Bord Gáis Energy Index

Understanding energy

SEPTEMBER 2017

BGE/EI/UE/1017

Bord Gáis Energy

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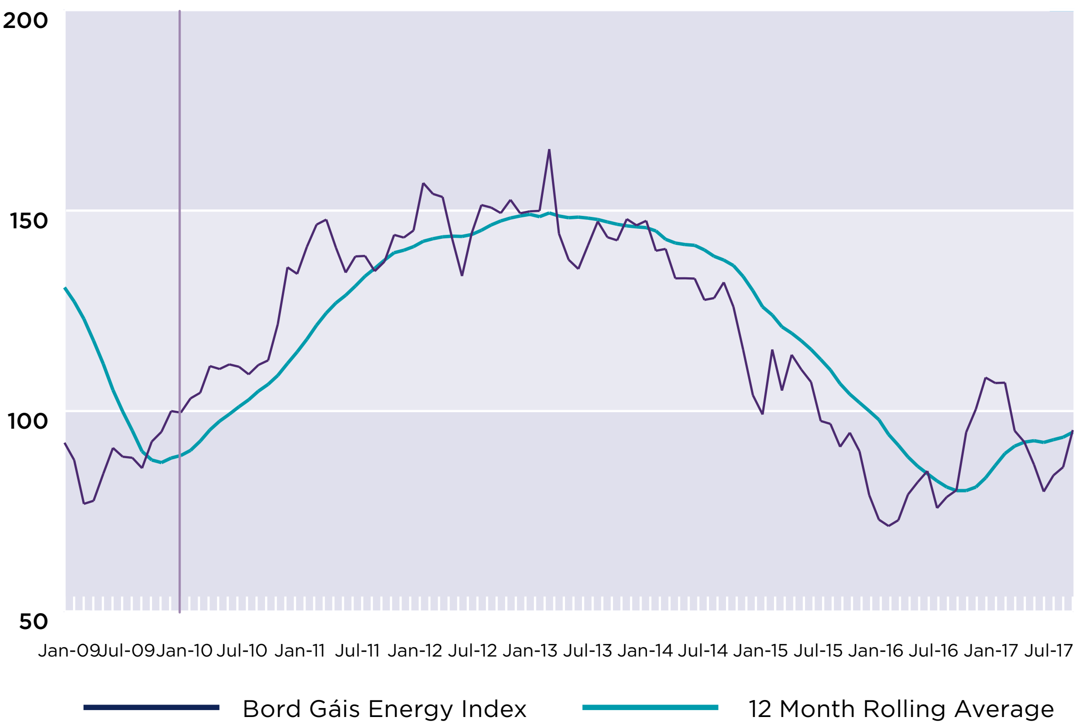
September 2017

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



%	
11	1 Mth
19	3 Mth
19	12 Mth

Summary

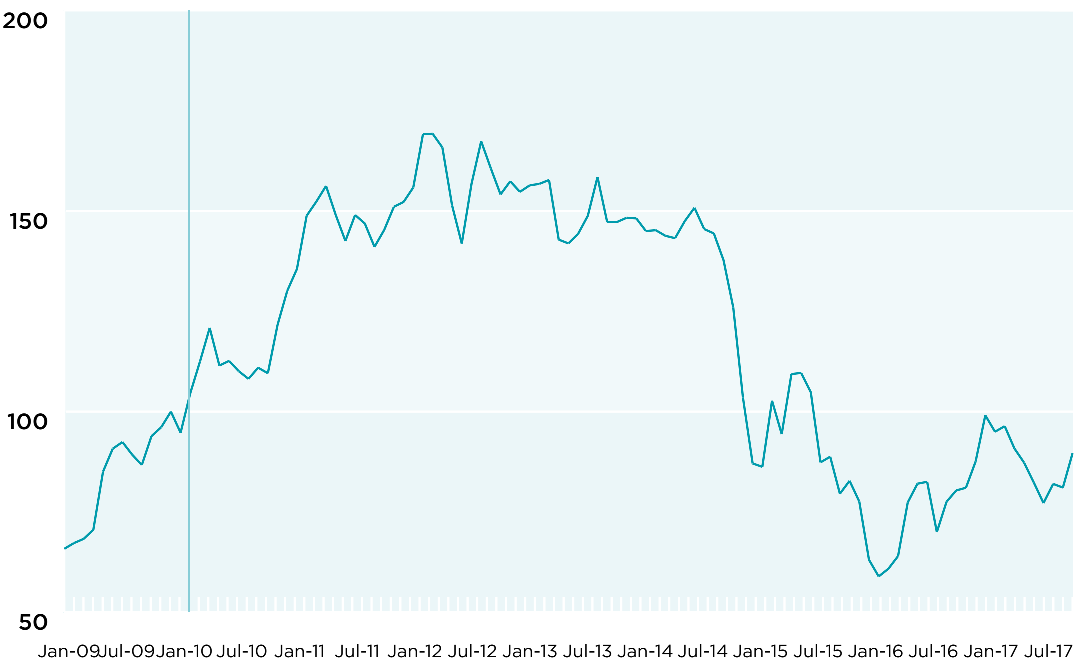
The Bord Gáis Energy Index for September is 19% higher than the same period last year and is 11% higher over last month.

September proved to be another strong month with energy prices higher across all components of the energy index. Oil continued its recent recovery and is up 11% over the month. Gas rose by 13% as temperatures dropped and fewer deliveries of LNG (liquefied natural gas) into Europe meant a lower supply of gas to the market. Coal was higher by 5%, taking its lead from rising carbon, power prices and supply concerns in the Asia-Pacific region. Finally, electricity prices jumped by 11% as higher gas costs fed through to electricity. Irish wholesale electricity prices typically track the cost of imported gas as it is the most significant cost in the production of electricity.

In September, the Bord Gáis Energy Index stood at 95 (+11%).

Bord Gáis Energy Index
September 2017

Oil Index



%	
11	1 Mth
16	3 Mth
12	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

September saw oil resuming its recent upward trend with the price of Brent crude higher by nearly 11%, in euro terms, over the month. Brent, the international benchmark oil price, settled at $57.54 at the end of September.

Recent figures released by the Energy Information Administration (EIA) show that U.S. crude exports have leapt to a new high of nearly 2m barrels per day as shipments have been sent to customers in Canada, Europe and Asia. This is a considerable jump, given that the 40-year old ban on U.S. oil exports was only lifted in 2015, and is testament to the fracking revolution which has resulted in exponential growth of U.S. crude oil production from around 2011.

Oil bulls have been a rare sighting in the financial press since the precipitous price fall that began in 2014 and bottomed out in early 2016 rippled through the market and industry. However, as we have seen the price more than double from the low point of $27 to a recent high of almost $60, there are those in the analyst community warning of a supply gap emerging and a tighter market next year as excess inventories decline. On the demand side, developed countries' oil demand, which had been declining for a decade, has been increasing over the past three years as low prices encourage drivers back into bigger and less fuel efficient cars.

The flip side is that, as prices recover and the electrification of transport gathers pace, this should eventually chip away at consumption. While on the supply side, higher prices should see the US shale industry continue to respond with the surging production that we are currently seeing. The EIA has already forecasted that U.S. oil production will hit a record high next year. So, it may be some time before we meaningfully break out of the $40 - $60 range that crude oil has been in for the last 18 months.

Also worth mentioning is the recent visit of Saudi Arabian King Salman bin Abdulaziz to Russia for talks aimed at strengthening ties between the world's two biggest energy players. Vladimir Putin has said that he *"does not rule out"* extending a deal with OPEC to cut global oil output past the current endpoint of March 2018. Outward signs of increased cooperation between the two countries have supported prices lately.

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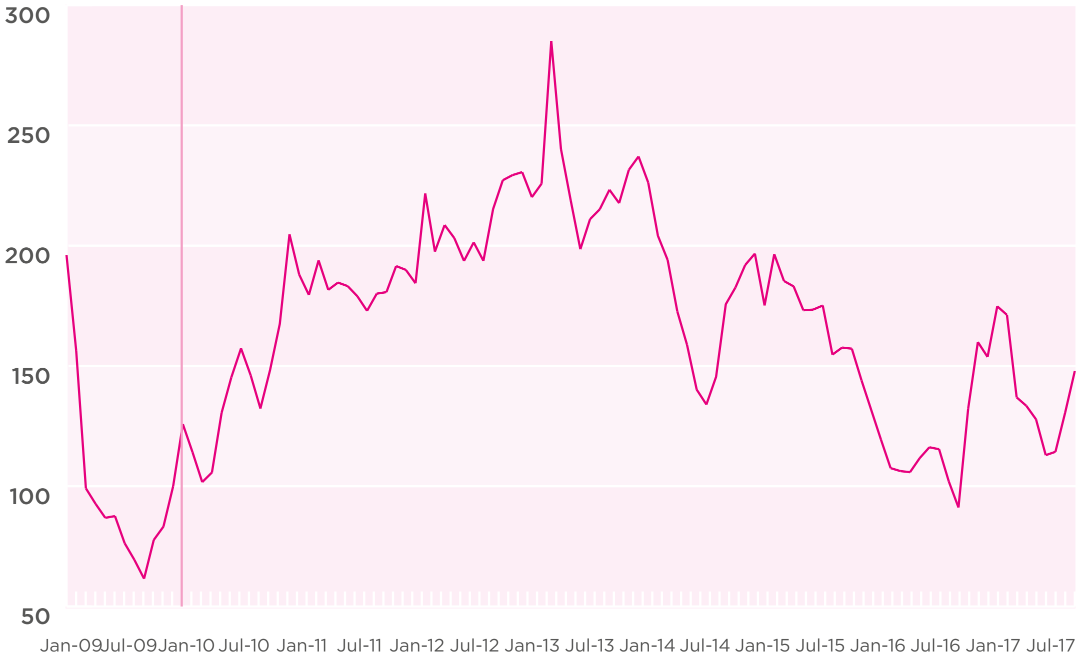
Natural Gas Index



%	
13	1 Mth
31	3 Mth
62	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 45.83p in September, posting a strong 62% increase over the comparable month last year and an increase of 13% in euro terms on the August average of 42.3p.

Gas prices rose on increased demand due to lower temperatures, continued Norwegian maintenance and fewer LNG deliveries into the UK and Europe.

Imports from the Norwegian Continental Shelf were 2.03bcm, 0.32bcm lower on the month due to maintenance to key Norwegian gas infrastructure ahead of the winter. As a consequence of lower Norwegian flows to the UK, there was increased reliance on withdrawals from medium range storage facilities.

We had another month of low LNG (liquefied natural gas) deliveries into the UK market, as tankers headed east in response to higher Asian demand and prices. Despite rapid increases in LNG supply, the European and UK market, which has significant spare LNG capacity, has failed to attract additional LNG over recent months.

Further out the curve, moves were mixed with gains of 1.6p on the Winter '17 contract which settled at 50.3p/th, while the Summer '18 contract was flat on the month reflecting lower supply concerns for the warmer summer months. Continued strength in oil markets, uncertainty regarding LNG volumes into Europe and heightened concerns around French nuclear generation all pushed the winter contract higher.

Nuclear generation provides over 70% of French power and France also exports power to its neighbours including the UK. We experienced significant disruptions to nuclear generation in France last winter as the regulator ordered testing on certain reactor components. The generation gap was filled by increased gas for power demand pushing prices higher. The market is concerned that we may see a repeat this winter, with concerns heightened recently as a number of reactors were taken offline or had restarts delayed.

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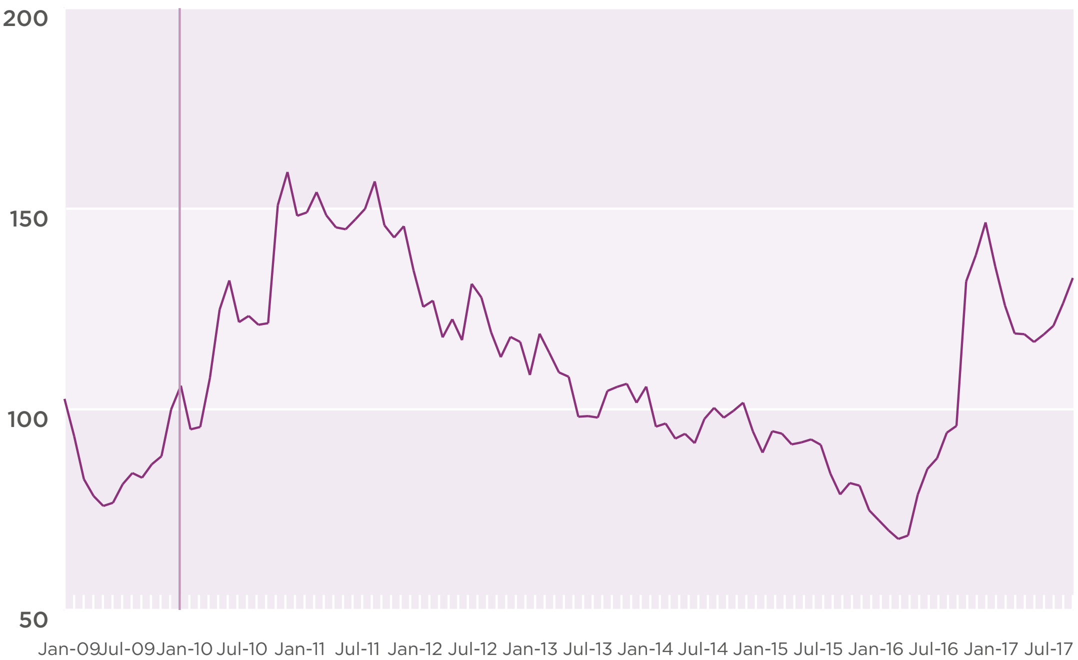
Coal Index



%	
5	1 Mth
12	3 Mth
38	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $91.4 a tonne in September, which is a three-year high, an increase of 5% per tonne in euro terms on August's closing price of $87.65 a tonne. It took its lead from rising carbon and power prices and supply concerns in the Asia-Pacific region. The strengthening of the euro was another driver, with the Euro trading as high as $1.203 against the dollar in September - a 32-month high.

Coal prices continued their upward momentum in September, as a bullish East Asia market dragged global prices upward. Japanese contract negotiations are also keeping prices high and this is expected to hold in place through to late 2017. Increasingly, coal has been diverted away from Europe towards higher-priced Asian markets.

There is a coal import ban at China's Guangzhou port for the rest of the year because it had already reached its unofficial limit for imported volumes. Vessels laden with imported coal arriving after October were unlikely to be allowed to enter Guangzho port and discharge their cargoes. This import ban would mainly affect cargoes from Indonesia and Russia.

Coal prices were also affected by news from the French nuclear regulator which announced that any reactor restarts are subject to a positive review of specific files for each reactor to be provided by operator EDF. EDF operates the country's 58 reactors which have a combined capacity of over 63 GW. This statement sent wholesale electricity prices in France higher, along with coal prices, as the news signals a potential for delays to nuclear power plants' return during the coming winter. Last winter, EDF had to perform material tests on a number of reactors following the discovery of potentially forged files at the Le Creusot foundry. Coal prices fell later in the month as news surrounding the situation at EDF's reactor emerged and the issue might not be as serious as initially thought.

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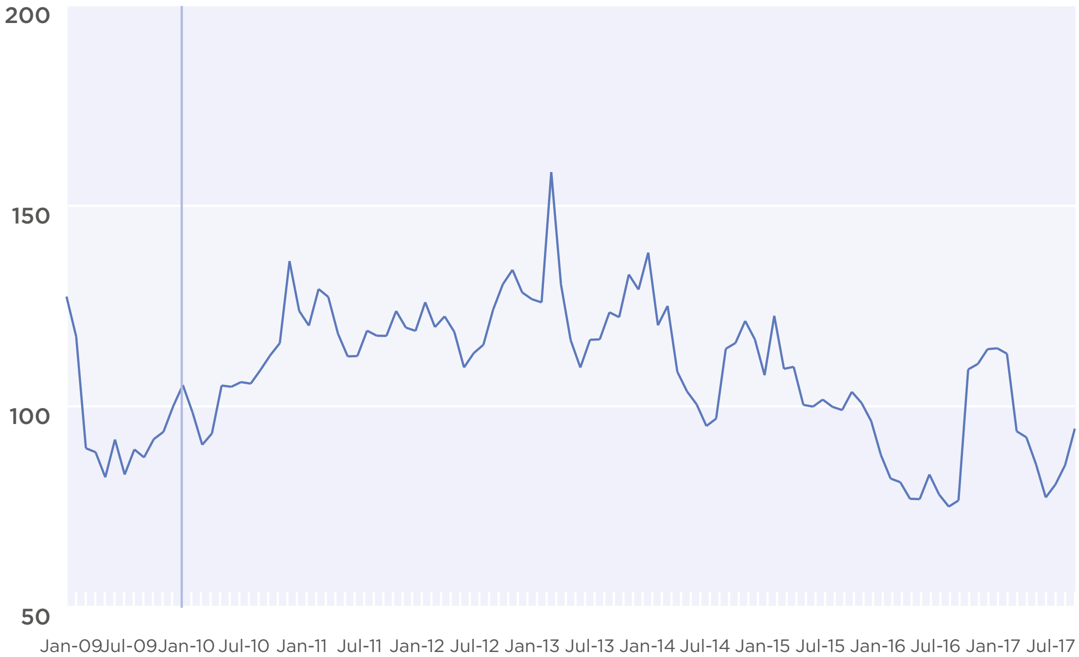
Electricity Index



%

11 1 Mth

22 3 Mth

23 12 Mth

Data Source: SEMO

Electricity

The average wholesale price of electricity rose by 11% in September. Wholesale prices are 23% higher than the same period 12 months ago.

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.

Excluding supplier capacity payments the average wholesale price for September was €46.15/MWh compared to €42.14/MWh in August, an increase of €4.01/MWh on the average monthly wholesale price. An average monthly clean spark of approximately €8.41/MWh was recorded in September, which increased 6% from the €7.90/MWh observed in July. The proportion of demand met by wind in September was 33%.

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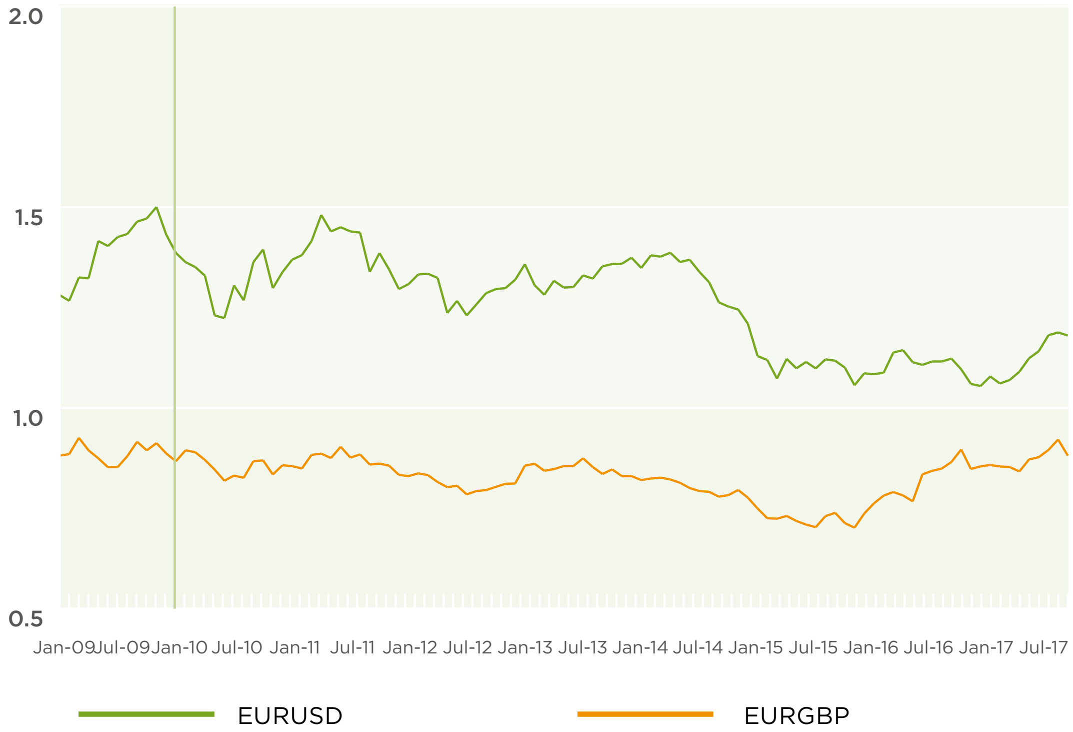
FX Rates



EURUSD %	
-1	1 Mth
3	3 Mth
5	12 Mth

EURGBP %	
-4	1 Mth
0	3 Mth
2	12 Mth

FX Rates

Recent euro strength stalled in September as the single currency fell against the pound and the dollar. The euro fell 4% against sterling to settle at £0.8812 and dropped 1% versus the US dollar to $1.1803.

Continued sterling weakness stalled in September on speculation that the Bank of England (BoE) may increase interest rates. The persistent Brexit uncertainty weighed on the UK economy as weak manufacturing, trade and investment data was released. In addition, inflation numbers came in above target at 2.9%, as lower sterling pushed up the cost of imports.

These strong inflation numbers prompted increased speculation that the Bank of England may increase interest rates with the BoE governor Mark Carney, in his press conference following the most recent BoE meeting, suggesting that there may be adjustments to interest rates in the coming months.

For more information please contact:

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