

## ENERGY INDEX UP 1% IN FIRST MONTH OF 2013

- STRENGTHENING EURO OFFSETS INCREASES IN WHOLESALE ENERGY PRICES -

The Bord Gáis Energy Index rose 1% in January as a strengthening euro insulated Ireland from rising Brent crude oil and wholesale UK gas prices.

As a result, the Bord Gáis Energy Index now stands at 150, an increase of 4% on January 2012.

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

*“Brent crude oil prices in US Dollar terms rose to over US\$115 a barrel recording its highest monthly level since April 2012, as events in the Middle East and North Africa again raised the possibility of an oil supply disruption. The outlook for Brent crude oil prices continues to be difficult to predict. As the geopolitical situation in the Middle East and North Africa becomes increasingly complicated, the embedded US\$20 ‘fear premium’ in the price of oil looks set to remain at least in the short-term.*

*However, a growing optimism about the prospects for the world's economy, as expressed in outstanding equity performances, added an additional stimulus to oil prices, as the market positively reassesses the prospects for global oil demand in 2013.*

*Euro zone buyers of oil, including Ireland, have been protected from price rises so far in 2013 due to the strengthening of the euro versus the US Dollar. It is uncertain whether this trend will continue given that the euro remains vulnerable to changes in market sentiment and considering the ongoing political uncertainties in some central European economies.*

*Wholesale UK gas prices in sterling terms also finished the month higher, due to cold weather in the UK and a mechanical problem at a platform in Norway's key gas field.*

*Overall, Irish consumers were insulated from the full impact of these higher wholesale commodity prices due to a strengthening euro, which outperformed the US Dollar and British Pound. The January Bord Gáis Energy Index rose 1%, but if it had not been for a strengthening euro, the rise could have been as much as 3%.”*

**The following are the key trends recorded for the month of January:**

**Oil:** In euro terms, the Brent crude price rose in January by just 1% as the strengthening euro suppressed the majority of the 4% US Dollar price increase. A number of factors lead to the 4% price increase. Firstly, the world became aware of the political instability that exists in the oil rich region of North Africa following France's military intervention in Mali; the attack by Islamist militants on a gas field site in Eastern Algeria; government warnings of imminent threats to an oil field in Libya; and an outbreak of street violence in Egypt. In addition, Iran's nuclear programme would appear to be continuing despite EU and US

sanctions. Towards the end of the month, news that negotiations will resume between Iran and world powers helped ease some of those concerns.

**Natural Gas:** The natural gas element of the index was down 5% as Irish buyers of wholesale UK gas benefited from a weaker British Pound. There was a slight rise in the average wholesale gas price as cold weather in the UK resulted in prices spiking in the middle of the month. Strong piped gas flows from Continental Europe helped the UK meet its high winter season demand as did gas withdrawals from UK storage facilities. These withdrawals have the potential to push wholesale gas prices higher as future demand to replenish empty stocks could increase. By the end of the month, storage levels were about 55% full compared to approximately 75% last year.

**Coal:** The coal element of the index was down 7% as the European coal market reacted to over-supply and depressed demand. Prices have fallen by more than 30% since the highs recorded in January 2011. This price fall has coincided with the shale gas revolution in the US which has seen an extraordinary increase in the production of gas. This production increase has resulted in a 75% drop in the wholesale US gas prices since 2008. This dramatic price fall has given gas fired generation a competitive edge over more expensive coal powered plants and has forced US coal producers to export coal to external markets, including Europe. Over this period, Europe has also benefited from healthy supplies from Russia and Colombia..

**Electricity:** The electricity element of the Index was down 1%. With falling wholesale gas and coal prices in euro terms, downward pressure was applied to the average monthly wholesale price of Irish electricity in January, despite rising demand due to the cold weather. During the month, over 65% of the electricity generated in Ireland came from burning gas and coal.

**FX:** In January, the euro outperformed both the US Dollar and British Pound as the currency benefited from improved market sentiment. This is reflected in falling Italian and Spanish government bond yields. The British Pound also suffered on news that the UK economy shrank in the last quarter of 2012 which has left the country on the brink of an unprecedented triple-dip recession.

## **ENDS**

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