Bord Gáis Energy Index

Understanding energy

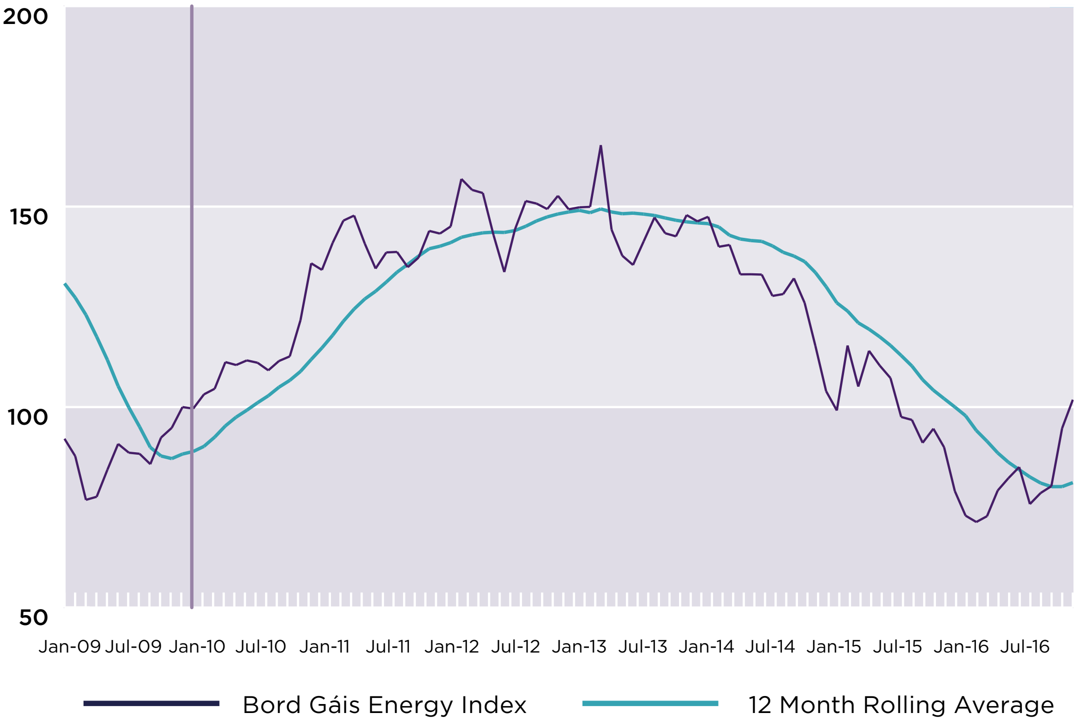
NOVEMBER 2016

BGE/EI/UE/1216

Bord Gáis Energy Index

November 2016

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



%	
8	1 Mth
30	3 Mth
13	12 Mth

Summary

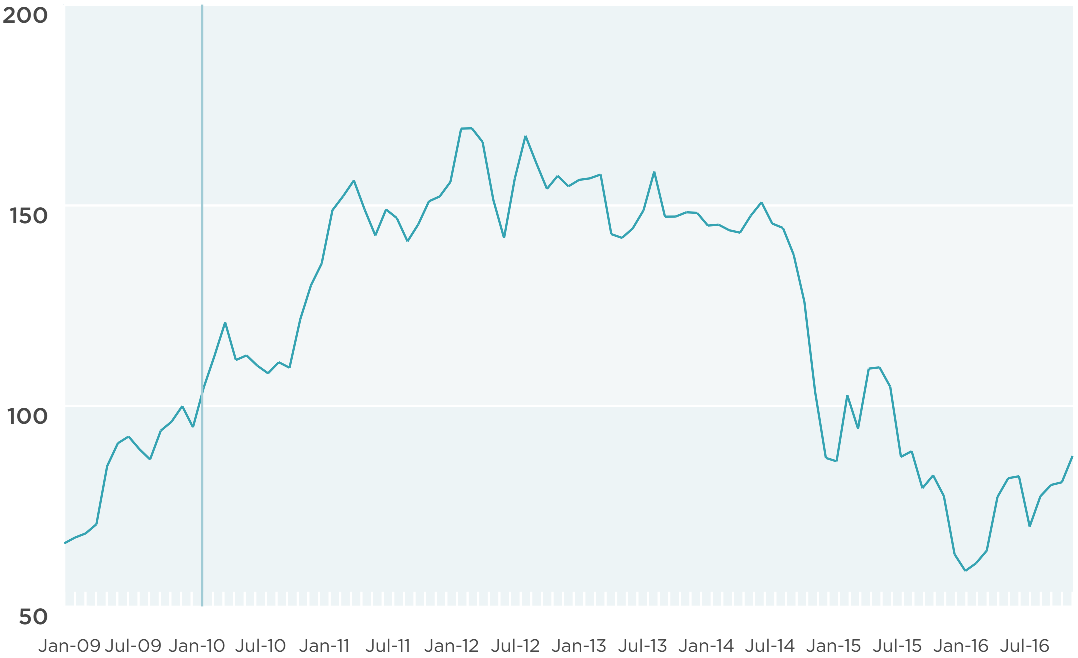
In November 2016, the Bord Gáis Energy Index rose by 8%, led by an oil price increase in anticipation of an OPEC agreement to cut global oil production. Gas prices rallied by 21% as ongoing concerns around the availability of French nuclear facilities drove prices higher. This fed through to a 5% increase in electricity prices while the recent strength in coal also continued.

In October, the Index stood at 102.

Bord Gáis Energy Index

November 2016

Oil Index



%	
8	1 Mth
13	3 Mth
13	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The recent rally in oil gained momentum in November as Brent crude prices pushed 8% higher in euro terms, settling at $50.47 a barrel.

Market attention over recent months has remained fixated on the potential for an OPEC agreement to cut production. An OPEC meeting in Vienna at the end of November was scheduled to formalise a tentative agreement to cut production reached in Algiers in September.

Despite some last minute posturing and disagreement among key producers Saudi Arabia, Iran and Iraq, OPEC managed to confound many sceptics and agree its first production cut since 2008. The deal is decisive as it marks the return of OPEC to an active management role in the oil market, having abandoned prices to market forces in November 2014 in the face of a supply glut which saw oil prices drop from $115 a barrel to a low of $27 in January 2016. The cut should hasten market balancing and the drawdown of record high inventory levels.

OPEC has agreed to cut oil production by 1.2 million barrels a day to 32.5 million from January 2017. The agreement exempts both Nigeria and Libya from cuts as they are both producing well below capacity due to internal conflicts. Iran will also be allowed to increase its output to pre-sanction levels of 3.8 million barrels. OPEC expects some non-OPEC members, such as Russia, to participate in production cuts and reduce output by around 600k barrels a day.

The agreement pushed oil prices to fresh 2016 highs. Attention will now turn to the implementation of the agreement, the large inventory overhang and the response of U.S. shale producers to higher oil prices.

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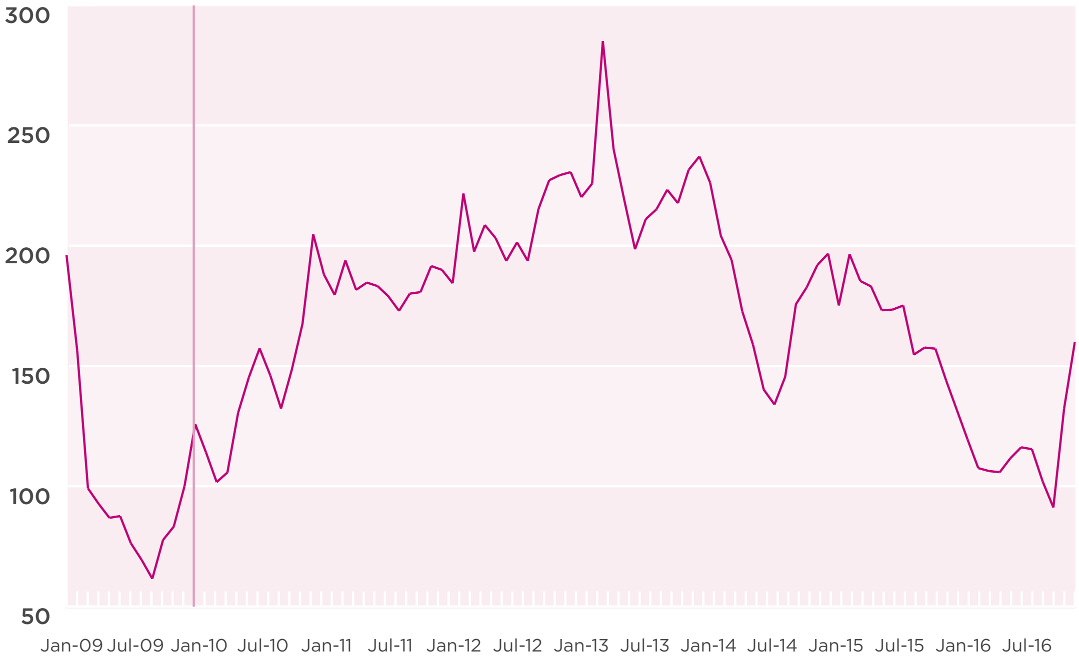
Natural Gas Index



%	
21	1 Mth
57	3 Mth
11	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The UK NBP day-ahead contract averaged 47.7p/th for November; a 21% increase in euro terms on October's day-ahead average of 41.7p/th.

The day-ahead contract, the contract for delivery tomorrow, rose as concern around French nuclear availability continued early in November with French power prices hitting new highs on reduced nuclear capacity. A series of unscheduled nuclear reactor closures, due to testing being carried out on the steel used in some of the reactors, has reduced French nuclear output by about 30%. This sent power and gas prices surging across European markets. Gas prices in the UK, which imports power and gas from the continent in the winter, pushed higher in line with the spike in continental prices. Prompt prices were also supported by continued low LNG (liquefied natural gas) and increased demand. LNG flows to the UK are unusually low at the moment as gas tankers are diverted to Asia where gas prices remain higher than the UK.

As the month progressed, the upward momentum of the near term gas market was tempered somewhat. The reasons included milder weather in the middle of the month and a stronger sterling post the election of Donald Trump in the U.S. The political uncertainty that faces Europe, with a number of elections to be held in 2017, led to a rebound in the sterling versus the euro; this has had a downward impact on UK gas prices.

Further out the curve, prices were lower over the month as the benchmark Winter 16 contract settled at 47.7p/th, a fall of 5%. Prices had been boosted in October due French nuclear issues and we saw this fear premium being unwound as the month progressed. On the final day of the month the Rough storage facility, which accounts for about 70% of the UK storage capacity, announced that it intended to restart the facility on December 9th with 20 out of possible 24 wells available for withdrawal. This will help to boost supply over the winter months and was taken as a positive by the market.

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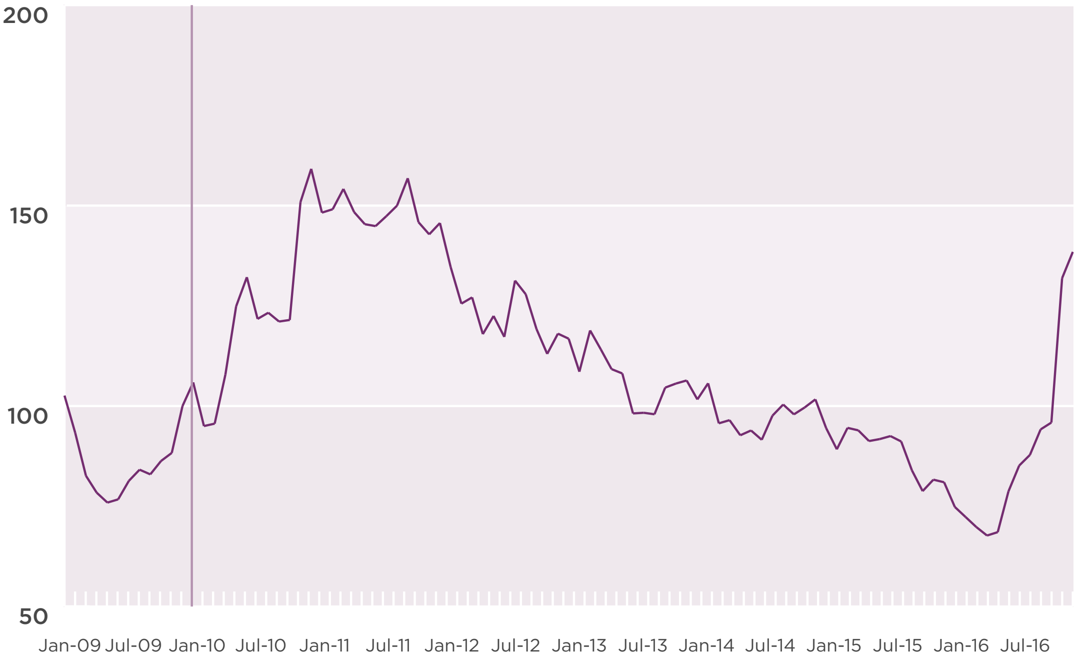
Coal Index



%	
5	1 Mth
47	3 Mth
71	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal's recent strength continued in November as prices finished the month $1.25 higher at $85.6 a tonne, a 5% increase in euro terms on the month.

Prices have been supported, over recent months, by stronger Chinese steel production and a policy directive from Beijing limiting domestic coal output. The already elevated price of coal received a further boost toward the end of the month when the United Nations Security Council imposed fresh sanctions on North Korea. This limited its annual coal exports to 7.5 million tonnes, or a value of $400.9 million, after they conducted a fifth nuclear weapons test. North Korea is one of China's top suppliers exporting 18 million tonnes of coal to China in the first 10 months of the year.

It remains to be seen if China will adhere to the latest sanctions. In addition, Chinese policy-makers have begun to relax measures designed to limit domestic production in face of the recent surge in prices.

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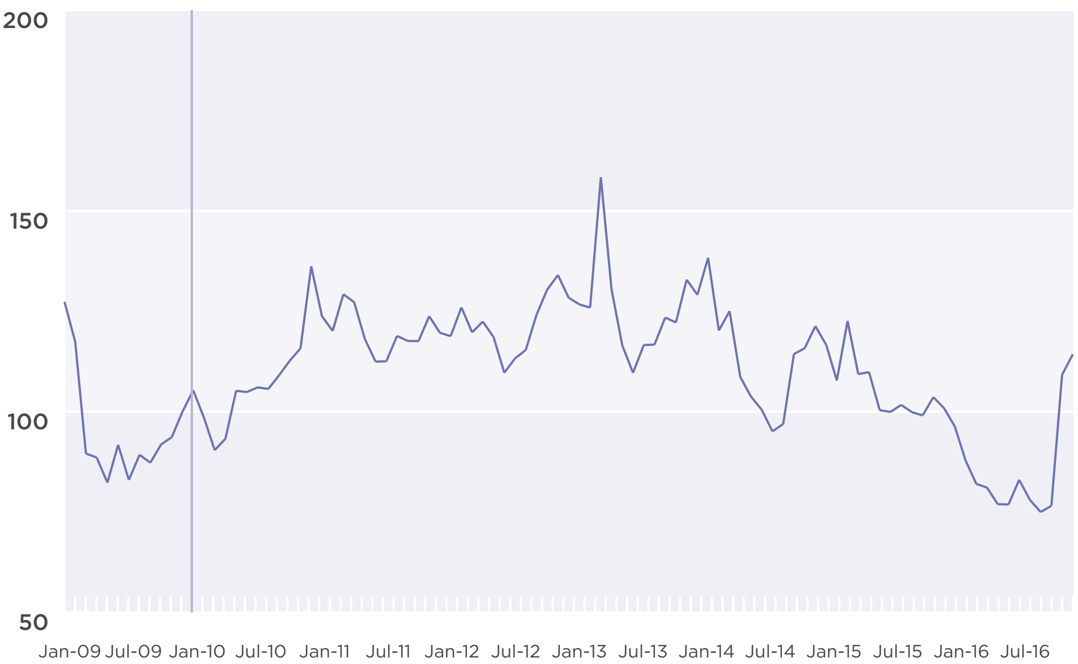
Electricity Index



%	
5	1 Mth
52	3 Mth
13	12 Mth

Data Source: SEMO

Electricity

In line with an increase in UK prompt gas prices, average Irish wholesale prices have increased by 5% month on month.

Excluding supplier capacity payments the average wholesale price for November was €54.66/MWh compared to €53.88/MWh in October, an increase of €0.78/MWh on the average monthly wholesale price.

The average wholesale cost of imported gas from the UK increased by 21% in euro terms. Irish wholesale power prices typically tend to track the cost of imported gas as it is the most significant cost in the production of electricity.

An average monthly clean spark of approximately €14.34/MWh was recorded in the month, which is down from the €19.28/MWh observed in October (a decrease of 25.6%). The proportion of demand met by wind in November decreased to 15.8% from 16.4% in October. The return of a number of plants from significant outages has stabilised spark levels.

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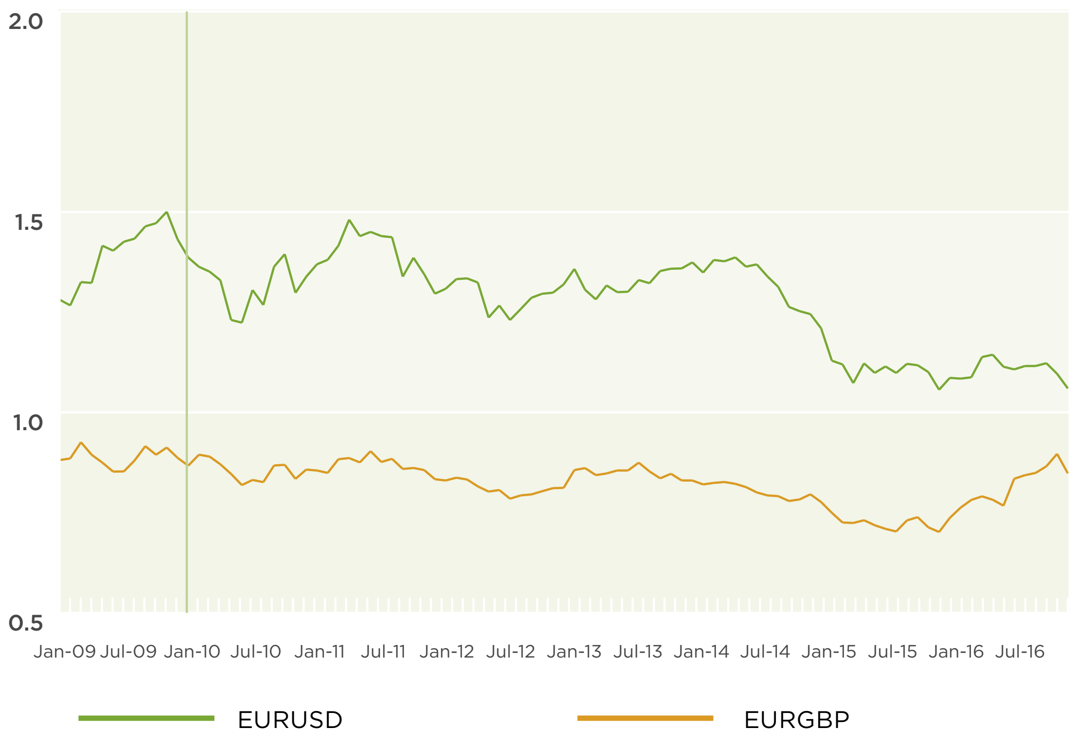
FX Rates



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

EURGBP %	
-5	1 Mth
0	3 Mth
21	12 Mth

FX Rates

November was a month that saw the euro weaken versus both sterling and the dollar. The euro was 5% lower versus the pound, finishing the month at 0.8481p, and also 3% weaker against the US dollar at $1.0599.

Focus was firmly on geopolitical events as the surprise election of Donald Trump as U.S. president was the key driver of FX markets during November. Trump's conciliatory acceptance speech, which focused on plans to increase spending, sparked a rally in equities and a sell off in bonds as higher inflation expectations fed through. This led to a rally in the US dollar on expectations of an accelerated interest rate tightening cycle in the U.S.

Meanwhile in Europe, the victory for Donald Trump focused minds on the changing political landscape on this side of the Atlantic. The Italian referendum, as well as the upcoming 2017 elections in France, the Netherlands and Germany has caused traders to price some political risk into the euro. The possibility of one or more anti EU parties forming a government after these elections raises the prospect of further possible referenda on EU membership. This caused the euro to weaken versus the pound and the US dollar.

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