Bord Gáis Energy Index
Understanding energy

October 2018

BGE/EI/UE/1018

Bord Gáis Energy

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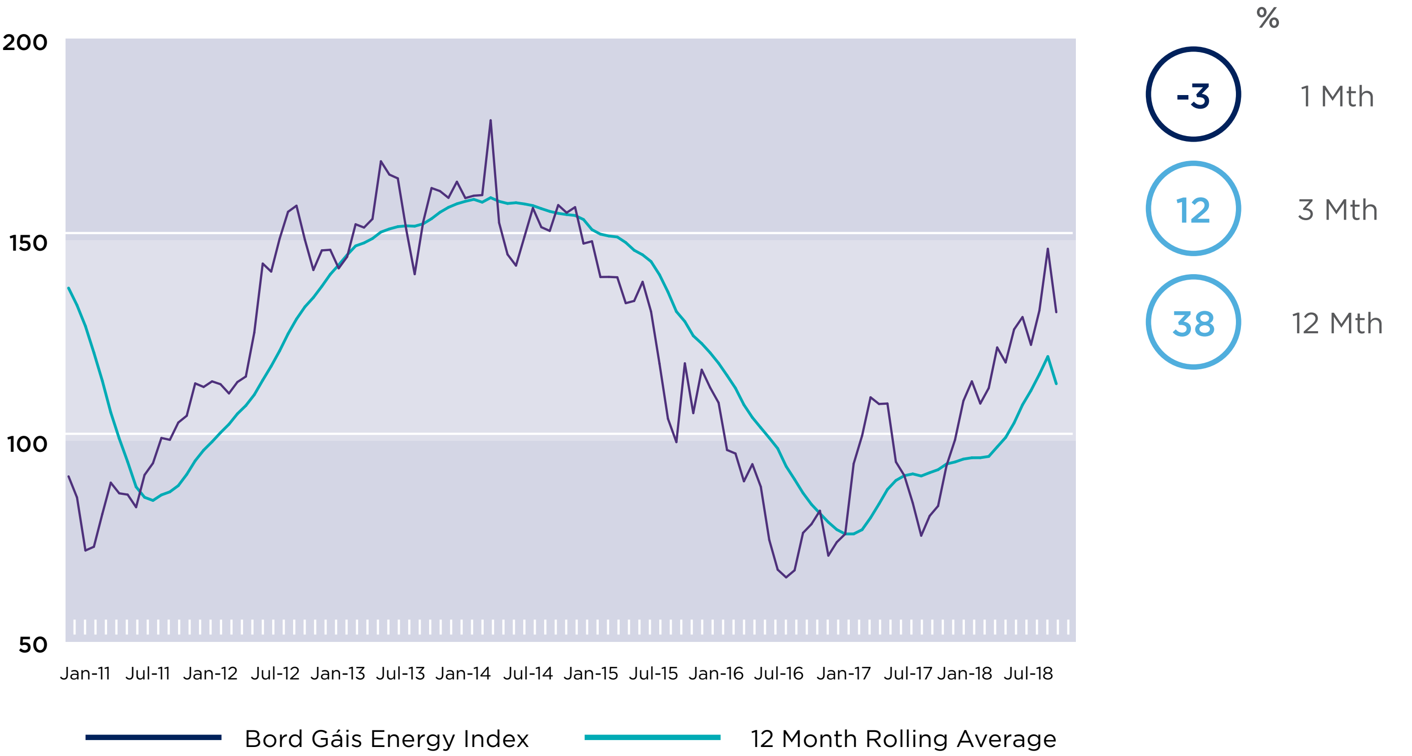
Bord Gáis Energy Index (Dec 31st 2009 = 100)



Summary

In October, the Bord Gáis Energy Index fell 3% month-on-month and is now 38% above the comparable period last year.

Performance was mixed among the components of the Index. Natural gas traded 7% lower over October on improved fundamentals, while oil fell 6% lower on concerns that weaker global growth would hit oil demand. Coal was flat on the month in euro terms, while electricity gained 3%.

In October, the Bord Gáis Energy Index stood at 126.

Bord Gáis Energy Index

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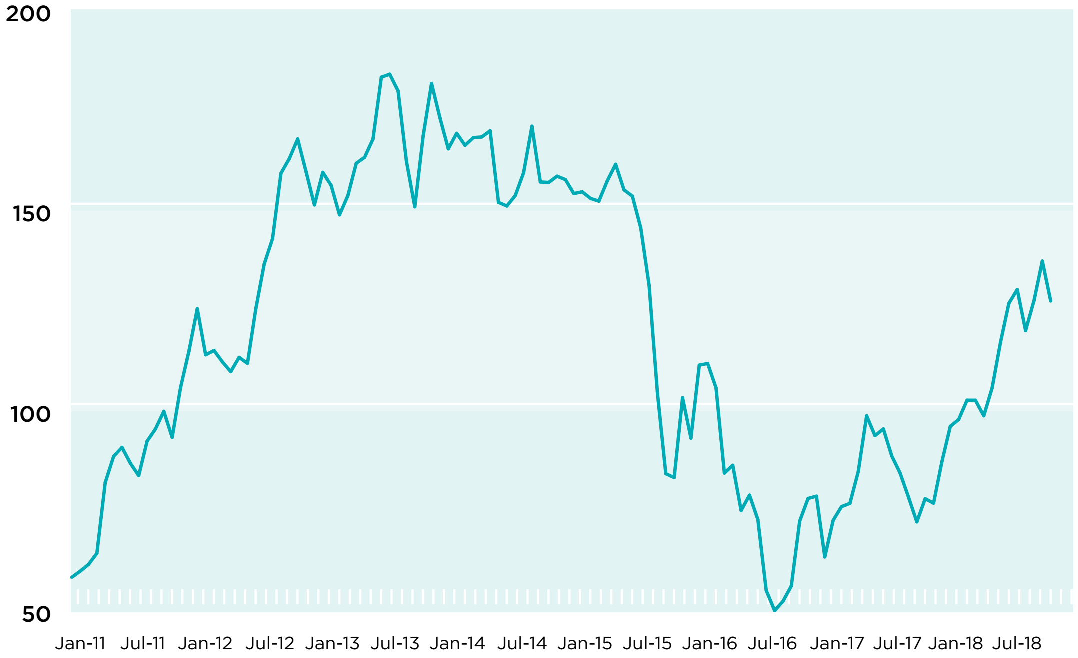
Oil Index



%	
-6	1 Mth
5	3 Mth
27	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices dropped 6% in euro terms in October with prices settling at $75.47 a barrel. In euro terms, the oil price is 27% higher compared to the same period last year.

Oil prices traded close to a four year high of $85 a barrel at the start of October, driven by concerns that imminent U.S. sanctions on Iran would tighten oil markets globally. Saudi Arabia increased oil production to 10.7 million barrels a day, the highest level on record, as OPEC and Russia pledged to replace the Iranian barrels lost as a result of sanctions. However, uncertainty as to whether there will be enough capacity to compensate for the loss of 1-2 million barrels of Iranian supply added a risk premium to prices.

By mid-October, prices dropped back to $80 a barrel, tracking a fall in global stock markets. The escalating U.S./China trade dispute and weakening global growth have weighed on oil as the market perceives them to be a growing threat risk to oil demand, particularly as we see OPEC reducing oil demand estimates for the remainder of this year and 2019.

Crude prices slumped to the lowest level in over three months towards the end of the month on continued assurances from Saudi Arabia that it would raise production to record levels to compensate for lower Iranian exports.

In terms of global growth, China's National Bureau of Statistics reported third quarter year-on-year GDP growth of 6.5%, slightly below market expectations, while the International Monetary Fund cut its growth forecasts.

The market is keenly anticipating November 4, when Iranian sanctions come into full effect. Oil exports from Iran have already fallen by 700,000 barrels per day since May and could fall by another 900,000 barrels per day by the fourth quarter of 2019. The market is still unclear as to how much Iranian oil the U.S. will succeed in cutting or the waivers it may offer to buyers such as Turkey, China and South Korea.

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Natural Gas Index

%	
-7	1 Mth
18	3 Mth
49	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The recent upward momentum, which pushed gas prices to multi year highs, came to a halt in October. The day-ahead contract, the price for gas delivered tomorrow, averaged 67.21p/th over the month, a 7% decline in euro terms from the previous month. However, gas prices remain over 49% above the comparable period last year.

The combination of warmer temperatures throughout October, a sudden surge in LNG arrivals, robust Russian and Norwegian imports and reduced exports to the Continent weighed on gas prices.

Warmer temperatures reduced gas demand, allowing shippers to inject into storage throughout the month, closing the storage deficit in place since the end of last winter.

In addition, a strong increase in LNG arrivals into the UK and Europe, as Asian demand and prices retreated, also improved the fundamental outlook. LNG cargo arrivals into the UK jumped from three in September to nine in October.

The expiry of some long-term contracts on the IUK interconnector, which links the UK market to the continent, also resulted in lower exports to the Continent. Given the ensuing increase in transportation cost of exporting gas from the UK to the Continent, greater volumes of gas were retained in the UK system.

The improving fundamental picture, with a continuing benign weather outlook and continued LNG arrivals into November, helped alleviate concerns that the system would struggle to balance in the event of a cold winter.

Further out the curve, NBP forward contracts gave up some of the recent gains as falling prompt and weakness across the broad energy complex dragged the curve lower. The front month contract plunged almost 10p to finish the month at 68.18p/th, while the front summer 19 and winter 19 contracts gave up 4.7p and 4p to settle at 57.84p/th and 66.3p/th respectively.

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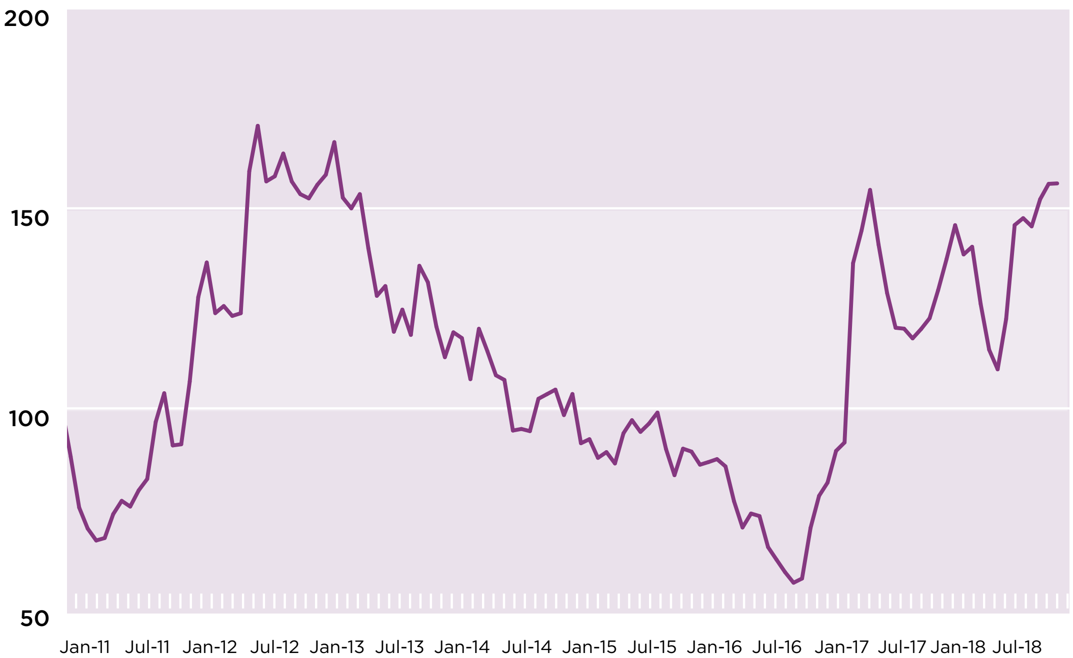
Coal Index



	%
0	1 Mth
6	3 Mth
6	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $97.55 a tonne in October, in line with the previous month and 6% above the comparable period last year.

Coal prices traded in a $99 to $101 range for most of the month, falling at month end to its lowest level at $97.55 a tonne. The trade dispute between the United States and China which has put tariffs on U.S. coal imports has resulted in less imports of U.S. coal, with no U.S. coal scheduled to arrive to China in October, three ships are due in November. China imported 3.2 million tonnes of U.S. coal in the first nine months of the year, representing 1.7% of the country's total imports, but reflective of a larger 3.9% share of US exports.

Coal stocks in Europe hit a 4-year-high in October, due to low Rhine levels restricting coal deliveries to power plants. This has been further impacted by a reduction in coal railings, the main alternative to barging down the Rhine.

Asian demand for coal continues to increase at a strong pace, with the head of the International Energy Agency(IEA), Fatih Birol, saying that the growth of coal fired power in Asia was a worrying development as the new plants would "lock in the emissions trajectory of the world". Currently Asia has 2,000GW of coal fired power plants operating or under construction, more than 10 times as much as the EU. China and India coal fired power generation grew by 4% and 13% respectively over the past year according to the IEA.

This is not positive from an environmental perspective, with energy related carbon dioxide emissions ticked up 1.4% last year, after several years of staying flat and is estimated to rise again in 2018. Asia accounted for two-thirds of the growth in emissions last year.

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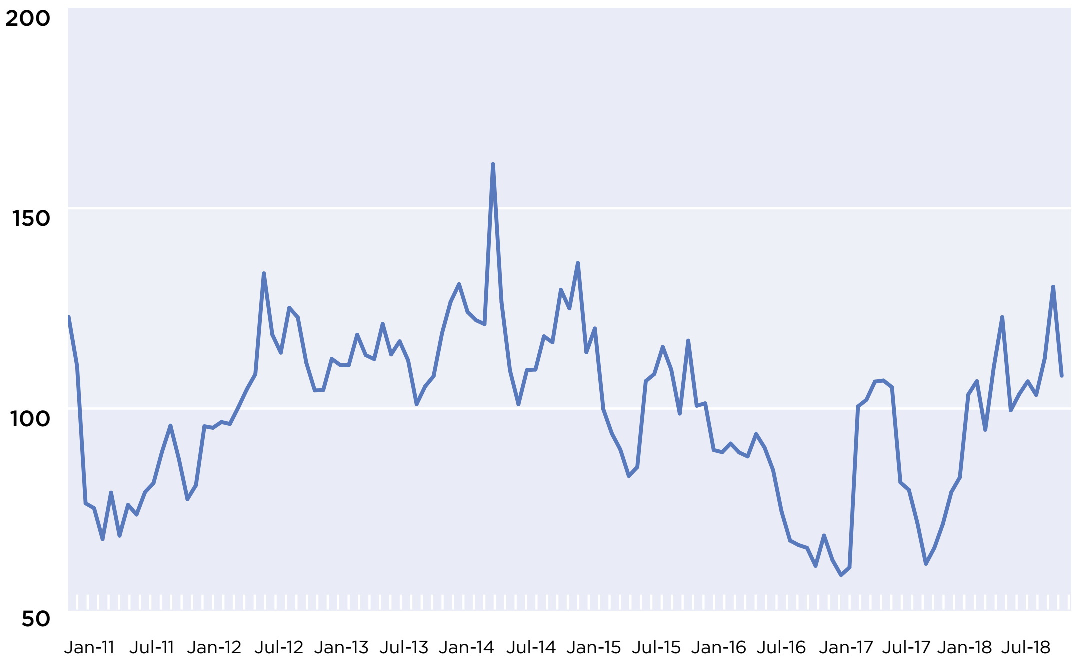
Electricity Index



%	
3	1 Mth
24	3 Mth
61	12 Mth

Data Source: SEMO

Electricity

Monday 1st October saw the introduction of a new power market, the Integrated Single Electricity Market (I-SEM) replacing the Single Electricity Market.

The new market has brought in fundamental changes, moving from a single sided auction to double sided auctions and increased integration across European markets. It is anticipated the new market will improve the efficient flow of energy from cheaper sources of generation to higher priced regions.

I-SEM consists of Day-Ahead and Intra-Day markets as well as a balancing market. The Day-Ahead market is the primary market through which the majority of traded volumes clear, with 98% of suppliers' volume clearing there in the first few weeks of I-SEM.

The SEM capacity Payments Mechanism has been replaced by the I-SEM capacity Market. There will no longer be a capacity payment made to all available generators but only to successful auction participants therefore this capacity price will no longer form part of the Index.

The Day-ahead price will be used in the Index as the on-going I-SEM reference price. The average Day-Ahead price in October was €73.64/MWh. Wind output was up 42% to 1,347MW versus 945MW the previous month. The average portion of demand met by wind in October was 32%.

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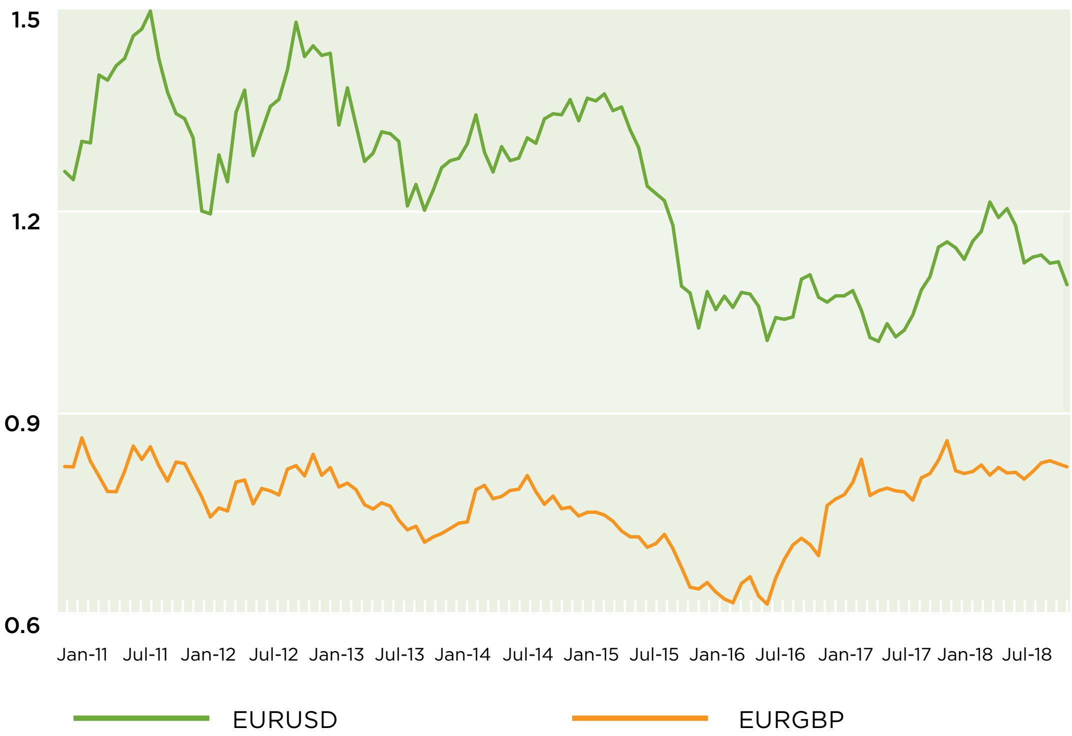
FX Rates



EURUSD %

-3	1 Mth
-3	3 Mth
-3	12 Mth

EURGBP %

0	1 Mth
-1	3 Mth
1	12 Mth

FX Rates

The euro lost value versus sterling and the US dollar in October. The euro settled at $1.1306 versus the greenback, a loss of 2.65%, and at 0.8865 versus the pound, a loss of 0.4%.

The US dollar continued to push higher over the month as the US economy continued to perform strongly with unemployment falling to 3.7%, the lowest in 50 years. The key change in the month was deteriorating economic data in the euro-zone with disappointing PMI and GDP numbers, while ongoing political concerns around the Italian budget, economy and deficits weighed on the single currency.

The pound was supported in October by hawkish comments from the Bank of England signalling that UK interest rates could rise at a faster pace if the Brexit process was concluded successfully. However, Brexit remains the key determinant for the pound going forward as the deadline for a deal approaches and little progress has been made on breaking the deadlock around the Irish border backstop.

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