

Energy index dips as Summer starts

Friday, 12TH June 2015: The May Bord Gáis Energy Index fell by 3% month-on-month and in May 2015 the Index stood at 110.

OIL

The front month Brent crude oil price traded in the tight range in May having opened the month at US\$66.78 and closed at US\$65.56. Over the last few months prices have recovered from the 2015 closing low of US\$46.59 on 13 January with the recovery particularly evident in April when the front month Brent crude price gained nearly US\$12 month-on-month. However, these strong gains appear to have levelled out in May and further gains appear uncertain.

During the month the IEA reported that despite a slowdown in US oil output growth, global crude supply was up 3.2million barrels per day year-on-year in April. As it stands, the world remains oversupplied with oil by an estimated 1.7million barrels per day, but despite this prices have rallied and the market has started to question prices at these levels. A slowdown in the falling rig count combined with price recovery forced traders to reassess the value of a barrel of oil and prices softened.

NATURAL GAS

UK NBP wholesale gas prices in May were, on average, lower month-on-month as steady LNG deliveries continued and demand eased with rising temperatures. The Day-ahead contract averaged 43.78 pence/therm during May, down 5% on April in euro terms. Gas for front-month June delivery throughout May was down 7% month-on-month. Uncertainty continues in relation to production at the Dutch Groningen gas field. A scientific study, commissioned in response to increased seismic activity, is due to report in July and remains a supply risk for markets. Forward prices continued to weaken over the month as the market remained confident that demand could be met comfortably over the coming months.

COAL

The ICE Rotterdam Monthly Coal Futures Contract continued to weaken in May, dropping nearly US\$1 month-on-month to close at US\$58.85 on 29 May. This weakness continued in June and the coal futures price closed at US\$56.75 on 9 June. Weakness in the spot physical market is reportedly due to a combination of a lack of buying interest due to the low coal burn in Europe and a lot of supply still on offer, particularly from Colombia.

Rising mining and generation costs, often with regulatory causes, have also weakened the competitive position of coal over the past decade. European coal consumption is dropping too. In the EU it fell by 4.7% overall, and in electricity generation by 4.2% between 2008 and 2013, according to Carbon Tracker as renewables bloom. As the west and China moves away from the coal, it still has friends in many poorer Asian countries as coal remains the only option for affordable power and where avoiding coal use for environmental reasons is an unaffordable luxury.

ELECTRICITY

A number of factors impacted the electricity component of the index in the month. The UK Day-ahead gas price has a strong influence in the wholesale price of power in Ireland as the majority of gas is imported from the UK and gas powered plants tend to set the wholesale price of power. In addition to falling wholesale gas prices, the spark element was also lower month-on-month. As well as reduced running for essential gas powered plants, lower sparks reduce the revenue earned by many supply companies which are hedged by such generation assets.

FX

During May the euro weakened against both the US dollar (oil and coal are traded in dollars) and Sterling (Ireland imports the vast bulk of its gas from the UK which is priced in Sterling). Because of the euro's weakness the wholesale price falls seen over the month were not fully captured by euro zone buyers of these internationally traded commodities. The US dollar strengthened during the month, registering a 2% gain versus the euro. Weakness in global growth and concerns over the euro zone have prompted some flight to safe haven assets. A strengthening housing and jobs market in the US has supported the appreciation in the US dollar. However, inflation continues to under-shoot the Fed's 2% target. This has led to some questioning the likelihood of a September hike in interest rates.

During the month the euro also weakened versus the pound (losing 2% month-on-month), falling from a monthly close in April of .7311 to .7186 at the end of May. With the Conservatives winning a majority of seats there is potential clarity in government policy that appears to have supported sterling. A number of positive economic releases on the UK economy also contributed to the upbeat mood.

Ends.

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