17th July 2015

Energy Index dips in June

The June Bord Gáis Energy Index fell by 3% month-on-month and in June 2015 the Index stood at 107.

OIL

Oil priced traded in a narrow range during June, hitting a low of US$60.94 a barrel on 5 June when it was confirmed that OPEC would keep production targets unchanged. However, oil markets rebounded (hitting a June high of US$66.36 a barrel) as traders reacted to positive US employment numbers. Persistent crude inventory withdrawals in the US helped support a recovery in prices during this period.

The price of oil declined toward the end of June, falling to a low of US$61.35 a barrel, as the intensifying economic issues in Greece and subsequent dampening of the dollar eroded investor's sentiment. The oil surplus is still evident with the oil market's supply-demand differential rising to almost 3 million barrels a day in May, according to the EIA Short-term Energy outlook. Oil supply declined by 100,000 barrels a day month-on-month during May, but still remains more than 3 million barrels a day higher compared to the same time last year.

With Saudi Arabia and Iraq expected to test record production levels in June, OPEC production will remain strong. Outside of OPEC, US production rebounded during June. Crude output currently stands at approximately 9.5million barrels a day, compared to 9.2million barrels in May. This suggests that despite the halving of onshore drilling rigs in the US, efficiency gains could be generating tangible results.

NATURAL GAS

The average day-ahead price for June was 43.31 pence per therm (p/th), marginally weaker than the previous month's average price of 43.78p/th. By way of comparison, the June outturn in recent years was 39.48p/th in 2014, 59.74p/th in 2013 and 54.95p/th in 2012.

Concerns around a Greek exit from the euro brought the euro sterling exchange rate into focus, as a weakening of the euro would increase the relative cost of UK gas for euro buyers. Oil prices continued to weaken over the month with Brent closing the month 3% lower in dollar terms. Given oil indexation remains a feature of many European contracts; the falling oil price has been an additional drag on gas curve contracts.

COAL

The ICE Rotterdam Monthly Coal Futures Contract recovered marginally in June, rising by US$1.35/mt month-on-month to close at US$60.20/mt on 30 June. The coal futures price recorded a modest recovery during the month having closed at US$56.75/mt on 9 June, a level not seen since March 2009.

On 30 June, Europe-delivered CIF ARA Cal-16 thermal coal derivatives jumped above US$60/mt to an almost four-month high reportedly due to strong utility bids. The rise in the price was interesting to see as there was no clear supply-demand fundamental or macroeconomic reason to cause such an uptick. However, market participants said that there could be an additional incentive for utilities to go on the buy-side due to a recent rise in the German clean dark spreads — the profits accrued from coal fired power generation taking into account carbon emissions. German power prices had been given a lift recently, particularly in the front of the curve, due to a heatwave with temperatures forecast to peak at 39 degrees Celsius. At the time, the front-quarter Q3-15 German clean dark spread was at €2.67/MWh, its highest level since 8 April.

ELECTRICITY

Excluding capacity payments, the monthly average wholesale price of electricity continued to drop month-on-month. At €49.93/MWh, the average monthly wholesale electricity price was the lowest recorded in 2015. Falling demand over the summer period had a significant influence as fewer thermal plants were required to meet eroding demand.

In addition, the cost of a unit of electricity was lower due to a softening in the clean spark. In general, the wholesale price of electricity can be assessed by examining three components: the UK wholesale cost of gas, the European wide price of emitting one tonne of carbon and spark. At a monthly average of approximately €5.75/MWh, it was the second lowest spark recorded in 2015 and the third lowest since 2008.

FX

Versus the euro, the US dollar weakened slightly during the month, as positive manufacturing data outside of North America supported risk sentiment in non-dollar assets according to Thomson Reuters. The Fed cited a “cyclically weak” labour market as a risk to the wider economy. That together with inflation, which continues to undershoot the Fed’s target of 2%, suggested the central bank would be more inclined to raise rates just once this year.

In early June, the International Energy Agency (IEA) warned that oil prices may have further to fall despite stabilising in recent months - and even beginning to rise modestly.

Another factor is the global economy as highlighted by the IMF. According to the fund, large parts of the world are still trying to deal with the burden resulting from the financial and economic recession- even now, eight years after its onset. Risks highlighted by the IMF include the current situation in Greece, rising US interest rates (the big concern about the rise when it comes is the potential impact on financial markets, especially in emerging economies.

Ends.

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