Bord Gáis Energy Index
Understanding energy

OCTOBER 2016

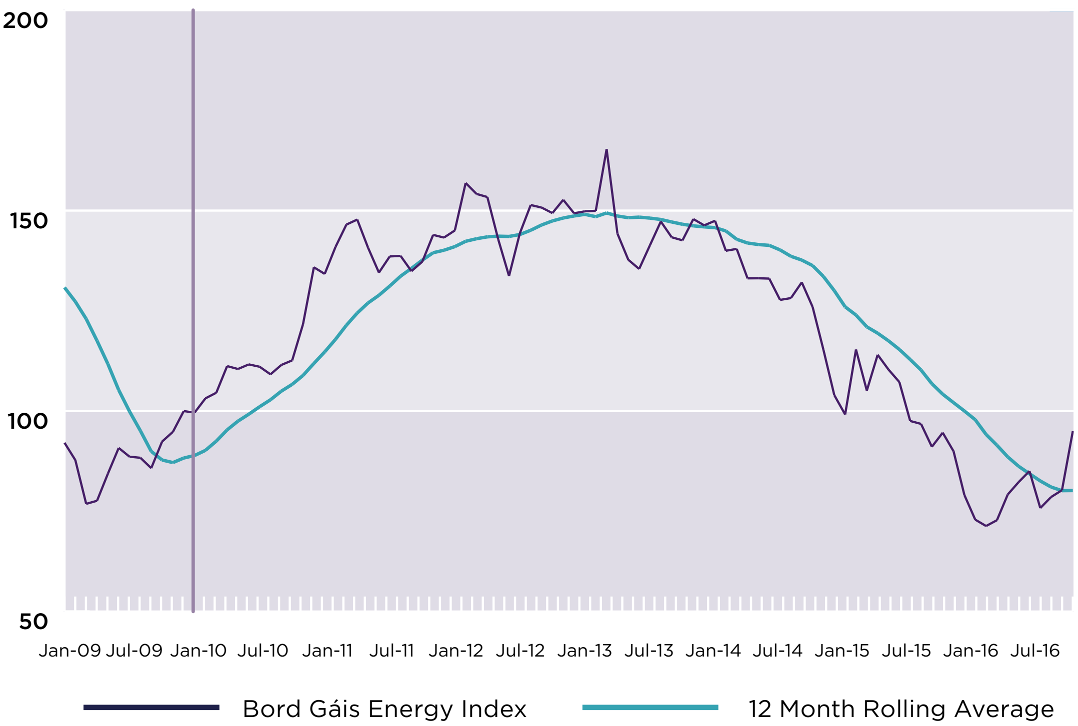
BGE/EI/UE/1116

Bord Gáis Energy

Bord Gáis Energy Index

October 2016

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



%	
18	1 Mth
25	3 Mth
0	12 Mth

Summary

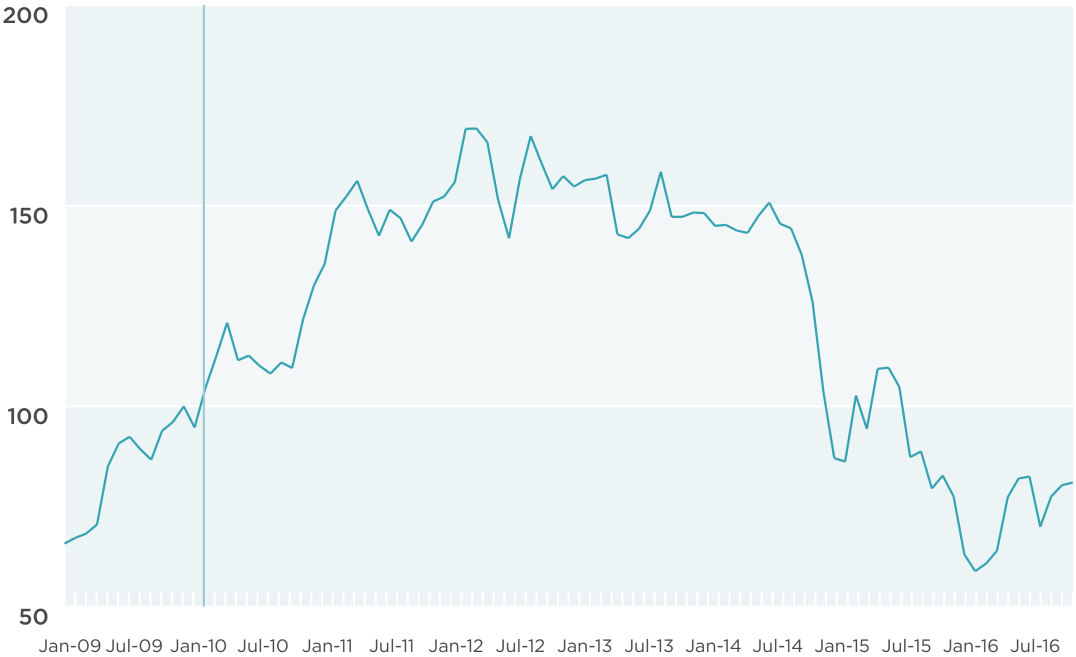
In October 2016, the Bord Gáis Energy Index rose by 18%. This was primarily driven by higher gas and electricity prices which were up 45% and 44% respectively. The rise was mainly due to higher continental energy prices caused by fears of a power shortage in France this winter. Among the other components of the Index, oil rallied 1% and coal prices finished 38% higher in euro terms.

In October, the Index stood at 95.

Bord Gáis Energy Index

October 2016

Oil Index



%	
1	1 Mth
16	3 Mth
-2	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Brent crude oil prices were 1% higher in euro terms in October with contract settling at $48.30 per barrel; the small rise over the month masks a volatile trading period for the global benchmark oil price.

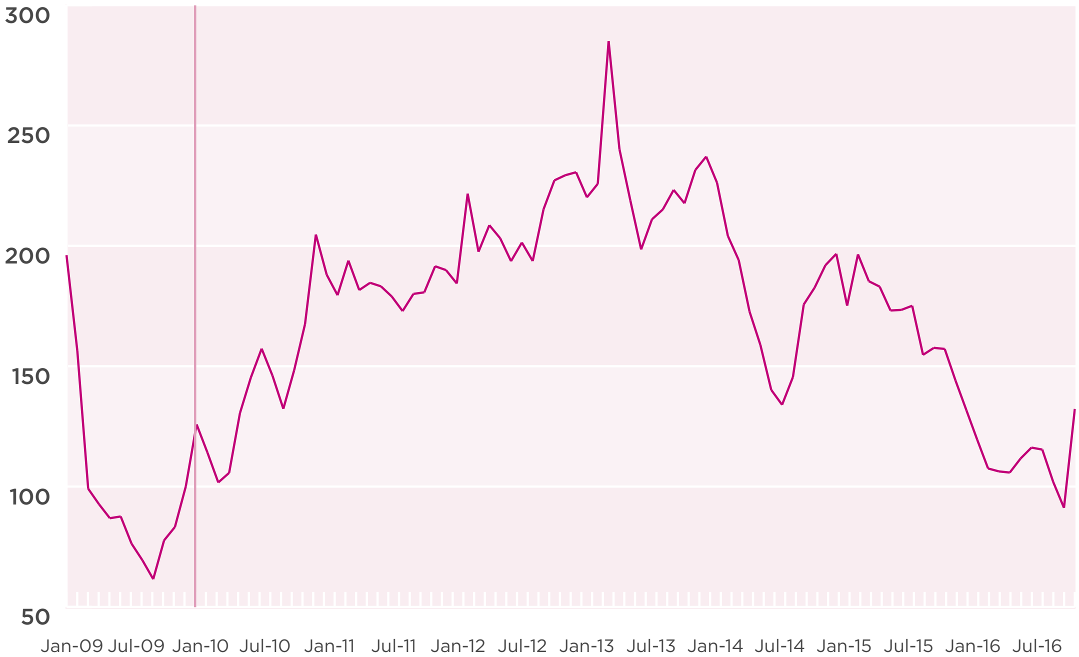
Prices were buoyed early in the month by the announcement from OPEC in Algiers on September 28 that the 14-member cartel planned to cut the supply of oil to the market in an effort to boost prices. This is the first such effort by OPEC to curb production since 2008. After the announcement, the price of Brent crude reached almost $54 per barrel before falling back sharply over the second half of October as doubts surfaced over the capability of OPEC to implement the planned cuts. A growing number of countries have indicated that they are unwilling or unable to cut, casting doubt on the ability of the cartel to reach an effective deal when it meets in Vienna at the end of November.

Iraq, the second largest producer in the cartel, has raised an objection, saying that it needs additional oil revenues as it battles Isis while other members such as Iran and Libya are expected to be given leeway because their oil production has been limited in recent years by war and sanctions. It appears that much of the burden of the cuts will fall to Saudi Arabia, the de facto leader of the cartel, who first pushed not to intervene in the oil market in late 2014 in an effort to try and squeeze out US shale and other high cost producers. OPEC is also trying the gain the support of large producers outside the cartel, namely Russia who is the biggest non-OPEC oil exporter. Russia has been coy in its statements so far but has indicated that it could agree to freeze output, which this year has hit a post-Soviet era high above 11 million barrels per day. But so far, it has said that it will not cut production.

Bord Gáis Energy Index

October 2016

Natural Gas Index



%	
45	1 Mth
15	3 Mth
-16	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The UK NBP day-ahead contract averaged 41.7p/th for October; a 45% increase in euro terms on September's day-ahead average of 27.75p/th.

The day-ahead contract, the contract for gas delivered tomorrow, and forward contracts have pushed aggressively higher in line with higher European energy prices. This was driven by concern around the availability of several French nuclear reactors which are used to generate power. French power prices have more than doubled since the start of October on worries of a supply crunch due to the reduced nuclear capacity. France produces about 75% of its electricity from nuclear power and gas will be required to fill any void in power generation if nuclear is disrupted this winter. The news has seen both power and gas prices surge across European markets. This increase in continental power and gas prices has fed through to the NBP as the UK imports gas and power from the continent. It also underscores the interdependence of European power and gas markets.

The French nuclear regulator decided to test a series of nuclear reactors operated by EDF after it found flaws in the steel of the vessel in a new reactor being installed by French company Areva last year. French regulators discovered steel used in some components had a high carbon content making it brittle. The components were forged at Areva's Le Creusot plant. This discovery has led to tests, which can take several weeks, on other reactors that used steel from this Le Creusot plant.

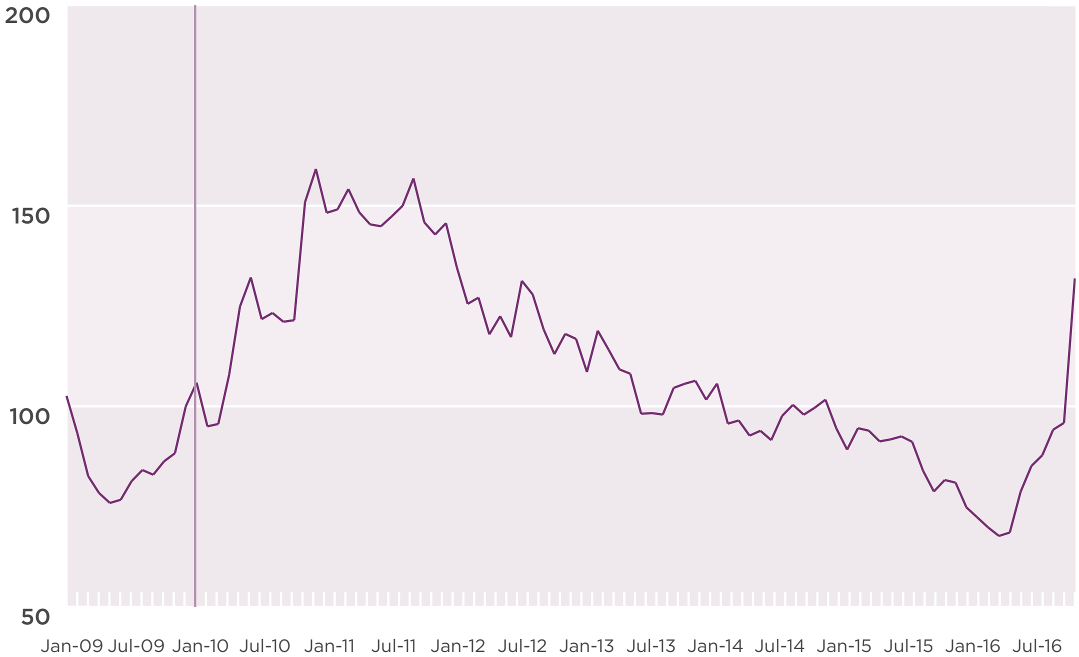
The regulator requested tests be carried out on 18 of France's 58 reactors. At the moment six of the eighteen reactors have already been tested, cleared and returned to service. Of the remaining twelve reactors, eight are currently being inspected and four others are due to be taken offline for inspection before year end.

Further forward, the strong prompt gas prices fed through the curve with Summer 17 and Winter 17 hitting fresh 2016 highs. The Winter 17 contract finished the month 5.75p higher at 49.95p/th, while the Summer 17 contract traded a similar 6p higher closing at 44.75p/th. In addition to concerns around reduced French nuclear capacity, gas prices in October were also supported by continued low LNG flows in Europe and higher coal prices.

Bord Gáis Energy Index

October 2016

Coal Index



	%
38	1 Mth
50	3 Mth
62	12 Mth

Index adjusted for currency movements.

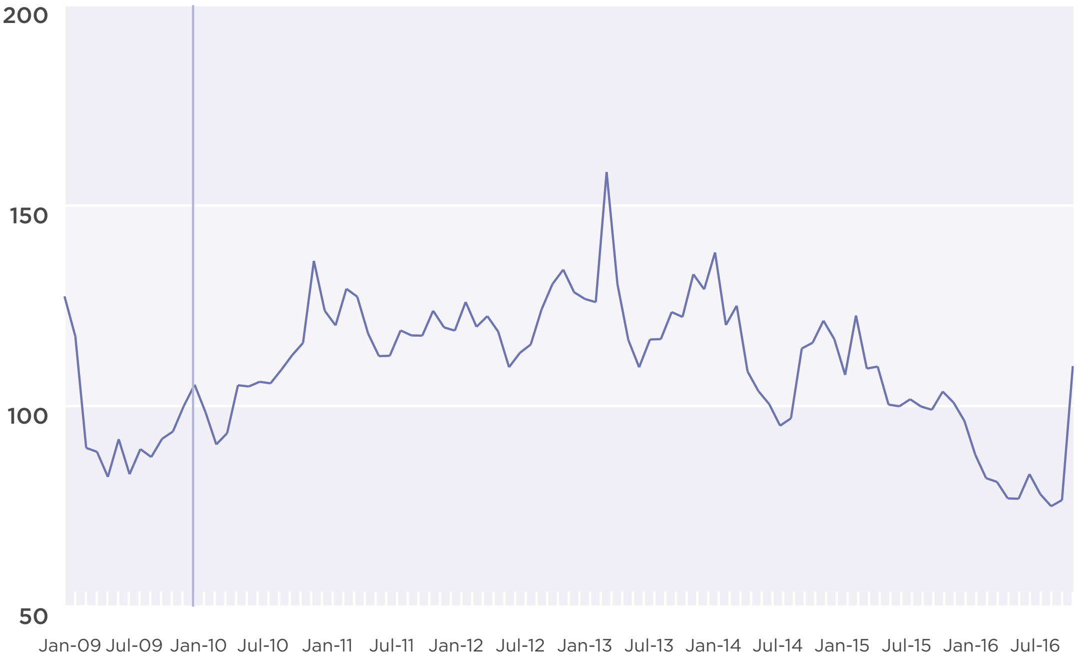
Data Source: ICE

Coal

The strength in coal prices continued apace in October 2016 with prices finishing the month at $84.35 a tonne, a 38% increase in euro terms on the month. Prices have been supported by unexpectedly high Chinese import demand and disruptions to key producers. Recent Chinese policy has been to reduce coal dependence and the Chinese authorities introduced regulations to reign in rampant overcapacity which has seen domestic production fall. In addition, weather-related issues in Indonesia and Colombia, which are key producers and exporters, have hit coal production volumes.

Coal has enjoyed an impressive rally with prices up over 80% since May this year. However, it is hard to see these gains being maintained. The market is currently in backwardation, with forward prices trading well below current spot prices. Chinese policy-makers have already begun to relax measures taken earlier this year to limit domestic coal production and we may see production in key producers recover over the next few months.

Electricity Index



Data Source: SEMO

%	
44	1 Mth
41	3 Mth
6	12 Mth

Electricity

In line with a sharp increase in UK prompt gas prices, the average Irish wholesale price of electricity has increased by 44% month-on month.

Excluding supplier capacity payments the average wholesale price for October was €53.88/MWh compared to €36.05/MWh in September, an increase of almost €18/MWh on the average monthly wholesale price.

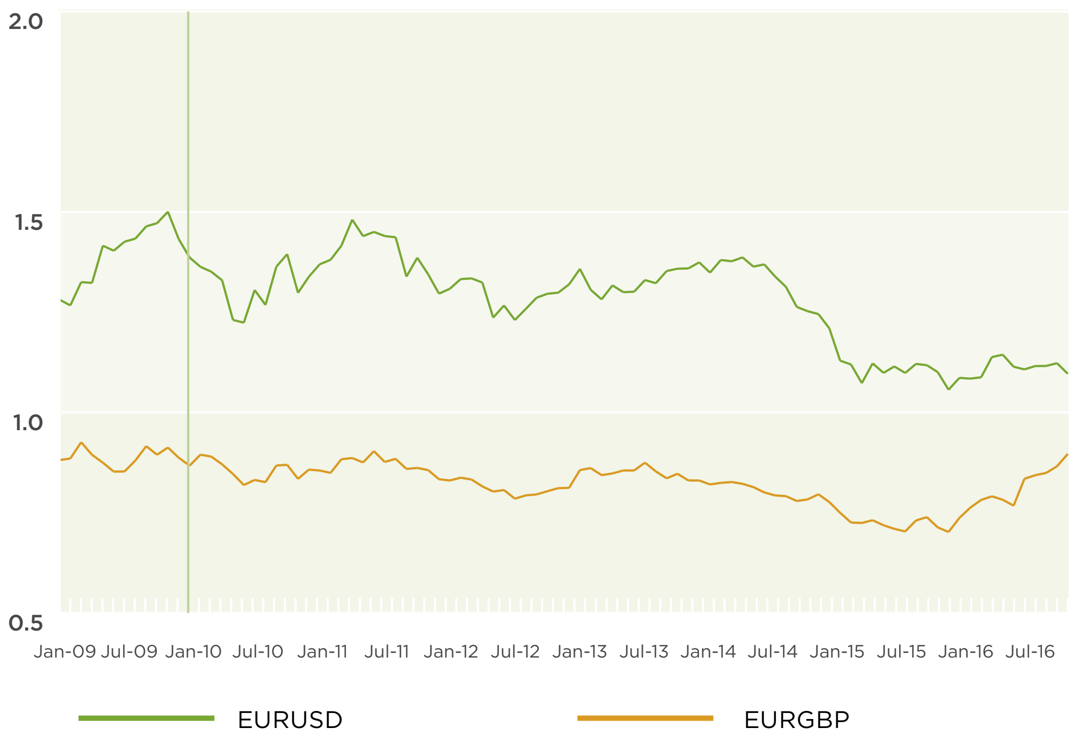
The average wholesale cost of imported gas from the UK increased by 45% in euro terms. Irish wholesale power prices typically tend to track the cost of imported gas as it is the most significant cost in the production of electricity.

An average monthly clean spark of approximately €19.58/MWh was recorded in the month, which is up from the €11.71/MWh observed in September (an increase of 67.2%). The proportion of demand met by wind in October decreased to 16.8% from 21.4% in September. Decreased wind on the system, an outage for Dublin Bay and increased gas prices have all contributed to increased spark levels.

Bord Gáis Energy Index

October 2016

FX Rates



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

EURGBP %	
4	1 Mth
6	3 Mth
26	12 Mth

FX Rates

In October, the euro was stronger versus the British pound, but lost value against the US dollar. The euro was 4% higher versus the pound, finishing the month at 0.8966p, and 2% lower against the US dollar at $1.0963.

The pound continued its recent weaker trend in October as the markets factored in the increased likelihood of the UK's exit from the EU. This was perceived as raising the risks for the UK economy over the medium term by reducing the chances of a compromise agreement being reached, where the UK gains access to the Single Market while accepting free movement of capital and labour. The weaker sterling and associated expected rise in inflation reduces the probability of further monetary policy loosening from the Bank of England.

In the US, there was no meeting of the Federal Reserve during October but the dollar rose due to expectations that the Fed may hike rates as soon as December. The expectation is that the rate setting committee of US central bank will signal that they may consider a December hike at its upcoming meeting in November. They are expected to maintain the language used in the press release after their September meeting stating that the risks to the economic outlook are "roughly balanced".

Bord Gáis Energy Index

October 2016

For more information please contact:

Bord Gáis Energy Pressoffice@bge.ie
Claire Smith 086 027 9075 or Irene Gowing 087 267 3964