

Bord Gáis Energy Index fell 10% last month; Up 32% from March 2016

12th April 2017: The Bord Gáis Energy Index fell by 10% during March 2017, with drops recorded across all four constituent elements (coal, oil, gas, and electricity). On a broader scale, the Index is still 32% higher year-on-year as the 2016 growth in oil prices continues to influence international energy markets.

Oil has dropped by 6% as increased US production and expanding US stock levels affected OPEC's efforts to rebalance the market. Warmer weather and increased supplies brought gas prices down by 20%, while the coal market fell by 6% as prices readjust from their 2016 highs. Finally, wholesale electricity prices fell in line with the lower gas prices, the biggest cost in electricity production.

In March the index stood at 96.

Commenting on the latest Index, **Darragh Crowley from Bord Gáis Energy, said:**

"This latest drop in the Bord Gáis Energy Index is due to several factors across all elements, namely the improving weather and an increase in supply of both oil and gas. We're also seeing some readjustments as the significant price rises seen in 2016 begin to level off.

"Although we are beginning to see some increased stability in global energy markets, there is still a 32% year-on-year increase in energy prices. This is an impressive recovery from the lows of previous years, and we will continue to monitor energy markets closely for any further fluctuations."

Oil

Brent crude prices weakened in March due to increased U.S. production and expanding U.S. inventory levels. Oil prices finished the month at \$53 a barrel, down 6% on February's close. U.S. production rose to 9.2 million barrels a day, an increase of 377,000 barrels since the start of the year.

Oil has traded in a relatively tight range of \$50-\$58 since late November, when OPEC and key non-OPEC producers agreed to cut production for the first time since 2008. Higher prices resulted in increased supply from North American producers, supported by an accommodative Trump administration and operational improvements, while lower prices increased the probability of continued production cuts from key OPEC and non-OPEC producers.

The market is looking to May's OPEC meeting, where members will discuss extending the current production deal for the answer to this question.

Gas

Within-day gas prices fell 20% in March in euro terms, but remained 29% higher on average than March 2016. The benchmark UK NBP day-ahead contract - the price for gas delivered tomorrow - averaged just 41p/th on the month, compared to an average of 51p/th in February. Wholesale gas prices had been rallying for much of 2016 but have reversed somewhat over February and March of this year.

Prices fell as short-term oversupply in the UK market and milder weather forecasts weighed on demand. The weakness in the prompt (short-term) market also filtered through to the forward contracts, as the prices for the benchmark Summer '17 and Winter '17 contracts fell by 11% and 7% respectively. While the prompt market in gas is usually driven by the fundamentals, curve contracts also tend to track the wider energy complex and oil in particular, so it is unsurprising that the weakness in oil prices seen over March would feed through to longer term gas contracts.

Coal

Having hit multi-year highs in late 2016, coal continued its recent retreat in March with prices falling 6% in euro terms to \$74 per tonne. Prices remain 76% higher than one year ago. Prices had almost doubled in the second half of 2016 due to strong demand and continued supply tightness in China resulting from government restrictions.

The main Chinese state planner, the National Development and Reform Commission (NDRC), had implemented strict controls on domestic mines, limiting their operations to 276 days a year. The idea was to eliminate outdated capacity and improve industry profitability. However, the market was unprepared for the changes, which effectively reduced production by 16% and increased the country's demand for coal imports.

The authorities were forced to change tack when prices hit over \$100 per tonne. Since November 2016, all mines were allowed to return to operating at 330 days a year which reduced the pressure on prices. Chinese supply and demand dynamics, together with government policy, play a major role in driving global coal prices.

Electricity

The average wholesale price of electricity in Ireland decreased by 14% in March.

Excluding supplier capacity payments, the average wholesale price for March was €45.14/MWh compared to €55.31/MWh in February - a decrease of €10.17/MWh on the average monthly wholesale price.

The average wholesale cost of imported gas from the UK decreased by 20% in euro terms in March. 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.

FX



It was a mixed month for the euro. It was almost unchanged against the pound but was stronger versus the US Dollar, finishing the month at 0.8529 versus the pound and up almost 1% versus the dollar, settling at 1.0697.

The U.K. finally triggered Article 50 of the Lisbon Treaty on the 29th of March, sounding the starting pistol on formal negotiations around Britain's exit from the European Union. This has started a two-year process of departure, the eventual outcome of which is impossible to determine yet. For now, the one certainty appears to be that we are set for a prolonged period of rumour, speculation and uncertainty.

The U.S. Federal Reserve hiked interest rates by 25 basis points at its March meeting. The hike, the second in four months, had been widely anticipated and took the target rate to 1%. Despite this move, the dollar weakened in the days that followed as the Fed statement wasn't as hawkish as many market participants had feared. The Fed chair, Janet Yellen, stressed the next move would be data-dependent and the risks for now remained "*roughly balanced*".

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

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About Bord Gáis Energy

Bord Gáis Energy is a gas, electricity and energy services supplier in the Republic of Ireland. The company has been in operation since 1976 and currently supplies energy and services to over 680,000 business and residential customers. In 2014, Bord Gáis Energy became part of the global Centrica plc Group.

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