

Bord Gáis Energy Index remains subdued

The September 2015 Bord Gáis Energy Index fell by 6% month-on-month as excess global oil supplies continued to weigh on the price of a barrel of oil. At US\$48.37, the front month Brent crude oil price closed at its lowest point since March 2009. In September 2015 the Index stood at 91.

GAS

The average Day-ahead price for September was 40.98 pence per therm (p/th), which is a 2% increase in euro terms on the previous month's outturn of 39.77p/th. Demand in September averaged 190mcm over the month, 20% above the National Grid's expected seasonal norm demand for this time of year. This rise was due to a heightened demand for home heating. By way of comparison, the September outturn in recent years was 48.15p in 2014, 65.64p in 2013 and 60.24p in 2012.

However, in early October a potential supply risk returned to the fore with news that the Dutch parliament had approved a motion calling on the Government to substantially lower gas production from the country's Groningen gas field following recent seismic activity in the area. European gas prices are likely to respond to Groningen related news flow over the coming weeks and months. The UK's reliance on gas imports, which means it is vulnerable to external shocks such as a period of prolonged cold weather, reduced Groningen production and ongoing gas and territorial disputes between Russia and the Ukraine.

OIL

Month-on-month the front month Brent crude oil price slid from US\$54.15 to US\$48.37. At US\$48.37 the price of a barrel of oil closed at its lowest point since March 2009.

In early October oil prices started to move up from the Index low of US\$48.37 on news that the supply overhang had tightened a little. In doing so the market chose to ignore the reality that a supply overhang still persists. There is also a new and interesting dynamic at play in the oil market. In recent months, when the US benchmark price rises above US\$50 the frackers are quick to lock in hedges which helps them mollify creditors and keep on pumping. As a result, the front month US wholesale oil price has not managed to close above US\$50 since July and this level is starting to appear like a ceiling which will suppress global prices.

ELECTRICITY

Month-on-month the average wholesale price of electricity fell more than 2% in September. Excluding supplier capacity payments, the average wholesale price for September was €48.97 compared to €50.34 in September, a fall of €1.37/MWh on the average monthly wholesale price.

The wholesale cost of imported gas from the UK increased month-on-month by 2%. Irish wholesale power prices typically tend to rise with the cost of imported gas as it is the most significant cost in the production of electricity. However, the influence of rising wholesale gas prices was more than offset by a falling clean spark in September.

A monthly clean spark of just €6.92/MWh was recorded in the month, which is down on the €8.24/MWh observed in August (a fall of 16%). The average spark year-to-date is just over €7/MWh, which is the lowest average spark recorded for the first 9 months of any year under the current wholesale market structure. The falling spark can be attributed to the return of a number of coal plants from outages which reduced the influence of gas plants on the cost of producing electricity. Given the weak wholesale price of coal and the current cost to emit one tonne of carbon, a coal powered station has lower production costs than a gas powered one. As a result, coal plants are higher up on the production merit order despite the environmental disadvantages associated with coal powered plants who are heavy emitters of carbon.

COAL

The ICE Rotterdam Monthly Coal Futures Contract continued its decline in September. Having closed August at US\$54.95/mt, prices once again continued to weaken for another month to close September at US\$51.40. On 1 October, the price closed at a record low of US\$51/mt. Spurred by worries that China's economy is in a slump and continued weakness in the crude oil market, prices continued to weaken in the month. The weakness in coal prices is reflective of the crash in numerous commodity prices. According to Bloomberg, copper is down 18% this year and the 10% drop in prices in Q3 was the biggest since the three months ended September 2011. The Bloomberg Commodity Index lost 14.5% in Q3 amid forecasts for the slowest economic growth since 1990 in China, the biggest user of energy, metals and grains. According to Bloomberg, money has flowed out of commodity funds in September with U.S.-listed Exchange Traded Products losing \$522 million.

FX

The most significant foreign exchange event in September was the Fed's September interest rate decision. In the end the outcome was very familiar – the Fed took a 'let's wait and see' approach and rates were held where they have been since December 2008. Of rising concern amongst policy-makers is China's slowdown, and the uncertain impact it has on the US economy.

The Bank of England faces the same questions as the Fed: when to raise interest rates. In its view domestic factors like low unemployment and rising wages point to inflation picking up from its current 0%.

In early October the prospects of either US or UK rate hikes were pushed further with the world's biggest economies showing further signs of slowing down. China's annual consumer-price inflation rate declined faster than expected in September, to 1.6% from 2% in August. In the euro area, industrial production fell by 0.5% between July and August. In America, retail sales rose by a measly 0.1% in September, having been flat the month before. American government-bond yields and the dollar fell further.

Ends.