



Bord Gáis Energy Index

Understanding energy

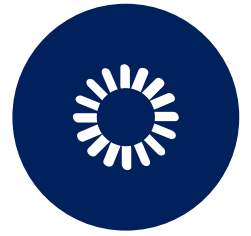
June 2018

BGE/EI/UE/0618

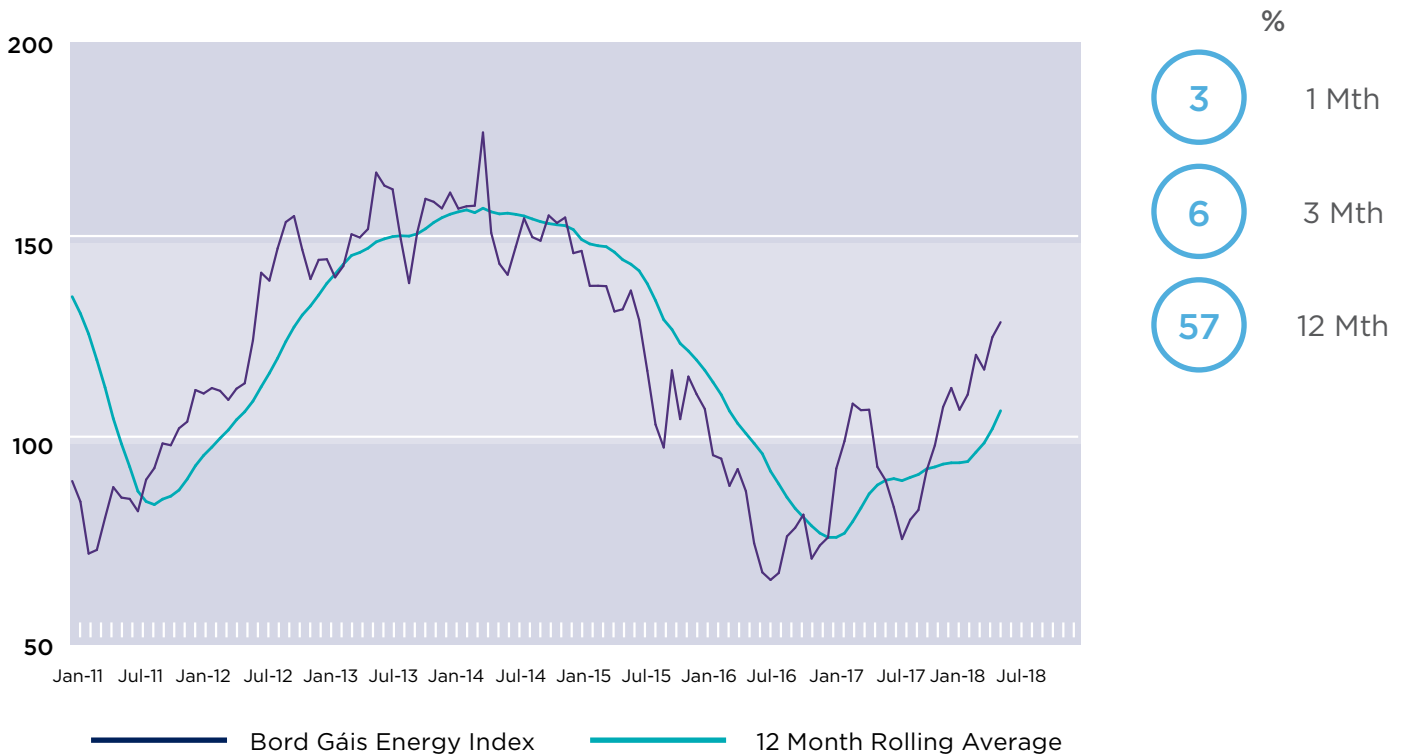


Bord Gáis Energy Index

June 2018



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



Summary

The Bord Gáis Energy Index for June is up 3%. Year-on-year, the Index increased 57%, the highest 12-month increase seen since the Index was developed.

The key driver in June was Brent crude, while coal prices and electricity prices also showed positive gains. Brent crude prices rose 2% in euro terms, despite the agreement by OPEC and Russia to increase oil production immediately. This brings an end to the OPEC strategy to curtail oil production, which has been in place since the end of 2016. Coal prices continued to make fresh highs in June, with Asian demand supporting prices. Gas prices ended the month unchanged, but are 56% higher on a 12-month basis.

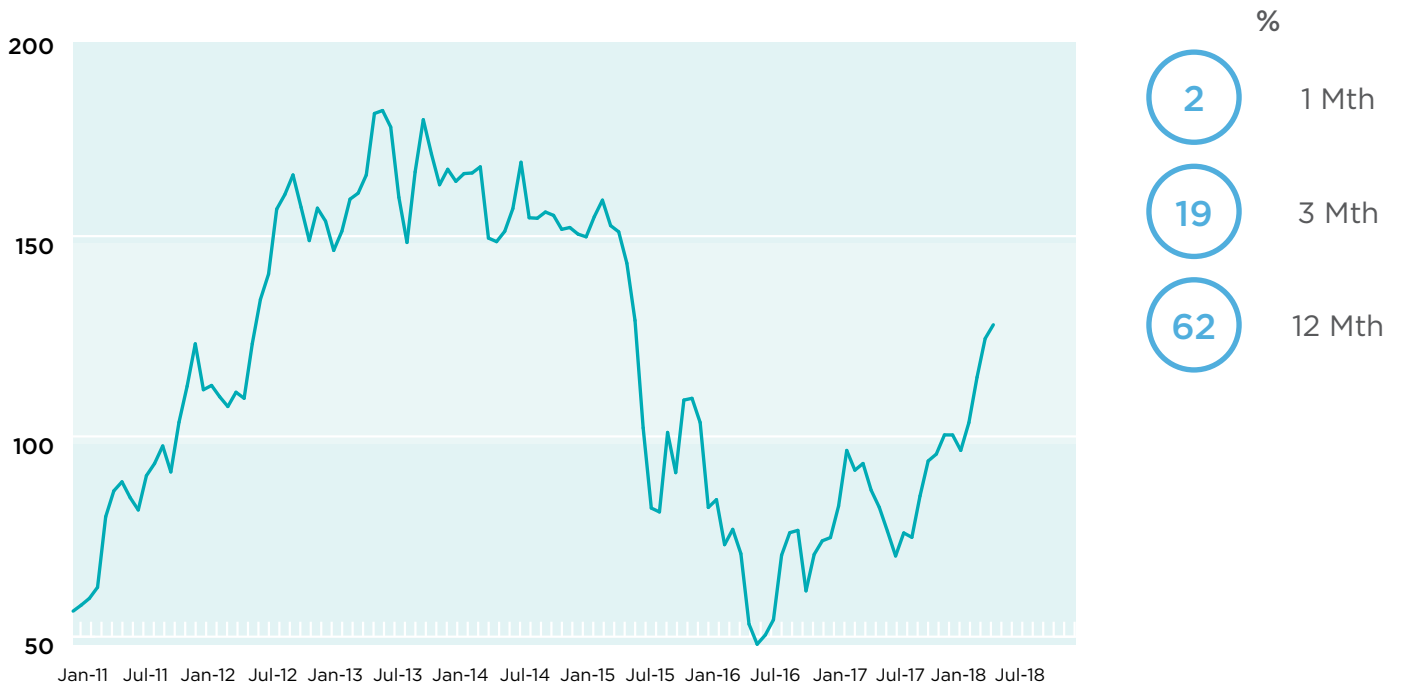
In June, the Bord Gáis Energy Index stood at 125 (+3%).

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Oil Index



Index adjusted for currency movements.

Data Source: ICE

Oil

With a minimum price of \$73.05, Brent crude traded within a broad range in June, ending the month at \$79.44. This was a rise of 2% in euro terms. Prices moved lower through the first three weeks of June in the run up to a crucial OPEC meeting on 22 June. Prices rallied after the meeting, despite the decision to increase production to bring output back to late 2016 (pre-cut) levels.

Brent prices drifted in the first half of the month as expectations of an OPEC production increase and worries about how a looming trade war between the US and China could affect demand. Prices fell from \$78 to trade as low as \$73 on 15 June. Prices rose ahead of the OPEC meeting as concerns mounted that the production increase would fall below market expectations.

Saudi Arabia and non-OPEC member Russia were both pushing for production increases while Iran was pushing for no change. Iran production will be impacted by US sanctions later in 2018 so it will have limited ability to increase exports. In the end, the decision did not surprise the market but some are worried that the increase may not be enough to offset strong demand growth expected in the second half of the year.

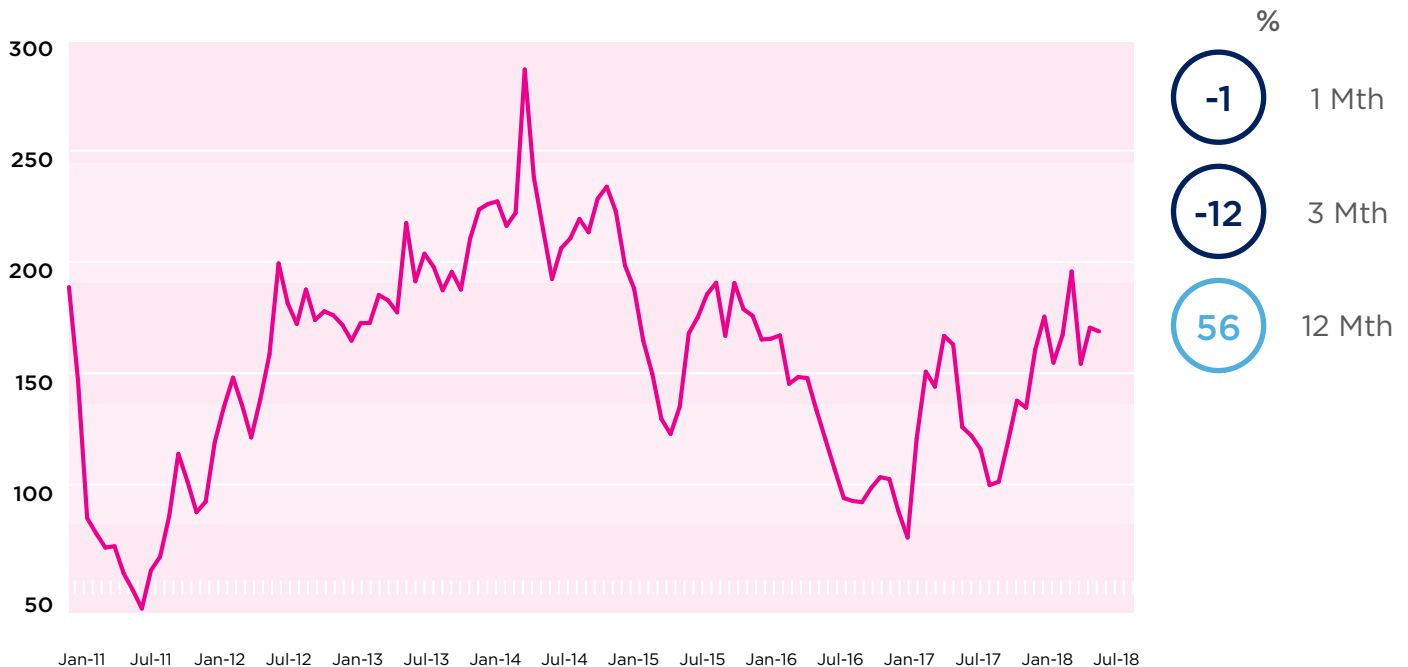
Even after OPEC announced a production increase, the price of Brent crude oil rose. Worries about production issues in Venezuela, a production outage in Canada and a hard-line approach from the US, in respect of Iranian sanctions, pushed prices higher.

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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 55.0p/th in June. This was unchanged from the average price in May and 56% above the comparable period last year.

While the month-on-month change was negligible, the annual increase reflects higher year-on-year prices in oil and coal markets and the worsening supply picture for the gas market. Gas prices fell throughout June from highs of 58.8p/th early in the month to lows of 52.2p/th by the third week, recovering towards the end of the month to 55p/th.

The main factor driving prices during the month was the planned maintenance on the IUK pipeline that connects the UK to Europe. This pipeline typically exports gas to Europe in the summer and the outage had the effect of dampening gas demand from the UK to Europe from June 13th - 27th. Very warm weather towards the second half of the month saw demand increase. A combination of high pressure and related low wind power generation led to increased gas fired generation and higher gas demand as a result.

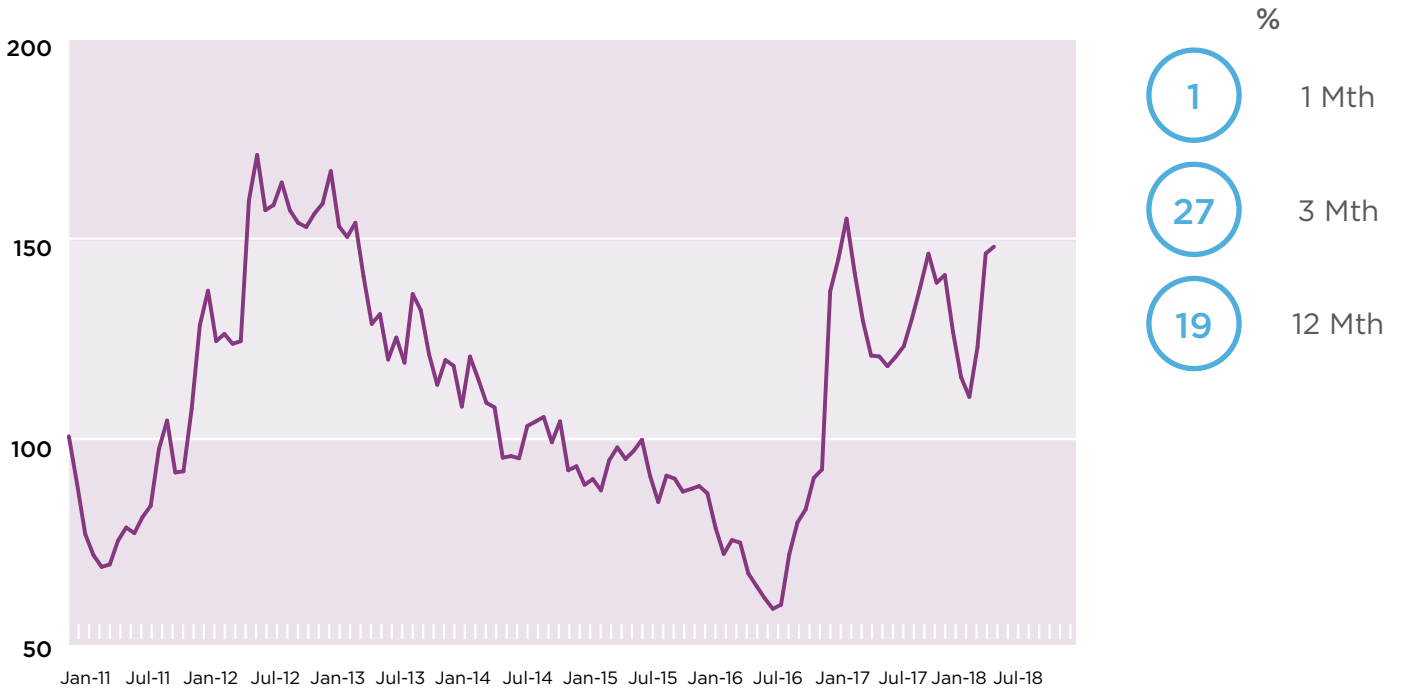
Prices recovered towards the end of the month as the IUK outage ended and demand increased once again. Another supporting factor for gas prices during June was gas storage. European storage levels continue to increase but storage stocks remain well below average and 2017 levels.

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Coal Index



Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at \$96 a tonne, rising 1% in euro terms over the month and 19% in the last year. Prices managed to make fresh 12-month highs for the second consecutive month reaching \$97 during the middle of the month.

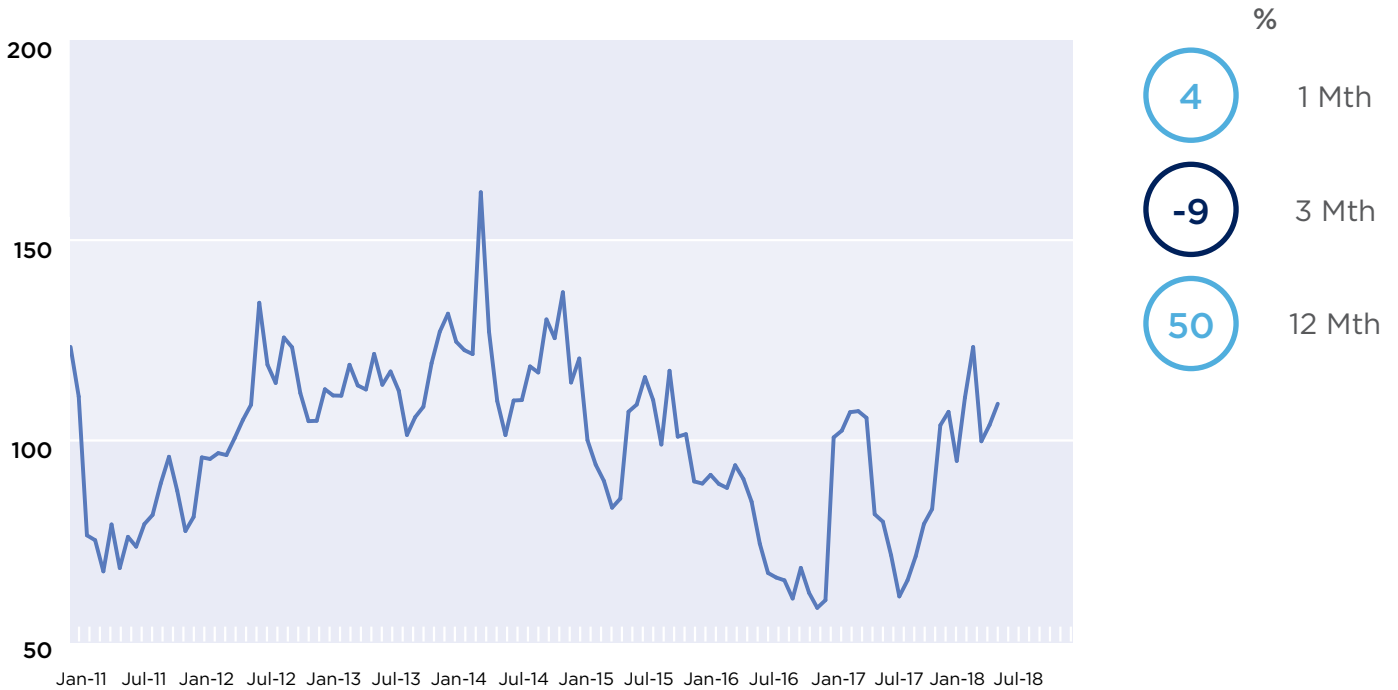
Coal prices traded in a relatively narrow band throughout June moving from \$94.8 to a high of \$97. Prices were influenced by the broader energy complex while several smaller supply related stories also influenced the price. Demand from Asia remains a key driver and warmer than usual weather across parts of China and India increased coal fired power generation there.

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Electricity Index



Data Source: SEMO

Electricity

Excluding supplier capacity payments, the average wholesale price for June was €60.19/MWh compared to €58.49/MWh in May – an increase of €1.70/MWh. When supplier capacity payments are excluded, wholesale electricity costs increased by 3% 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.

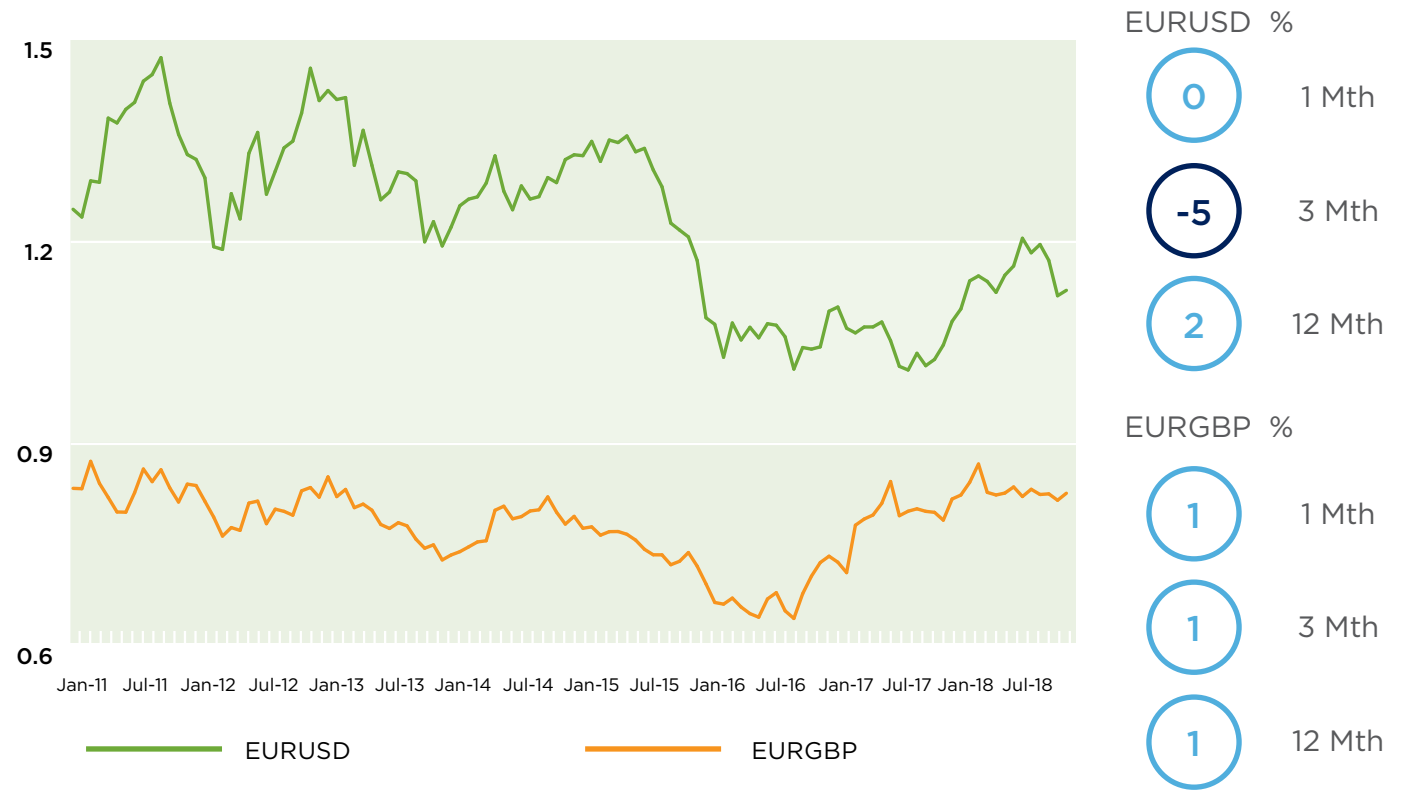
The clean spark increased from €9.26/MWh in May to €11.08/MWh in June. The price of gas was unchanged over the month, wind output decreased significantly month-on-month from an hourly average of 803MW to 465MW – a decrease of 42%. The average proportion of demand met by wind in June was 12%.

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FX Rates



FX Rates

The euro gained 0.8% versus sterling in June settling at £0.885p while it was unchanged against the US dollar settling at \$1.167.

Factors affecting the euro during June were ongoing concerns relating to the new Italian government and worries about how Brexit will impact the strength of the EU. Later in the month the migration crisis was another factor that influenced traders view on the relative strength of the euro in general. The dollar came under some pressure as mounting fears over a global trade war between the US and its trading partners affected sentiment.

Brexit talks, or the lack thereof, were also a driving force of the movements between the euro and sterling. British PM Theresa May successfully manoeuvred her Brexit bill through another stage of Parliament but a number of multi-national businesses warned of their concerns over Brexit during June, putting further pressure on the government to publish a plan.

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