

Commodity changes continue to impact energy index

18.04.2015. The March Bord Gáis Energy Index fell by 9% month-on-month as the wholesale price of all of the commodities covered in the index (oil, gas, coal, electricity) recorded losses. In March 2015 the Index stood at 105.

Oil

Month-on-month the front month Brent crude oil price fell 8% in euro terms. Brent crude's price behaviour in March exhibited a familiar inversely correlated pattern to that of the US dollar versus the euro and other major currencies.

Oil prices weakened in the first half of the month from US\$62.58 to a closing low of US\$53.44 on 16 March (over the period the US dollar was gaining strength) and then experienced a modest revival to finish the month at US\$55.11 (while the US dollar weakened versus the euro).

Steep drops in the US rig count had been a key driver of the price rebound seen in February. In March the count continued to fall albeit modestly and Baker Hughes recorded a four year low of 825 rigs. Despite this, US supply so far shows precious little sign of slowing down according to the IEA. Despite a reported rise in global oil demand, supply continues to outstrip demand growth and prices remain under pressure amid an unbalanced market. The IEA expect demand to grow by 1 million b/d in 2015 but market experts believe that this is insufficient to soak up an estimated excess supply build over the last number of years of 3.7 million b/d.

Natural gas

The average Day-ahead gas price for March was 47.19 pence per therm (p/th), a decrease on the February average price of 50.15p/th. March started with the Day-ahead contract trading around 50p/th, following a volatile gas market in February. The Day-ahead contract started its downward movement as Liquefied Natural Gas (LNG) deliveries to the United Kingdom continued with vigour.

During the second week of March, the Day-ahead contract dropped to a month low of 45p/ th, this was the lowest level since mid-January. The move down was as a result of temperatures above seasonal normal levels and strong LNG flows staying above 40mcm. Heating demand reduced significantly during March with residential demand dropping below 200mcm, and hit a year to date low of 154mcm on 7 March. During the third week of March, the Day-ahead contract traded at an average price of 47p/th, with the market settling at this support level.

Coal

European coal prices weakened month-on-month. Prices did experience a bout of bullish sentiment early in the month on news that Glencore was planning on cutting its 2015 Australian coal production by 15 million mt. However this proved to have only a short-term impact on prices and the bearish supply-demand fundamentals in the Atlantic took hold of the market and prices eased back to close the month at US\$58.85/mt having closed in February at US\$61.80/ mt.

Weakness toward the end of the month was attributed to news that Colombia's Fenoco was said to possibly be closer to having its night-time rail ban lifted and the hike in the UK Carbon Price Support mechanism was interpreted by traders as negative for the country's imports of thermal coal.

High European stock levels also had an overall bearish price influence and this is being amplified as Europe begins to embrace spring after a mild winter period. These stock levels are reportedly hindering demand for fresh imported cargoes and sellers were rather opting to destock. European coal prices continued their long and slow slump in March from the January 2011 high of US\$131.40/mt.

In 2014 the world added more generation from wind power than coal. Political pressure is also growing against the most carbon-intensive fossil fuel. Coal provides 40% of the world's electricity. But of the reported 1,617GW of global capacity, 75% is of the dirtiest kind, which burns coal at low temperatures and emits 75% more carbon dioxide than the most advanced "ultra-supercritical" plants, which burn powdered coal at high temperatures. Campaigner's estimate that 80% of the world's coal reserves must stay in the ground if the planet is to stand a chance of keeping global warming under 2 degrees by 2050.

Electricity

Month-on-month Irish wholesale electricity prices fell which in part reflects softer wholesale gas and coal prices. However, the dominant market feature in March was the pattern of wind which at times resulted in low wholesale prices and the strong influence of coal generators in determining the cost of power. However the influence was not always beneficial and sudden dips in wind sourced electricity resulted in significant wholesale price events and spikes. Early in the month wind produced a high and consistent flow of electricity that forced gas plants off the system and resulted in relatively cheap coal plants having a strong influence on wholesale prices. However, the erratic pattern of wind coupled with high demand between 9 March and 14 March resulted in significant wholesale price events as expensive gas peakers and oil distillate plants were required to balance the system when wind levels suddenly and dramatically abated. The cost of starting, stopping and re-starting larger gas plants over this period also fed through to prices. In the 3rd week of the month low wind volumes changed the plant mix and gas powered plants were required to meet system demand but as the system operator had the choice of running these plants consistently, the dominance of gas plants in the merit order over this period did not result in any significant wholesale price pressure. High and consistent wind levels toward the end of the month returned and applied further downward pressure on wholesale prices.

FX rates

The euro weakened versus the dollar month-on-month and on 13 March closed at 1.0496, a level not seen since

January 2003. The euro subsequently recovered and the exchange rate closed the month at 1.0731. During the month the Federal Reserve dropped "patient" from its monetary-policy statement but it does not appear to be in a hurry to raise rates. Market expectations are however somewhat tempered by US inflation which is well below the Fed's target of 2%, and which has fallen in the past year. The dollar is strong and in recent

months American exports have been sliding. A rate increase will reinforce all these trends, with knock-on effects around the world. It may put the brake on America's economic recovery.

The euro experienced a similar bout of weakness versus the pound and hit a low of .70641 on 11 March, a level not seen since November 2007 but a similar recovery was seen and the month's closing rate was .7243. Britain's economy grew faster in 2014 than that of any other G7 nation. Toward the end of March the euro received support on the news that deflation in the euro zone eased in March and the unemployment rate dipped slightly in February. The numbers suggest businesses are becoming more willing to step up hiring encouraged by very low oil prices, a markedly weaker euro and a major stimulus from the European Central Bank. Indeed, business across the region reported the strongest rise in activity in nearly four years in March. Data from the euro zone indicate that an economic recovery is finally under way. The unemployment edged down to 11.3% in February, the lowest since May 2012, from a revised 11.4% in January. And prices have just about stopped falling: March's inflation rate was -0.1%, after February's -0.3% and January's -0.6%. Confidence is also picking up. The European Commission's economic sentiment index for March was the highest since July 2011.

Ends.

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