Bord Gáis Energy Index

Understanding energy

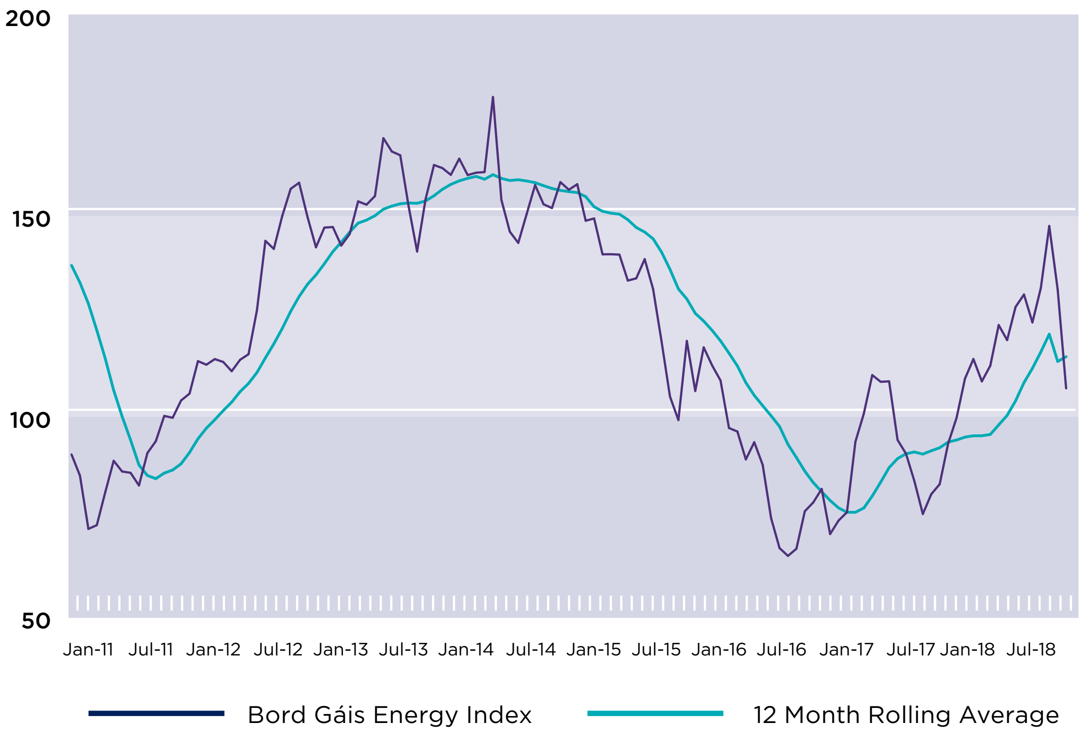
November 2018

BGE/EI/UE/1118

Bord Gáis Energy Index

November 2018

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



%	
-16	1 Mth
-11	3 Mth
7	12 Mth

Summary

In November, the Bord Gáis Energy Index fell 16% month-on-month but remains 7% above the comparable period last year.

The month saw falls across the energy complex; oil lead with a drop of 22% as supply concerns ahead of Iranian sanctions faded and non-OPEC supply continued to expand.

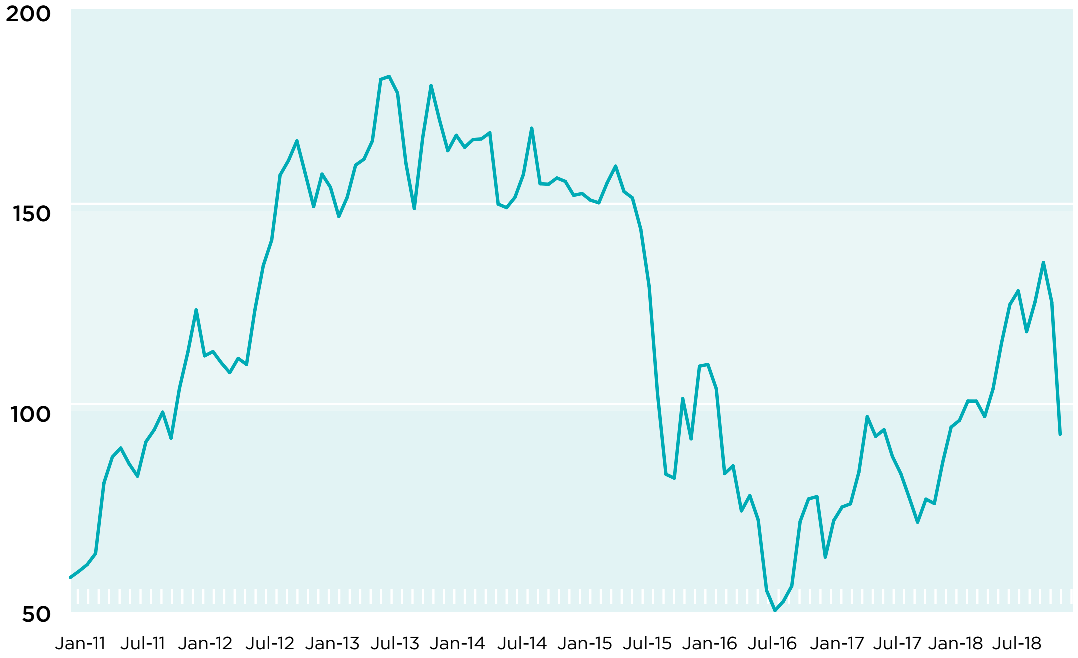
Natural gas traded 4% lower as warmer temperatures and continued strong LNG flows weighed on prices, while coal and electricity prices traded 9% and 8% lower respectively.

In November, the Bord Gáis Energy Index stood at 106.

Bord Gáis Energy Index

November 2018

Oil Index



%	
-22	1 Mth
-22	3 Mth
-3	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The oil price decline which began in October gained pace in November as Brent crude prices dropped 22% in euro terms, settling at $58.71 a barrel. In euro terms, the oil price is 3% below the comparable period last year.

Ahead of the implementation of US sanctions on Iran, the US administration decided to hand out waivers to key buyers. The waivers are likely to see continued exports of Iranian oil to key markets, particularly in Asia.

US rhetoric, ahead of sanctions implementation, was particularly hawkish claiming they intended to drive Iranian exports to zero. However, this rhetoric melted away in the face of potentially higher oil prices as President Trump admitted in press conferences and on his ever-active Twitter feed. The extent of the US waivers must have come as a surprise to Saudi Arabia and Russia who abandoned their supply restraint agreement earlier this year, ahead of sanctions on Iran, in an attempt to stabilise supply and price.

In recent months, non-OPEC production has continued to surprise to the upside, particularly out of North America. US shale production shows no sign of slowing as higher oil prices are met with increased drilling. The dilemma facing OPEC hasn't changed much over recent years, as they stabilise oil at higher levels, they encourage ever higher non-OPEC production led by shale. An indication of the growing production was Alberta's decision to impose a production cut of 325,000 barrels starting in January 2019 until stock levels revert to more normalised levels.

In recent weeks, supply concerns have faded into the background and market attention has shifted to concerns around demand as the EIA forecast an oversupplied market in 2019. Global growth forecasts continue to weaken as trade tensions between the US and China continue to hang over the global economy. Any slowdown in global growth will impact oil demand, particularly in China which is a key growth market for oil.

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Natural Gas Index

%	
-4	1 Mth
5	3 Mth
22	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

Prices continued to retreat in November from the multi-year highs hit at the end of the third quarter. The day-ahead contract, the price for gas delivered tomorrow, averaged 64.5p/th over the month, a 4% decline in euro terms from the previous month. Despite recent weakness gas prices remain over 22% above the comparable period last year.

A continuing benign weather picture has weighed on UK gas demand as warmer temperatures kept gas demand in check. It's been a similar story in Europe and Asia as warmer temperatures have pushed market concerns that the system would struggle to balance in the event of a cold winter into the background.

The bearish impact of the higher temperatures has been further strengthened by a surge in LNG cargoes into Europe over recent months. LNG regasification in continental Europe in November was at its highest level since January 2010 and over 60% above the comparable level last year.

LNG sendout in the UK increased by 240% year-on-year to reach 1.4 bcm as the UK received 13 cargoes compared to three in November 2017. This surge in LNG reduced pipeline and storage requirements into the UK gas supply.

Lower Asian demand and prices, and a sizeable increase in LNG shipping costs, has pushed LNG cargoes into the European market as the long-predicted LNG wave appears to have finally arrived, for now! The European market, given its liquid hubs and underutilised LNG capacity, is the natural sink for global LNG surplus. The key risk going forward is this LNG turns tail and heads east if demand in Asia picks up due to colder weather or some other unexpected supply/ demand shock.

Further out the curve, NBP forward contracts also traded lower as lower prompt and falls in oil prices pressured curve contracts. The front month, December contract, dropped 1.9p to settle at 66.3p/th, while the front Summer 19 and Winter 19 contracts fell 2p and 2.4p to settle at 55.8p/th and 63.9p/th respectively.

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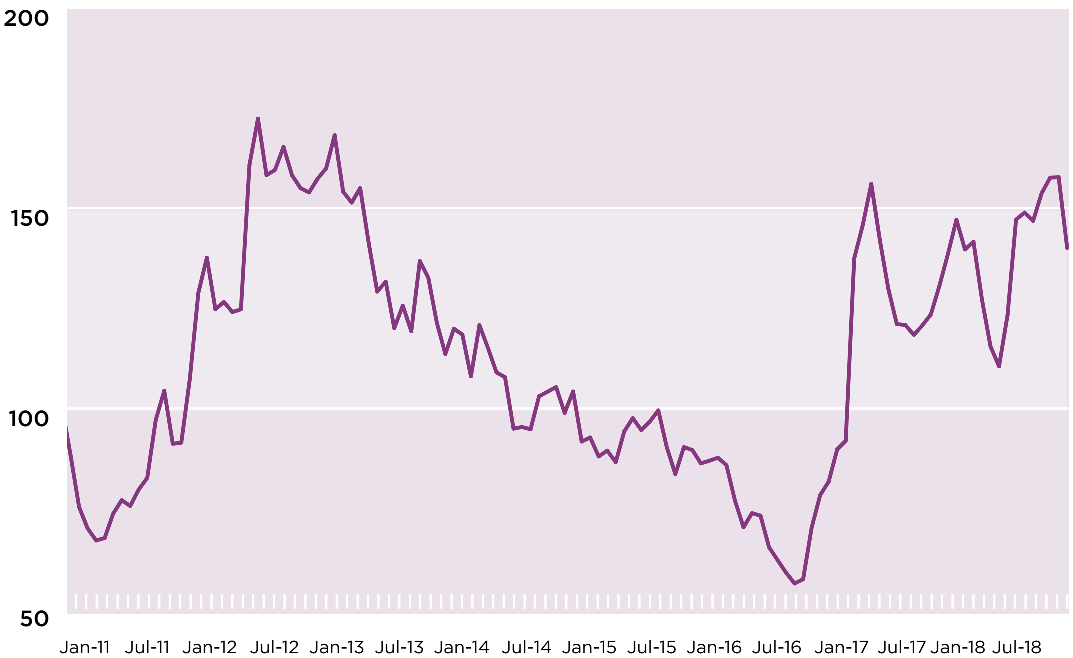
Coal Index



%	
-9	1 Mth
-7	3 Mth
0	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $88.40 a tonne in November, a drop of over 9% compared to last month and in line with the comparable period last year.

Coal prices opened the month at €95 a tonne and traded lower to close at $88 a tonne. Coal prices tracked lower during the month on weak Asian demand for coal, weighing heavily on sentiment in Europe. Chinese buyers are still largely absent from the spot market and Japanese buyers are mostly covered for Q4, therefore dampening the potential for upside in prices in the nearside.

European coal prices were pressured by high stock levels, lower gas prices and milder temperatures forecast for the winter period. Import quotas in China and low seasonal demand in India, the two key demand centres in Asia, also kept global sentiment weak.

Chinese import policy uncertainty has reduced buying interest for December cargoes, this has had a further dampening impact on prices. Several ports on southern and eastern China have introduced controls on coal imports, ranging from bans on unloading to tightening customs clearances. The authorities in Beijing wish to restrict growth in coal imports to support domestic coal prices and encourage an increase in local production.

China's authorities have imposed stricter import controls on seaborne thermal coal, stopping all imports with immediate effect for the rest of the year. It is not anticipated that China's import restrictions will be relaxed in the near term, the only possibility will be if bad weather caused transport disruption and required imports to fill the gap.

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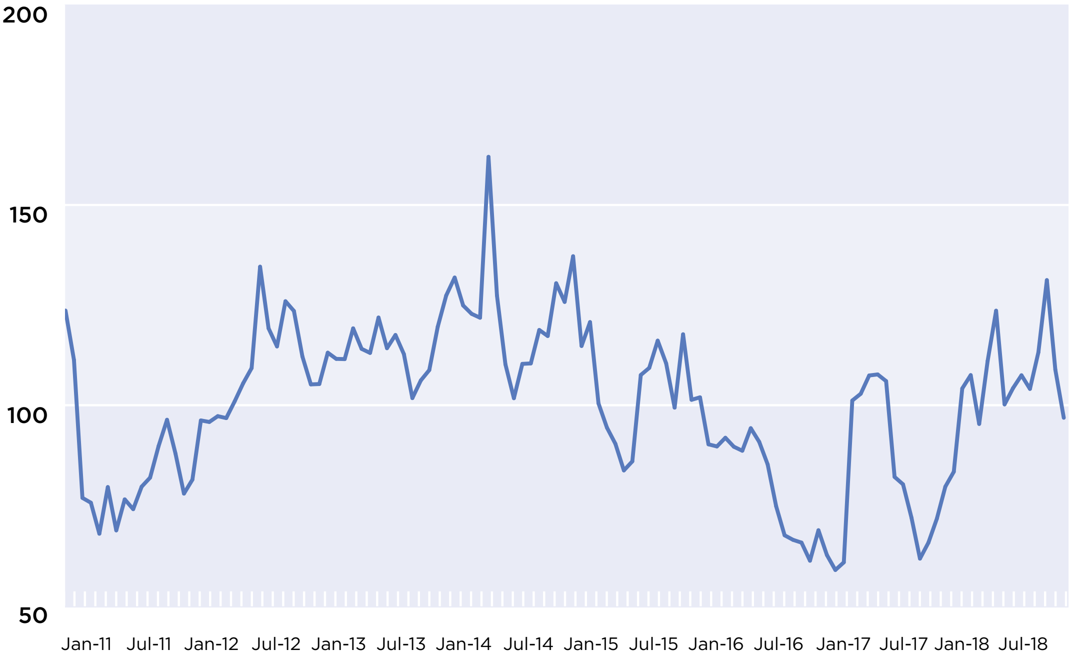
Electricity Index



%	
-8	1 Mth
7	3 Mth
21	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price went from €73.64/MWh in October to €67.44/MWh in November, a reduction of 8.4% over the month. Wholesale electricity prices typically track the cost of imported gas as it is the most significant cost in the production of electricity. However, this can vary on a month-to-month basis.

The clean spark decreased 30% to €9.39/MWh in November from €13.41/MWh in October. Wind output was up 42% to 1,913MW versus 1,347MW the previous month.

The average portion of demand met by wind in November was 42%.

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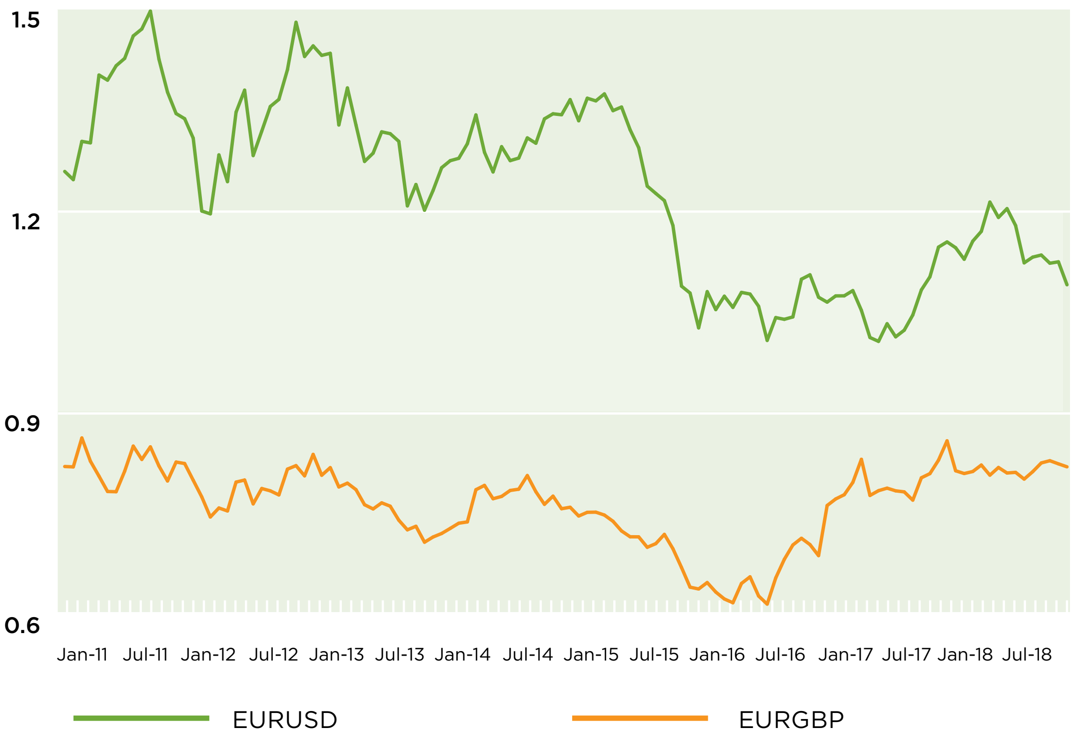
FX Rates



EURUSD %	
0	1 Mth
-2	3 Mth
-5	12 Mth

EURGBP %	
0	1 Mth
-1	3 Mth
1	12 Mth

FX Rates

The euro made marginal gains against sterling and the US dollar in November. The euro settled at $1.1315 versus the greenback and at 0.8872 versus the pound, a consistently small increase of 0.08% against both.

Politics was to the fore throughout November as escalating trade tensions between the US and China dampened global growth expectations. However, the meeting between President Trump and President Xi, at the G20 meeting in Buenos Aires, did signal some softening in rhetoric as both parties called a truce for a 90-day period. The market will monitor developments in the coming weeks for signs that a more permanent resolution is forthcoming.

At last, we had some progress on the Brexit front as the UK and EU finally agreed a withdrawal agreement. However, the agreement must now be ratified by the House of Commons, potentially the most difficult and perilous step.

We can expect increased volatility in sterling as we pivot between the deal, no deal, second referendum or even general election alternatives over the coming weeks and possibly months.

In Europe, the European Commission rejected the Italian budget due to concerns that spending would exacerbate an already excessive deficit. However, in recent days discussions appear to have taken a more conciliatory tone suggesting a heightened possibility that a compromise can be reached.

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