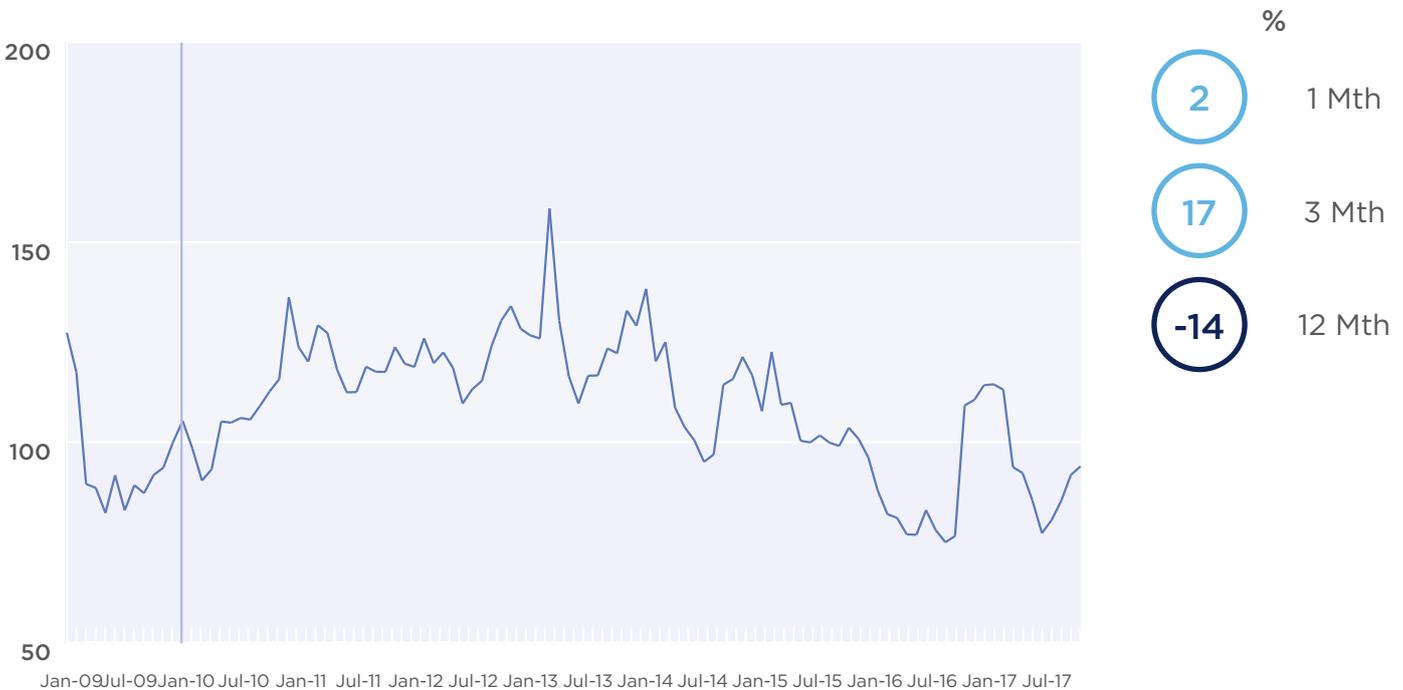
In addition, South Korea's coal imports are set to hit a record in October as nuclear reactor outages bite, ahead of peak demand season. Coal imports by South Korea hit record levels in September at 11.3million tonnes, with October figures being projected around 12 million tonnes. Given nuclear generation issues in South Korea in 2016 and 2017, market remains concerned that we may see a repeat this year, resulting in requirement for increased coal.

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Electricity Index



Data Source: SEMO

Electricity

Excluding supplier capacity payments, the average wholesale price for October was €45.88/MWh compared to €46.11/MWh in September - a decrease of €0.29/MWh on the average monthly wholesale price. When supplier capacity payments are included, wholesale electricity costs rose by 2% over the month. Irish 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 0.6% from €8.39 in September to €8.34 in October. The price of gas was 2% lower over the month, while wind output increased month on month from an hourly average of 1,034GW up to 1,168GW - an increase of 13%. The proportion of demand met by wind in October was 38%.

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FX Rates



EURUSD %	EURGBP %
-1	0
-1	-2
6	-2

FX Rates

The euro was lower against both the US Dollar and Sterling over the month. The euro fell very marginally against sterling to settle at £0.8775, a drop of around half a percentage point on September's close. The single currency also traded lower versus the US dollar, falling almost two cents to close at \$1.1648, a drop of 1.3%.

The euro weakened as the European Central Bank unveiled details of its Quantitative Easing (QE) exit plan and as a result of heightened concerns around Catalanian independence from Spain following a referendum in the region.

The ECB announced, at its meeting at the end of October, that it would extend its bond-buying scheme until at least September next year, but would halve the pace of its purchases to €30bn a month. It also highlighted a commitment to increase purchases if required. Mario Draghi's language following the meeting reassured the market that monetary stimulus will remain in place through 2018 and an interest rates rise is unlikely until well into 2019.

The dollar hit a three-month high versus a basket of currencies in October amid optimism that Mr. Trump would succeed in implementing US tax reforms and confirmation that Janet Yellen would not be reappointed as head of the Federal Reserve. This increased the possibility that the next fed chair would be filled by someone with a more hawkish outlook, making an increase in interest rates more likely.

Brexit uncertainty continued to stalk sterling and the broader UK economy. However, the pound has been supported by hawkish comments following the Bank of England's most recent meeting. Many observers are anticipating an increase in rates at its next meeting in early November, possibly followed by further tightening over the coming months.

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