Bord Gáis Energy Index

Understanding energy

JULY 2016

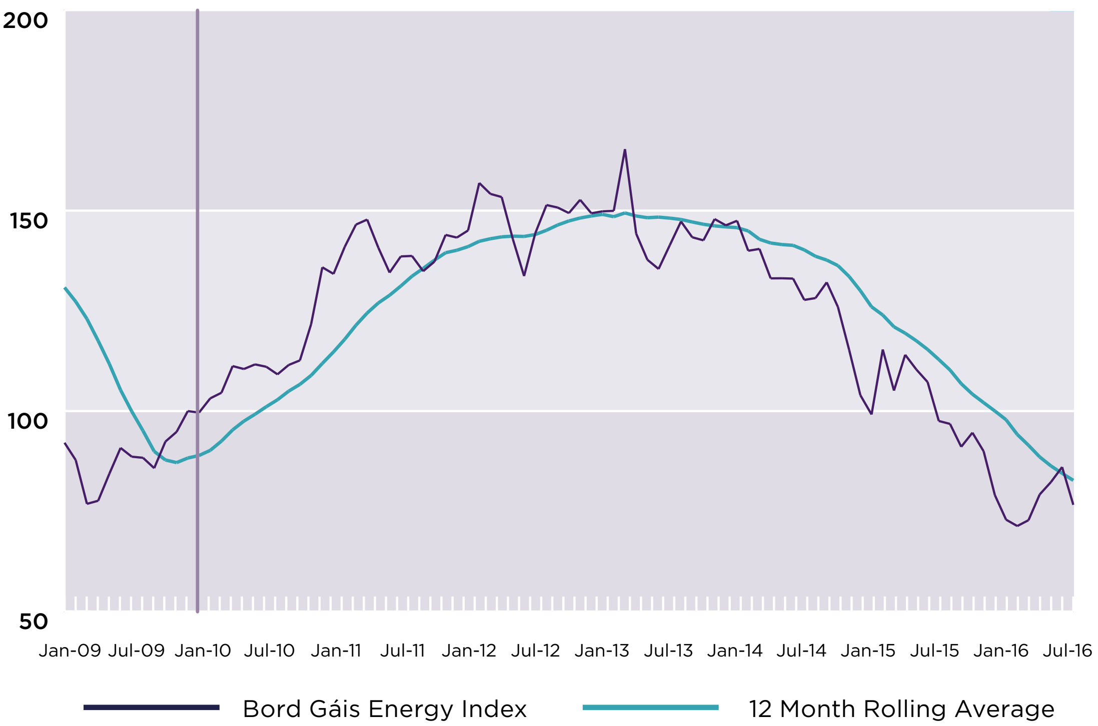
BGE/EI/UE/0816

Bord Gáis Energy

Bord Gáis Energy Index

July 2016

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



%	
-11	1 Mth
-3	3 Mth
-21	12 Mth

Summary

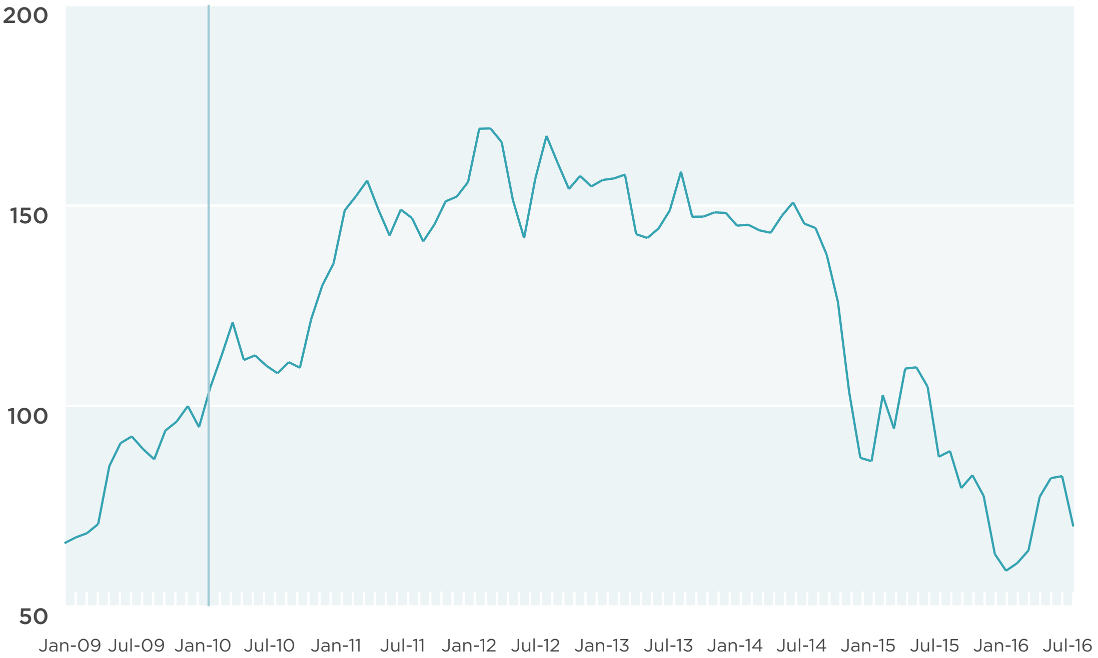
In July 2016, the Bord Gáis Energy Index was 11% lower as oil dropped sharply on a deteriorating global economic outlook and evidence of resilient supply. Among the other components of the Index, UK prompt wholesale gas prices were 1% lower, Irish wholesale electricity prices were 6% lower and coal bucked the trend, finishing the month 3% higher in euro terms.

In July, the Index stood at 77.

Bord Gáis Energy Index

July 2016

Oil Index



%	
-15	1 Mth
-10	3 Mth
-20	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

There was a sharp shift in sentiment in July with crude prices trading 15% lower over the month. The Brent benchmark finished at $42.4 a barrel, a drop of over $7 dollars from the June close.

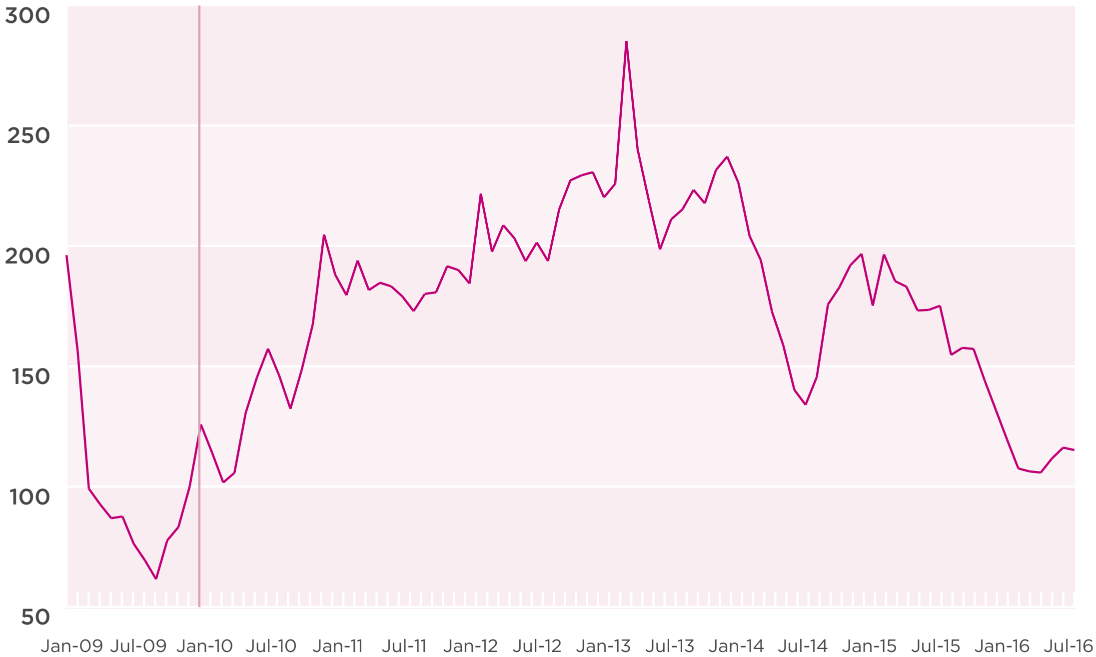
Oil prices had rallied over 80% from January lows of $27.88 to $52.5 in early June on expectations that the supply glut which pulled prices to decade lows was coming to end. However, the combination of a deteriorating global economic outlook, a stronger US dollar and continued resilient supply have all weighed on oil prices in recent weeks.

The Brexit vote in late June has resulted in downgrades to economic forecasts across the board. In addition, the uncertainty following the vote increased appetite among investors for US dollars, a safe haven currency in volatile times, and pushed the dollar higher against a basket of currencies. This is negative for oil, which is traded in USD, as it increases the price for non US buyers. On the supply side, we have seen an unexpected build in US inventories, already at historically high levels and increases in the number of active rigs in the U.S. This suggests that shale producers are adjusting to a lower oil price and are able to produce profitably at current levels.

Bord Gáis Energy Index

July 2016

Natural Gas Index



%	
-1	1 Mth
9	3 Mth
-34	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The UK NBP day-ahead contract averaged 34.16 pence/therm for July. This represents a very marginal increase of .06p from June's day-ahead average of 34.1p/th but remains over 21% below the comparable day-ahead average price of 43.33p in July 2015.

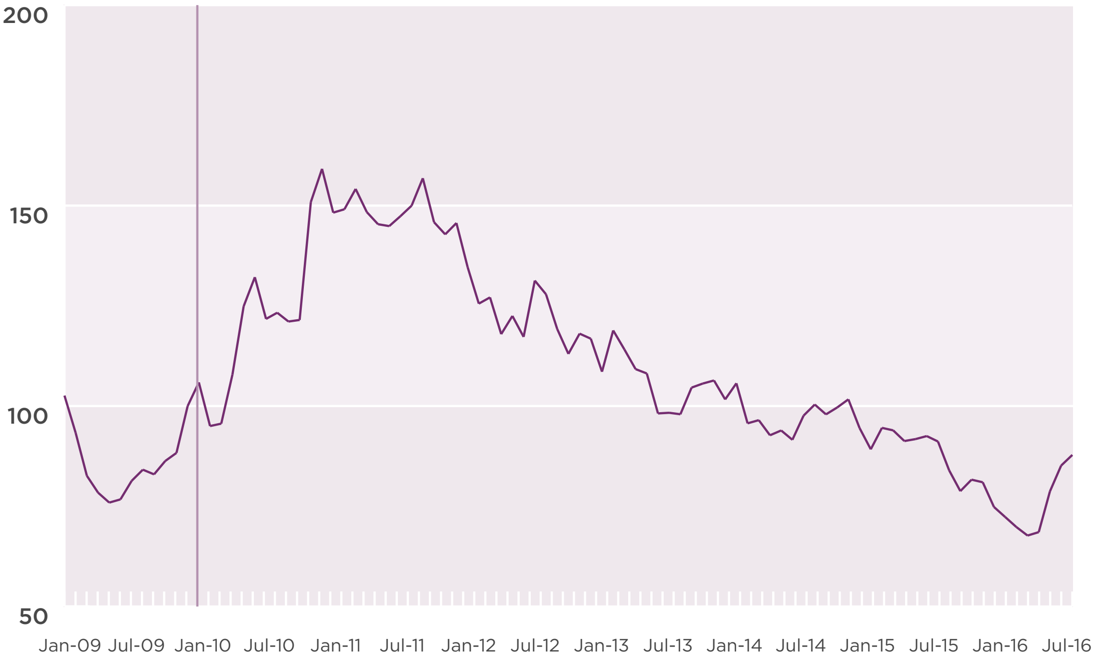
Although the average day-ahead price is little changed since the last report, we saw considerable volatility in the prompt market. Prices fell over the first half of the month due to increased Norwegian flows and the unexpected outage at the Rough storage facility. However, prices staged a strong recovery in the second half of the month as supplies fell on the back of unplanned outages in Norway and the UK continental shelf, as well as lower LNG receipts.

Again, it was a tale of two halves on the forward market as the first half of July saw lower prices due to falling oil and sterling strength. The rally came after an extension of the outage at Rough was announced on 15 July, pushing the Winter 16 contract higher by almost 10% at one point. This has reversed somewhat over the last two weeks, but the Winter 16 contract is currently trading around 45p, 5% higher than the same day last month. Centrica storage has estimated that there will be no injection capability into Rough until March/April 2017. There is a possibility that four wells out of 30 may be available for withdrawal from 1 November, but this won't be confirmed until October. Rough is only about 45% full so this means that there is less storage stocks available for the coming winter.

Bord Gáis Energy Index

July 2016

Coal Index



%	
3	1 Mth
28	3 Mth
-4	12 Mth

Index adjusted for currency movements.

Data Source: ICE

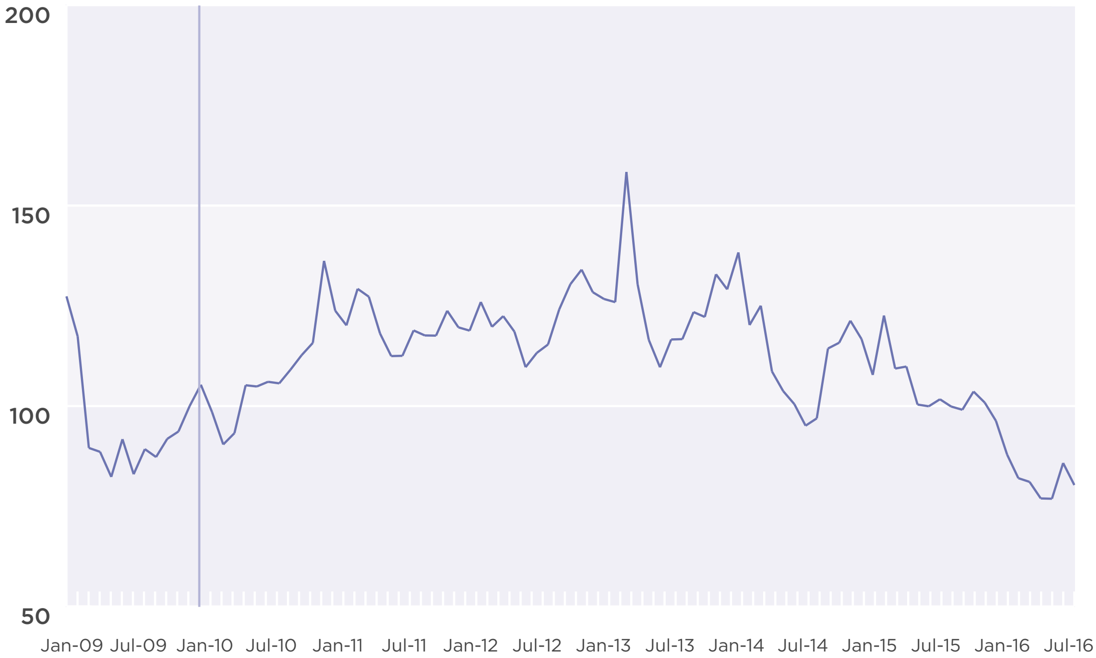
Coal

Coal prices closed the month at $57.15 per metric tonne, an increase of almost 4% over the month in dollar terms and 3% in euro terms. The positive sentiment around coal continued in July as production cuts in China boost the outlook for imports in the world's biggest consumer of the fuel. Coal has rebounded from the 10 year lows seen in early 2016 as China trims its domestic supplies. The nation's imports of coal increased 31% in June. In addition, the continued weakness in carbon prices, following the Brexit vote, has supported coal prices in Europe.

Bord Gáis Energy Index

July 2016

Electricity Index



%	
-6	1 Mth
4	3 Mth
-21	12 Mth

Data Source: SEMO

Electricity

In spite of relatively static UK prompt gas prices, average Irish wholesale prices decreased month-on-month by 6.1% in July. Excluding supplier capacity payments the average wholesale price for July was €38.18 compared to €40.67 in June, a decrease of €2.49/MWh on the average monthly wholesale price.

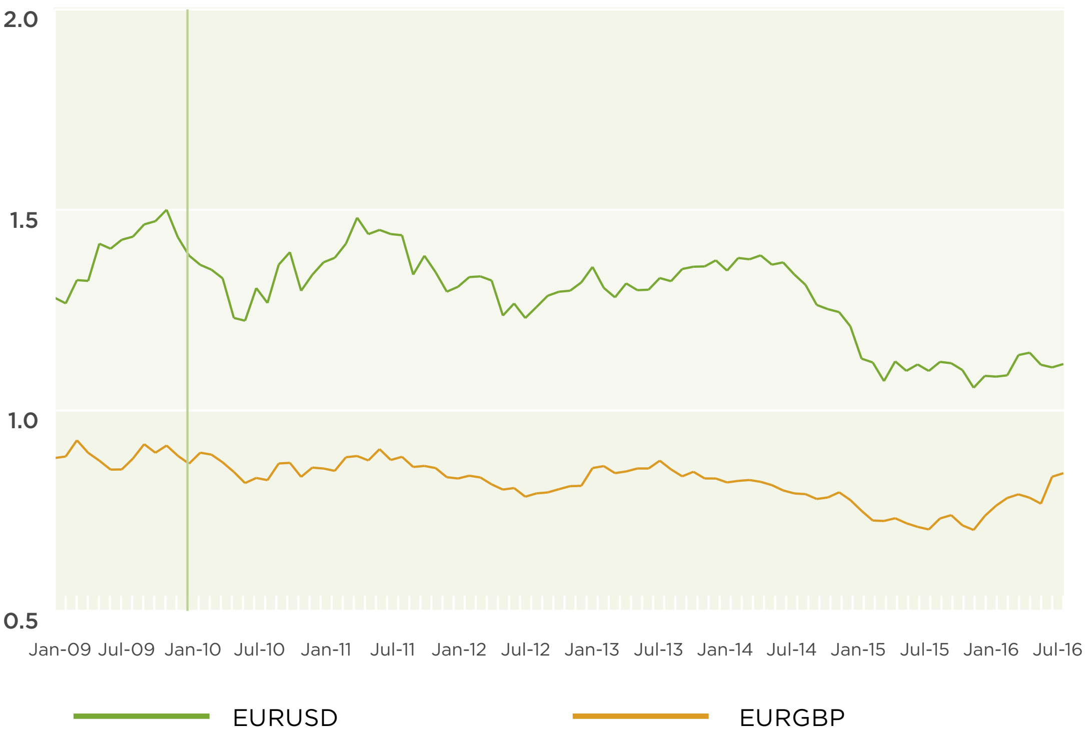
The wholesale cost of imported gas from the UK was 1% lower in euro terms. Irish wholesale power prices typically tend to track the cost of imported gas as it is the most significant cost in the production of electricity. The average price of carbon decreased by 19% in July reducing production costs.

A monthly clean spark of approximately €8.07/MWh was recorded in the month, which is down from the €8.30/MWh observed in June (a fall of almost 2.8%). The decreased spark could be attributed to increased wind production across the month. The proportion of demand met by wind in July increased to 14.3% from 11.9% in June.

Bord Gáis Energy Index

July 2016

FX Rates



EURUSD %

1 — 1 Mth

-2 — 3 Mth

1 — 12 Mth

EURGBP %

1 — 1 Mth

8 — 3 Mth

20 — 12 Mth

FX Rates

In July the euro gained value versus the British pound and the US Dollar. The euro was one per cent higher against both, finishing the month at $1.11 against the Dollar and 84.034p versus Sterling.

Obviously, the ripple effects of the Brexit vote continue to impact currency markets and, until the fog of Brexit lifts, volatility and uncertainty remain the order of the day. The new British Prime Minister, Theresa May, helpfully indicated that “Brexit means Brexit”. However, six weeks on from the vote, there remains considerable uncertainty around the triggering of Article 50, the timescale for negotiations and the UK’s eventual trading relationship with the European Union.

The Bank of England surprised markets by keeping rates at 0.5 per cent at its mid-July meeting. However, subsequently, a slew of economic indicators have pointed to a weakening UK economy and most commentators expect the BOE to cut rates and announce further quantitative easing at its next meeting on 4 August. The extent of these moves and commentary from Bank of England Governor, Mark Carney, will be a key driver for sterling rates over the coming weeks.

For more information please contact:

Bord Gáis Energy Pressoffice@bge.ie
Claire Smith 087 027 9075 or Irene Gowing 087 267 3964