

Bord Gáis Energy Index records rise in October

The October 2015 Bord Gáis Energy Index rose by 4% month-on-month due to stronger Brent crude oil, European coal and wholesale electricity prices. A weaker euro versus the US dollar and sterling contributed to the month-on-month rise in the Index as the oil, coal and gas used in Ireland trades in dollars and pounds.

In October 2015 the Index stood at 95, which is a four point jump from the 91 points level recorded in September 2015.

Oil

Month-on-month the front month Brent crude oil price was little changed and closed October at US\$49.56, a gain of just US\$1.19 a barrel. However, intra-month prices were choppy as the market reacted to daily supply and demand factors. Prices are now being governed by the laws of supply and demand and this development marks a departure for now from OPEC's influence on global prices.

Gas

In sterling terms the average wholesale UK Day-ahead gas price weakened 4% month-on-month. However, euro zone buyers of British gas did not see these benefits as the euro weakened against other major currencies. Despite rising demand, the surge in LNG terminal sendout contributed to ample gas supplies and lower wholesale prices in Britain.

Electricity

In general the wholesale price of electricity can be assessed by examining three components the UK wholesale cost of gas, the European-wide price of emitting one tonne of carbon and the clean spark (in general terms, the clean spark is what a gas powered generator receives in energy payments from the market once the cost of producing a unit of electricity is deducted).

Irish wholesale prices rose slightly month-on-month with demand starting to edge towards more typical winter levels. A monthly clean spark of over €9/MWh was recorded in the month, which was up markedly on the sub €7/MWh observed in September. The average spark year-to-date is close to €7.25/MWh. The rising wholesale electricity price can be attributed to a combination of rising demand which was up approximately 4% on September levels and low or inconsistent wind.

Coal

Month-on-month there was a modest rise in European coal prices. Concerns over reduced Russian supplies and elevated buying interest supported European coal prices in October. The ICE Rotterdam Monthly Coal Futures Contract rose modestly in price from the record lows during September to close at US\$52.45/mt on October 30. This represents a US\$1.05/mt gain month-on-month.

The outlook for European coal prices is to remain around the US\$50/mt given that the market is long and there is no producing country that shows any major issues. However, it is not long enough that a supply problem could not turn it tense, such as with a strong winter in Europe, a prolonged rainy season in Colombia, or an extended miners' strike in South Africa.

FX

In October the euro weakened against the US dollar and sterling on the expectation that the ECB will provide additional monetary stimulus to the euro zone economy. Sterling and the dollar benefited from expectations of rate hikes. Given the decisions facing the ECB and the Federal Reserve and Bank of England, the first great divergence in monetary policy since the financial crisis of 2008 is looming.

For more information, please see the full Energy Index report.

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