

# **Bord Gáis Energy Index**

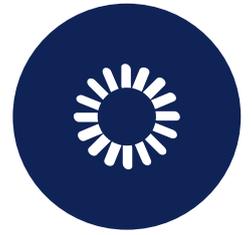
Understanding energy

JULY 2017

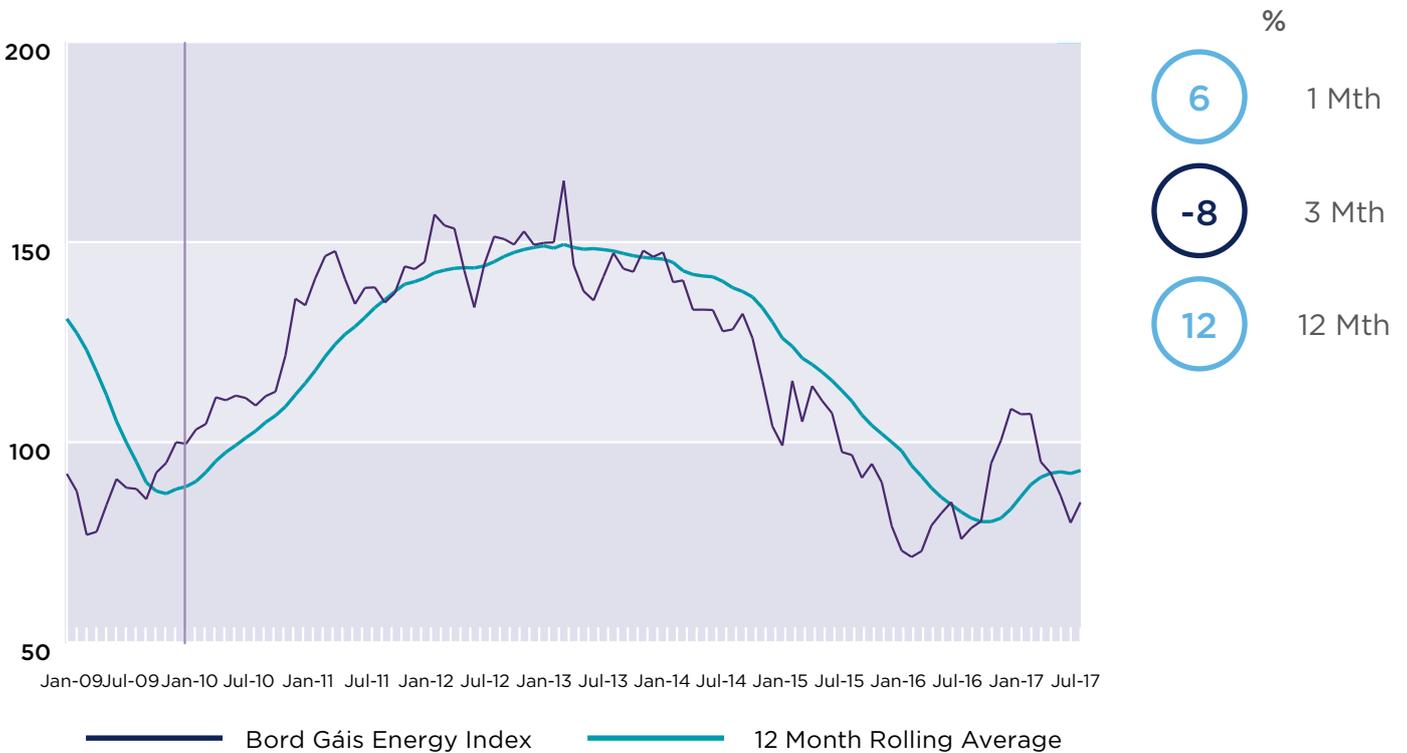
BGE/EI/UE/0817

# Bord Gáis Energy Index

July 2017



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



## Summary

The Bord Gais Energy Index increased by 6% in July, almost 12% higher than the comparable period last year.

July's Index saw significant growth across the energy complex as oil, gas, coal and electricity all posted gains. The increases were mitigated somewhat, in euro terms, by an impressive appreciation in the euro against sterling and the dollar. The oil price was the stand-out performer in July, posting a 10% gain in dollar terms and 6% in euro, on the back of lower US production, inventories and a weakening dollar. Prompt gas prices closed the month 1% higher in euro terms, while coal and electricity increased by 2% and 8% respectively.

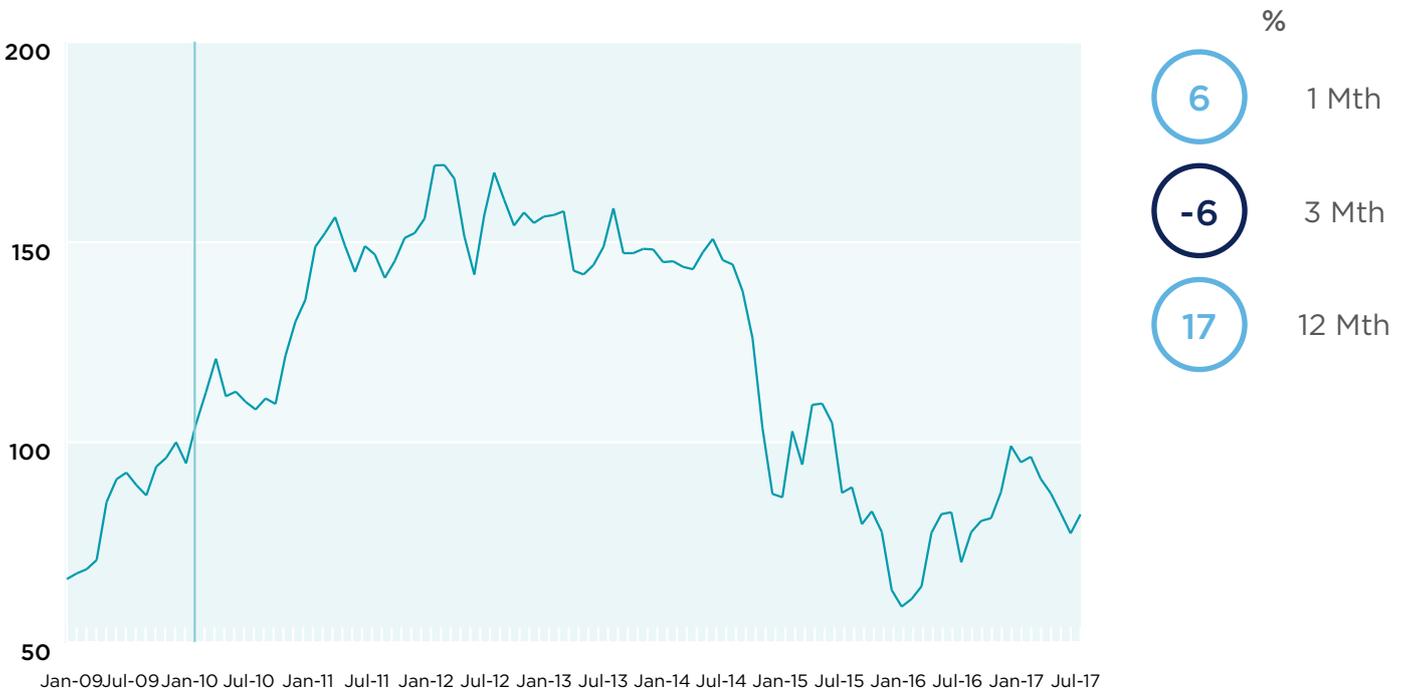
In June, the Bord Gais Energy Index stood at 85 (+6%).

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## Oil Index



Index adjusted for currency movements.

Data Source: ICE

## Oil

July brought oil's first monthly gain this year, as prices pushed strongly above \$50 a barrel. The Brent crude benchmark settled at \$52.65 at the end of July - a jump of almost five dollars or 10% - on June's closing price of \$47.92 a barrel. The recent strength in the euro, however, helped mitigate some of this rise, with the Brent crude benchmark increasing by around 6% in euro terms.

Sentiment shifted sharply in July as reduced US production and lower US crude inventories helped reverse some of the bearish sentiment in the oil market. Energy Information Administration (EIA) data showed that US inventories, which had remained at historic highs despite OPEC production cuts, fell sharply over the month.

The oil price also found support from a weakening US dollar, which fell to a 14-month low against a basket of global currencies. Oil is traded in US dollars. A lower dollar, therefore, can help stimulate oil demand as it reduces the cost of the commodity for users of other currencies.

Recent bearish sentiment pushed oil prices into the mid-forties in June. However, in July, data releases from the EIA and Baker Hughes pointed to a slowdown in US shale activity in response to this lower price environment. US shale production has the ability to respond more rapidly to oil price moves as a result of its fast cycle production.

The strong oil price recovery in July may provide US producers with an opportunity to lock in selling prices for future production, and we could well see US production pick up again in the coming weeks. In addition, the market will be watching OPEC production carefully for any signs that the adherence to production cuts is starting to slide.

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## Natural Gas Index



Index adjusted for currency movements.

Data Source: Spectron Group

## Natural Gas

The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 35.99 pence a therm (p/th) in July, an increase of 3% on the June average of 34.84p/th and 5% higher than the average of 34.2p/th for the comparable period last year.

Prompt prices during the month were supported by unscheduled outages in Norway, particularly an outage at Norwegian gas processing plant, Kollsnes. This was initially expected to be in place for 12-24 hours, but was later extended to a week, and was finally declared offline until the 1st of October. The volume impact of this outage was initially 9.5 million cubic metres per day (mcm), but was later increased to 12.5mcm.

The UK continues to export significant gas to the continent, via the UK-Belgium interconnector, with an average volume of 59mcm in July, which is close to its full capacity of 60mcm. Exports are staying close to maximum capacity due to the requirement for strong injections into storage in key European countries which lag 2016 by 6.7 billion cubic metres (bcm) at the start of August, according to Thomson Reuters.

LNG supply was steady during the month, with an average send-out of 20mcm. It appears that cargoes from Qatar are still navigating the Cape of Good Hope, possibly due to diplomatic tensions between Qatar and Egypt, which is a risk to the outlook as cargo arrivals may be pushed out further.

Further out the curve, seasonal gas contracts hit six-month lows on the 12th of July, before recovering towards the end of the month on stronger oil prices. The benchmark Winter '17 contract traded as low as 44.10p/th, finishing the month up 1.36p/th at 45.46p/th. The Summer '17 contract traded as low as 38.40p/th and closed up 1.10p/th, at 39.50p/th.

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## Coal Index



Index adjusted for currency movements.

Data Source: ICE

## Coal

Coal's recent strength continued during July, finishing the month 5% higher at \$83.25 a tonne, an increase of over four dollars or 4% on June's closing price of \$79. Euro strength, once again, helped mitigate the increase with coal increasing only 1.8% in euro terms. Coal prices, which traded as low as \$44 in February 2016, have rallied by almost 90% in the past 18 months as Chinese authorities implement policies which support coal prices.

China, the world's largest consumer of coal, saw imports increase by 24% to 133 million tonnes in the first six months of this year as Beijing continues to curtail domestic output by restricting production and closing inefficient mines.

China's imports of coal from the seaborne market surged again in July as lower hydropower output boosted demand for thermal generation. China's seaborne imports were 20.8 million tonnes in July, up sharply from 17.9 million in June, according to Thomson Reuters.

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## Electricity Index



Data Source: SEMO

## Electricity

The average wholesale price of electricity was higher by 8% in July.

Irish 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.

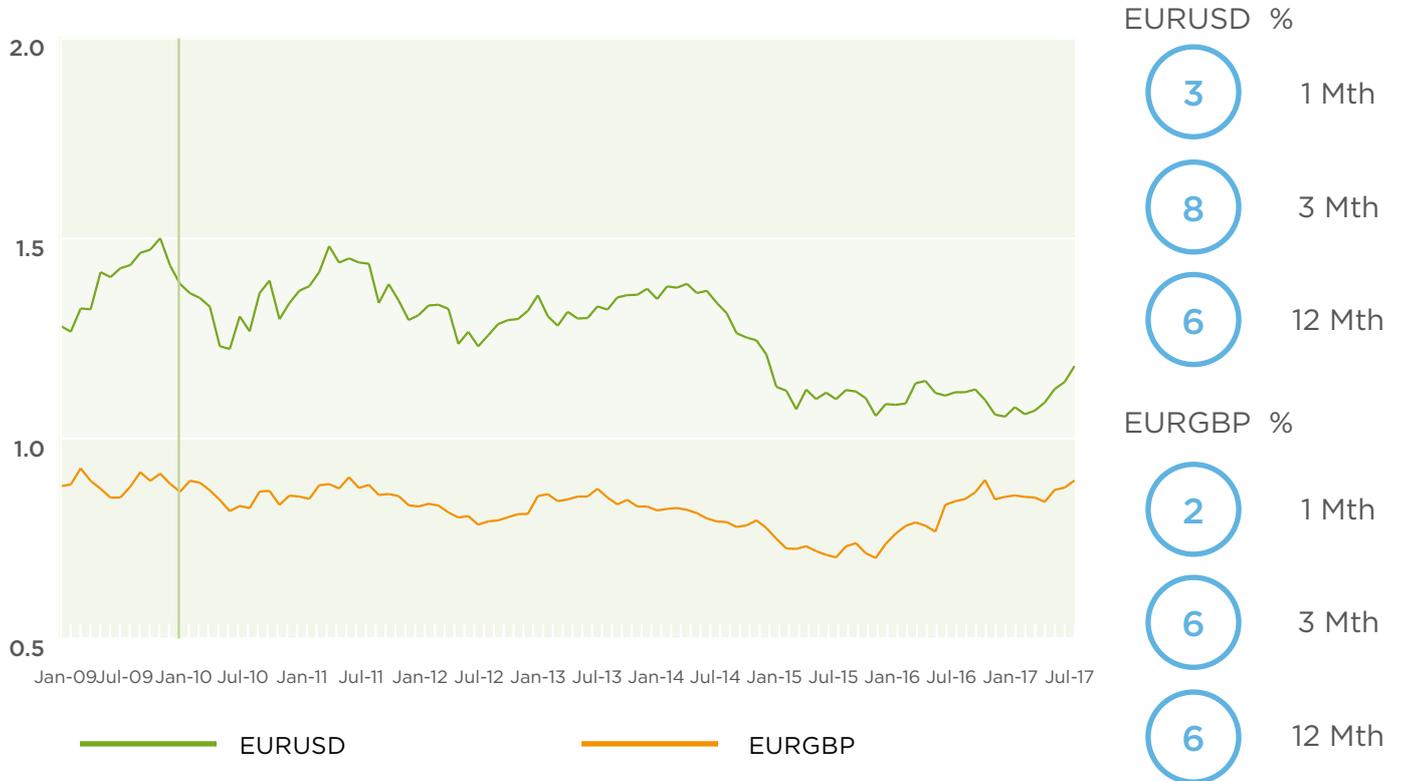
Excluding supplier capacity payments, the average wholesale price for July was €39.93/MWh compared to €37.06/MWh in June - an increase of €2.87/MWh on the average monthly wholesale price. An average monthly clean spark of approximately €10.05/MWh was recorded in July, which increased 29.35% from the €7.77/MWh observed in June. The proportion of demand met by wind in July was 12.05%.

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## FX Rates



## FX Rates

Recent euro strength accelerated in July as the euro extended gains against both the dollar and the pound. The single currency climbed an impressive 3% versus the greenback to reach \$1.1811 and a further 2% against sterling to settle at £0.8954.

A combination of positive euro zone economic data, continued Brexit and economic uncertainty in the UK, and the unwinding of the “Trumpflation” trade pushed the euro to fresh highs in July.

The dollar came under renewed pressure in July as political chaos escalated in Washington, adding to uncertainty around the pace of future Federal Reserve tightening. Market hopes that the Trump administration would implement policies such as tax reform and infrastructure spending, which would help stimulate the US economy, are fading fast as the administration jumps from drama to drama. The administration’s failure to pass healthcare reform suggests that Trump’s legislative program may well be thwarted by gridlock in Congress.

In the euro-zone stronger economic data over the month increased market confidence in the single currency, while deteriorating economic data in the UK, such as a tepid retail sales report and perennial Brexit concerns continued to weigh on the pound.

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