Bord Gáis Energy Index
Understanding energy

April 2018

BGE/EI/UE/0418

Bord Gáis Energy

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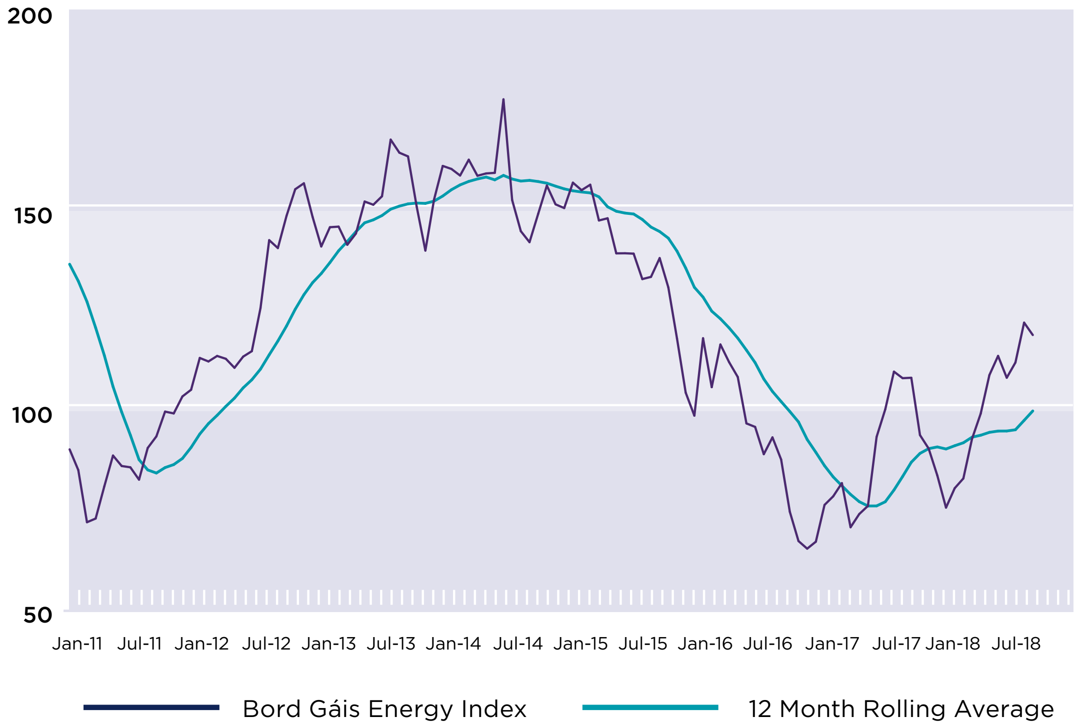
Bord Gáis Energy Index (Dec 31st 2009 = 100)



%	
-2	1 Mth
8	3 Mth
26	12 Mth

Summary

The Bord Gáis Energy Index for April is down 2%. It was a mixed bag for the four components of the Energy Index this month with oil making robust gains due to rising geopolitical tensions. Coal also posted a positive month while gas and electricity declined as the much colder weather seen in March continued to abate.

In April, the Bord Gáis Energy Index stood at 116 (-2%).

Bord Gáis Energy Index

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Oil Index

%	
9	1 Mth
12	3 Mth
31	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Brent crude continued to rally in April rising 9% in euro terms to settle at $75. This is the highest level in four years and it is worth looking at the factors that have been driving the price of late.

Economics 101: the first reason for the recovery in oil prices over the last 18 months is that supply and demand have come back into equilibrium, or close to it. This is largely due to stronger demand driven by the rising global economy and supply cuts by OPEC and Russia. Global oil consumption is expected to top 100 million barrels per day (b/d) for the first time later this year and oil inventories are back in line with the five-year average.

Does this mean that OPEC and Russia will now end their supply cuts? Most trader and analysts think not. Saudi Arabia, the de facto OPEC leader, has spoken of the need to stimulate investment in new supplies and, while Russia has expressed its concern that higher oil prices will incentivise rival supplies such a US shale, it seems content for now to stick with OPEC. Saudi Arabia is also preparing to list the state oil company, Saudi Aramco, so a higher oil price would likely benefit the valuation of the company. Higher oil revenues may also help to smooth the path to reform being led by Saudi Crown Prince Mohammed bin Salman.

In terms of geopolitical risk, the oil market is always finely tuned to risks of supply disruption and when the market is finely balanced, as it is now, this becomes even more stark. The risk of US President, Donald Trump, pulling out of the Iran nuclear deal and re-imposing sanctions on Iranian oil exports came into sharp focus in April helping send prices higher. This is in addition to the conflict between Saudi Arabia and the Houthi rebels in Yemen, who are supported by Iran. In recent months, the rebels have stepped up attacks on Saudi oil infrastructure to undermine the regime in Riyadh. These, and other risks such as the continued political turmoil in Libya and Venezuela, have served to keep oil prices bid over recent months.

Market positioning is often given less weight than it should to explain price moves, it is sometimes easier for traders and market commentators to fit a fundamental story to a market movement rather than recognise the technical machinations that can be a primary price driver. In 2018, market speculators built up a record long position in Brent crude oil which means that crude has been bought aggressively into any dips. The reasons are two-fold; first is the theory that commodities outperform other asset classes late in the economic cycle. Secondly, the market structure of the oil market allows investors to earn a regular yield or “carry” by rolling futures contracts forward each month as spot contracts trade above those for future delivery.

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Natural Gas Index

%

-19 1 Mth

0 3 Mth

22 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 50.45p/th in April, a decrease of almost 20% from the March average of 62.22p/th. Demand and prices in March spiked as Europe was hit with an extreme cold snap, dubbed the beast from the east, pushing demand to decade highs. Despite the steep drop from March, the April average still settled 11p above the comparable period last year.

In April, prompt gas prices remained elevated as a combination of colder temperatures, unplanned outages, weak LNG send out and strong injection demand supported prices.

LDZ demand in April was strong, particularly in the colder first half of the month, which helped sustain prompt prices. On the supply front, LNG send out from the UK's three LNG terminals was almost 50% lower year-on-year in April contributing to a tighter system. Consequently, exports to the continent were almost 1bcm lower.

European storage levels remain a key risk. Stocks fell to their lowest point in a decade following heavy withdrawals in March as temperatures plummeted. The additional injection demand required to replenish stocks across the Continent supported prices for the rest of this summer. The front winter was supported by fears that we could enter the higher demand months without stocks replenished, particularly as memories of the price spike in early March remain fresh in traders' minds. Russian gas flows into western and central Europe in April hit record levels. This was driven in the main by the need to replenish European storage stocks and a continuation of this trend over the coming months could address storage concerns.

A strong rally in oil prices, putting on over $5 over the month on geopolitical concerns, added to bullish momentum on the curve. The third quarter 2018 contract traded 7.4p higher over the month to 52.89p/th. Further out the curve, the winter 18 contract gained over 6p to 59.61p/th, while the summer 19 contract finished the month 4.67p higher at 45.55p/th.

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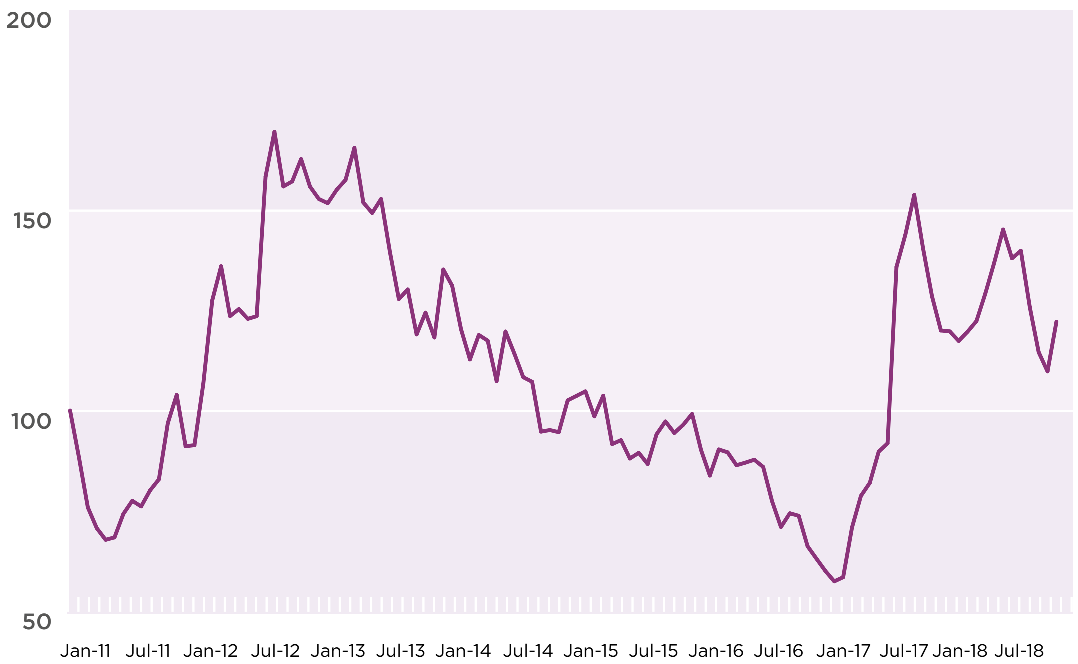
Coal Index



%	
9	1 Mth
-2	3 Mth
2	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $85.2 a tonne, rising 9% in euro terms over the month.

Global coal prices declined in the first quarter as winter demand waned and temperatures increased. China, the key producer and consumer of coal in the global market, intermittently curbed coal production while demand remained relatively high supporting coal prices in the shorter term.

However, coal faces long-term challenges from both economic and policy perspectives. In the U.S. cheap gas is pushing coal off power generation, while recent reforms to the European Union emissions trading system increases the cost of coal generation. China, the world's largest consumer of coal, has undertaken energy policies favouring renewables and gas in a push away from coal toward cleaner alternatives.

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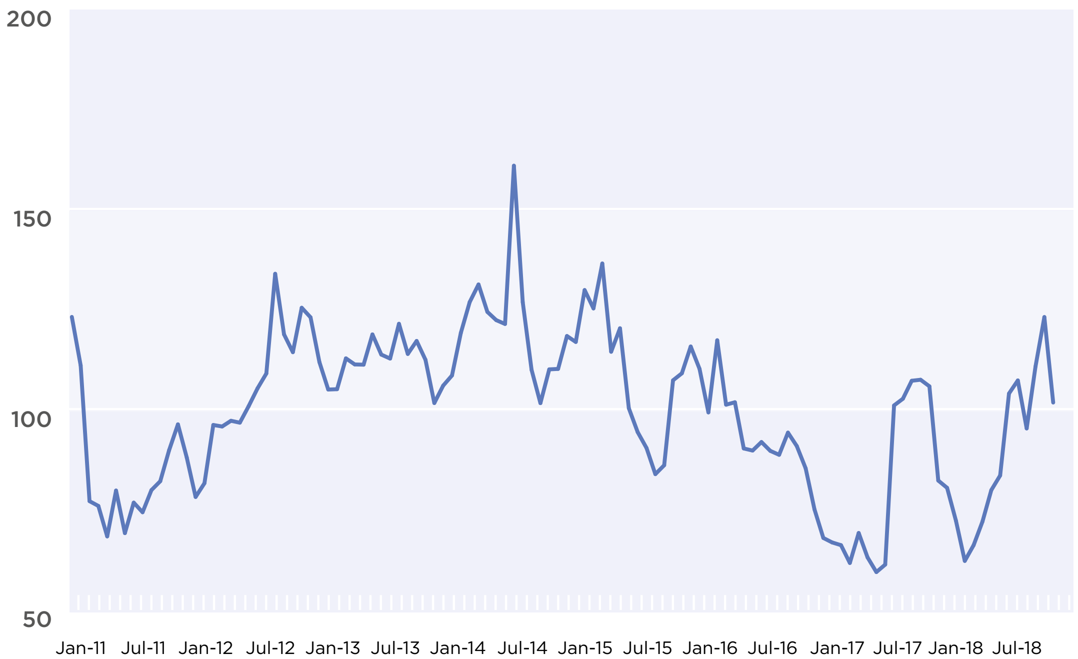
Electricity Index



%	
-14	1 Mth
5	3 Mth
19	12 Mth

Data Source: SEMO

Electricity

Excluding supplier capacity payments, the average wholesale price for April was €55.56/MWh compared to €66.74/MWh in March – a decrease of €11.18/MWh. When supplier capacity payments are included, wholesale electricity costs decreased by 14% 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 decreased from €10.86/MWh in March to €10.17/MWh in April. The price of gas was 19% lower over the month, while wind output decreased slightly month on month from an hourly average of 1194GW to 1162GW – a decrease of 3%. The average proportion of demand met by wind in April was 29%.

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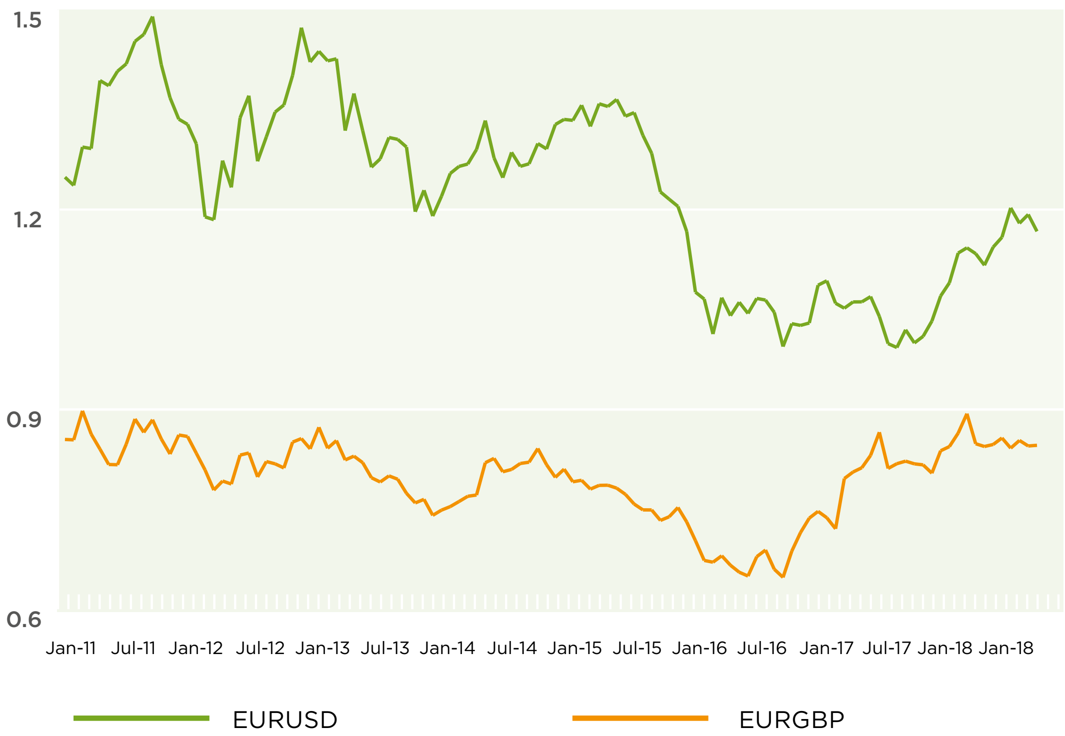
FX Rates



EURUSD %	
-2	1 Mth
-3	3 Mth
11	12 Mth

EURGBP %	
0	1 Mth
0	3 Mth
4	12 Mth

FX Rates

The euro was flat versus the pound in April settling at £0.8791p, while it fell 2% against the US dollar to settle at $1.2101.

The euro slipped further versus the dollar in April as patchy economic data contrasted with more robust readings from the US. Economic growth in the eurozone slowed to its weakest pace in 18 months. Surveys have also painted a poor picture with investors polls of growth expectations falling to the lowest in 12 months.

Meanwhile, the US economy continues to add jobs with the unemployment rate falling to under 4%. This has bolstered expectations that the Federal Reserve will deliver two or three more rate rises this year after raising rates as recently as March. The US Fed is likely to be the only major central bank to raise rates this year.

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