Bord Gáis Energy Index records first rise in 6 months as energy commodities rise in price

The February Bord Gáis Energy Index rose by 16% month-on-month as the wholesale price of all of the commodities covered in the index (oil, gas, coal, electricity) recorded gains. This is the first monthly gain in the index since September 2014 and in February 2015 the Index stood at 115.

Commenting on the results, John Heffernan of Bord Gáis Energy said:
"Despite plentiful stocks of oil, conventional discoveries of oil and natural gas continue their downward trend which potentially sets the seeds for higher prices in the future. The number of conventional oil and gas technical discoveries peaked in 2008 and have been falling since. The current six-year decline is the longest downward trend on record. In a scenario in which the world requires conventional oil production to satisfy demand, more exploration, a higher success rate, higher volumes and most importantly higher prices may be required."

OIL
The US rig count has dropped further in recent months in response to falling oil prices. This caused a rally in prices in February as the prospect of slowing US oil production growth supported prices. The price of a barrel of Brent crude oil closed at US$49.13 in January but the rally brought the price to US$62.58 by the end of February. With news of US rig counts impacting price movements it reinforces the view that US production is now the most significant determinant of global oil prices. However, despite a significantly falling rig count, the price falls seen have not been enough to achieve the required slowdown in US production growth that would rebalance an oversupplied market. This over production is appearing in US national crude stockpiles which added 52 million barrels or 14% since early January while inventories in Cushing have jumped by 52% or 16.5 million barrels over the same period. At the end of February, US domestic crude stocks were at their highest for this time of year since records started 80 years ago.

Other factors that contributed to rising oil prices include the continued ability of the US economy to create jobs, the extension of Greece's bailout, continued restrictions on Libya's ability to export oil, and lower than planned export volumes from OPEC's second largest producer Iraq. All these factors plus a falling US rig count number contributed to money managers raising their long crude oil positions to the highest levels since August.

Natural Gas
The average Day-ahead gas price for February was 50.15 pence per therm (p/th), an increase on the January average price of 46.20p. February was a particularly volatile trading month on the back of unexpected supply events. The month commenced with the Day-ahead contract trading around 48p/th. However, the Dutch government's announcement on February 9 that it would restrict production from the Groningen gas field to 16.5bcm for the first half of 2015 saw prices rise as high as 55p/th. Groningen is Europe's largest gas field and since its discovery, in 1959, it has been a reliable source of gas for Northern Europe.

In the last week of February prices rallied once more as the ongoing gas dispute between Russia and Ukraine came back into focus. However, gas supplies appear to be secure up until the end of March provided that pre-payments are received.

Coal
At US$61.80/mt, the ICE Rotterdam Monthly Coal Futures contract closed the month US$3 higher.
European coal prices received a boost in February from rising oil prices, bouts of short-covering and supply concerns over the Fenco (a rail firm in Colombia) night-time coal railings ban in Colombia.

While the potential restriction on Colombian export thermal coal supply supported European coal prices, the rally seen throughout the month eventually dissipated as a bearish tone re-emerged given the healthy supply situation. Prices recorded a second rally at the end of the month on the news from Glencore that it would cut coal production in Australia by 15 million m/t this year, on top of a 5 million m/t year cut on its South African Optimum mines announced in December. This led to a rise in Australian thermal coal prices, which fed into sentiment for the Atlantic market.

Electricity

Month-on-month the Irish wholesale electricity price rose from an average of €56.65/MWh in January to close to €60/MWh in February. Stronger wholesale UK prompt gas prices in February were a significant factor driving wholesale Irish electricity prices. In general, the wholesale price of electricity is determined by the cost of producing a unit of electricity by a gas powered plant which in the main imports its gas from the UK. In addition, the average clean spark in February was over €3/MWh higher month-on-month. Due to lower wind, the percentage of the island's electricity met by the island's fleet of wind turbines fell month-on-month and the gap was made up by gas powered plants, some of which had to be turned on for short periods of time to meet system demand. These costs fed through to the wholesale price of electricity.

FX Rates

Month-on-month the euro weakened versus both the US dollar and sterling with the renewed possibility of the Greek exit. In contrast to concerns over the stability of the euro zone region, news from the US in February showed that the US economy kicked off the year as it ended the last one by creating plenty of jobs, this time 257,000 in January.

Reports from the UK were equally positive with the Monetary Policy Committee's latest inflation report predicting that 2015 would see the strongest growth in real take home pay in a decade and that the economy will grow by 3% this year and next with the help of the British consumer (UK GDP grew by 2.6% in 2014). The contrasting profiles of the euro zone and British economies was also evident in the 2014 growth figures with the euro zone recording just 0.8% growth year-on-year. UK jobs data released in February also impressed with 134,000 full time jobs having been created in the final quarter of 2014.

Until recently, markets thought that there was very little likelihood that UK rates would rise in 2015 but with real pay beginning to grow again, the chances of a rate rise are now one in three by year-end. In the US, with the majority of the Federal Open Market Committee members concerned that raising rates could hamper the US recovery and push inflation further below target, Fed rates are on hold for now and it is now expected that a rate rise is months away.

In early March, the euro slid to the weakest level versus the dollar since 2003 as economic reports again stressed the growing divergence in growth outlooks. This time, the euro area services sector grew less than expected while the dollar advanced on the news that US companies added more than 200,000 jobs for a 13th straight month in February.

Ends