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DROP IN OIL PRICES PUSHES ENERGY INDEX LOWER IN MAY

A 9% fall in the Brent crude oil price pushed the Bord Gáis Energy Index down 7% for May. Wholesale gas and Irish electricity prices also fell during the month. Fuel commodity prices dropped as the markets nervously assessed the uncertain global economic and political repercussions of the current crisis in the European Union. As a consequence, money managers channelled funds away from commodities in favour of safe haven assets such as US and German government bonds.

As a result, the Bord Gáis Energy Index now stands at 142 which is 1% higher than in May 2011.

If the euro had not weakened 7% versus the US Dollar and 2% versus the British Pound in May, the Bord Gáis Energy Index would have fallen a further 4% month on month to 11%. The weaknesses of the euro means that Irish consumers therefore did not benefit fully from the falls in internationally traded fuel commodity prices seen in May.

Commenting on the Bord Gáis Energy Index for May, John Heffernan, power trader at Bord Gáis Energy, said:

"Oil, in US Dollar terms, fell 15% in May, the largest monthly price fall in two years. This was as a result of the markets suffering major stress under the political and economic uncertainties in Europe, mounting speculation that growth in the US could slow and further evidence of the evolving Chinese slowdown. These stresses eroded market estimates of future oil demand and prices subsequently fell. Although talks between Iran and the UN in Baghdad in May failed to make any progress, tensions over the disputed Iranian nuclear programme did ease and this put additional downward pressure on Brent crude oil prices. However, a UN report reminded the world that the issue has not gone away given that Iran is reportedly still actively enriching uranium and engaged with its nuclear programme.

Another factor weighing on prices is the quantity of oil being produced by OPEC countries. With oil production from OPEC countries at elevated levels not seen since October 2008; demand destruction in Europe and the US and muted oil demand growth in China, it is now estimated that the oil market is currently oversupplied by around 500,000 barrels a day.

However, the spate of unplanned stoppages currently afflicting non-OPEC supply remains a minor concern as are the recent events in Argentina where the government expropriated a Spanish oil and gas company's assets. The Japanese nuclear moratorium and the summer crude burn in exporting countries add another layer of uncertainty."

The following are the key trends recorded for the month of May:

Oil: The oil element of the Index was down 9% month on month to 151 (up 2% from May 2011). The price of a barrel of oil fell steadily during May from $119.47 to $101.87 (nearly $18) under the combined weight of political uncertainty in Europe, global economic weakness, increased oil supplies from OPEC and easing concerns over Iran's nuclear programme. Despite some positive economic releases from Germany and the US, the global economic picture that emerged strongly during May is one of weakness following releases indicating that globally, retail sales are falling, business activity is slowing, jobs are not being created in the amounts expected and manufacturing is contracting. Because of the fragile economic situation, and high prices, demand for oil in the US, Europe and China is soft. At the same time, oil supplies remain healthy, particularly from OPEC countries, who have collectively increased output for seven months running and who are producing 3 million barrels a day more now than a year earlier. This increased supply and soft demand helped to push Brent crude prices lower.

Natural Gas: The natural gas element of the Index was down 3% month on month to 203 (up 10% from May 2011). UK gas prices were supported at the start of May and traded at about 61p per therm due to the erosion of high stock levels during April, processing plant outages which reduced gas supplies from Norway to the UK, and a cold start to the month. However, prices started to decline mid month as healthy supplies of gas were dispatched from the LNG terminals and Norwegian gas flows resumed after scheduled maintenance. Warmer weather and falling demand also weighed on wholesale Day-ahead gas prices.

Coal: The coal element of the Index was up 4% month on month to 122 (down 16% from May 2011). Coal is finding some support from the power generation sector as healthy European dark power spreads means that it is economical to burn coal across Europe to produce cheaper electricity. However, warmer weather, increased renewable generation capacity (which is displacing thermal generation such as coal) and weakening economic activity have been moderating factors.

Electricity: The electricity element of the Index was down 5% month on month to 116 (down 2% from May 2011). As the majority of power produced on the island of Ireland is generated by burning gas, a 3% fall in the average monthly wholesale Day-ahead UK gas price in euro terms put downward pressure on the cost to produce electricity in Ireland in May. Finally, wholesale prices are under a little pressure with the arrival of summer and peak power demand is starting to erode slowly with warmer weather and extended periods of daylight.

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