Bord Gáis Energy Index

Understanding energy

Bord Gáis Energy

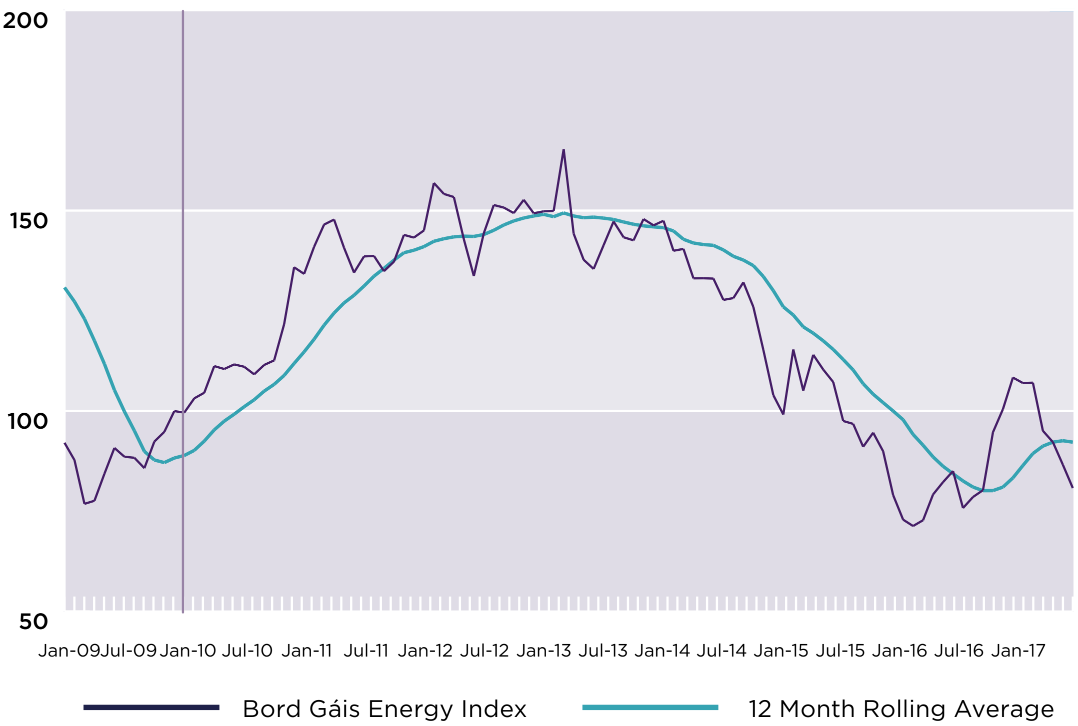
JUNE 2017

BGE/EI/UE/0717

Bord Gáis Energy Index

June 2017

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



%	
-7	1 Mth
-15	3 Mth
-5	12 Mth

Summary

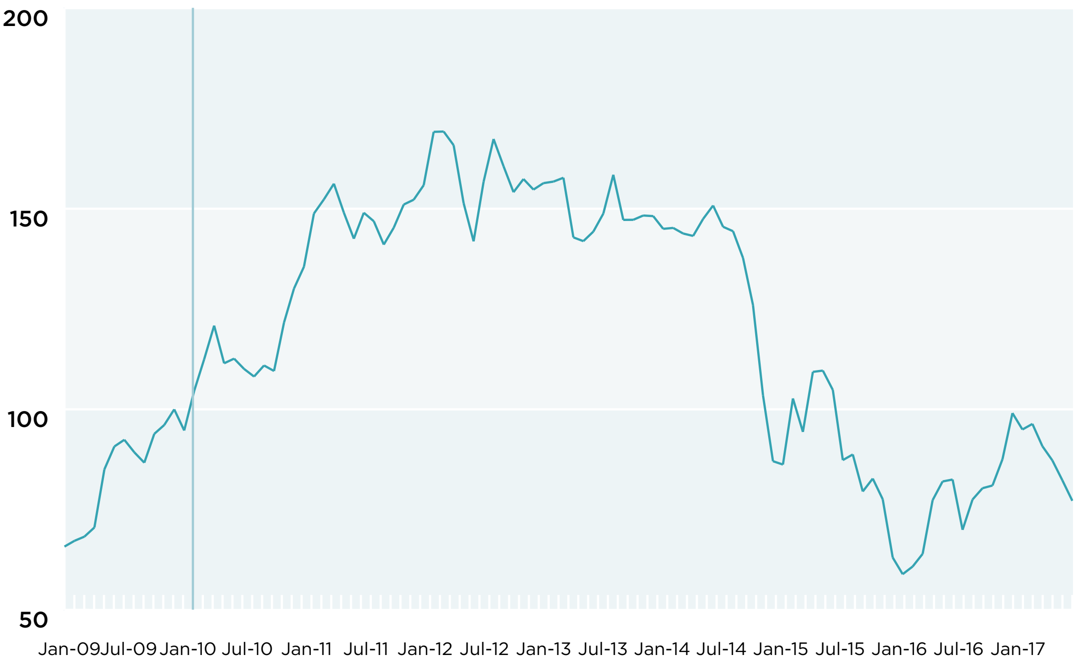
The Bord Gáis Energy Index fell 7% in June; the index is 5% lower than the same period last year.

June saw a broad based drop in wholesale energy markets as oil, gas and electricity all registered falls. Coal was the exception racking up a 2% gain. Oil dropped 6% this month as disappointment at the level of OPEC production cuts continued to weigh on prices. Wholesale gas prices were lower by 12%. Prompt gas prices swung sharply over the month due to the unavailability of a key infrastructure pipeline while electricity prices were 7% lower in line with lower gas. A stronger euro over the month versus both sterling and the dollar also weighed on prices.

In June, the Bord Gáis Energy Index stood at 81. (-7%)

Bord Gáis Energy Index
June 2017

Oil Index



	%
-6	1 Mth
-15	3 Mth
-6	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The recent downturn in oil prices continued in June as Brent crude oil settled the month at $47.92 per barrel, a 6% drop in euro terms from the May close. In fact, Brent crude has had its worst first half of the year since 1998. The global benchmark fell 22% in the first half of 2017.

This follows from market disappointment at Opec and non-Opec agreement to extend oil cuts until March 2018. Some market participants had hoped for deeper cuts and the effectiveness of the strategy had been questioned. A global oversupply of oil caused by an upsurge in U.S. shale oil production has depressed prices since mid-2014. OPEC, alongside non-members including Russia, agreed to implement production cuts of 1.8m barrels per day at the end of November 2016 in an effort to ease the glut of oil inventories. In May of this year, that agreement was extended until March 2018.

Data produced in June showed that Libya and Nigeria, who are exempt from any agreement, increased their oil production over the month. This came alongside a continued rebound in U.S. shale oil drilling which exacerbated the dour sentiment. The U.S. shale industry has increased production by almost 550,000 barrels a day since the end of November. Additionally, Canada which has the third largest oil reserves in the world, looks set to increase output by 270k bpd in 2017 and a further 320k bpd in 2018. The combined increase would equal almost one third of the Opec and non-Opec production cuts. The predicted rise in Canadian production comes despite current low prices and a global oversupply resulting from investment decisions authorised when crude oil was over $100 per barrel. Having fallen under $45 per barrel during the month, there was some light at the end of the tunnel at the end of June; the number of U.S. rigs drilling for oil fell for the first time since January and production dipped which may suggest a slowing in the rapid growth of American crude output.

Bord Gáis Energy Index

June 2017

Natural Gas Index

%	
-12	1 Mth
-18	3 Mth
-3	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 34.8 pence per therm in June, a drop of around 12% on the May average of 39.2p/th and 3% lower than the comparable period last year.

The average outturn figure, however, tells only part of the story as prompt prices swung sharply over the month due to the unavailability of a key infrastructure pipeline. The UK-Belgium interconnector, a natural gas pipeline between Bacton in the UK and Zeebrugge in Belgium, was down for maintenance during the second half of the month. The interconnector exports gas from the UK to the continent during lower demand summer months.

The UK had been exporting in excess of 50mcm of gas to the continent, via the interconnector, in early June. However, once maintenance commenced in the middle of the month, the exit route for excess gas in the UK system was unavailable and prices hit a low of 25p/th. These lower prices incentivised increased medium-range storage injections which helped prices recover.

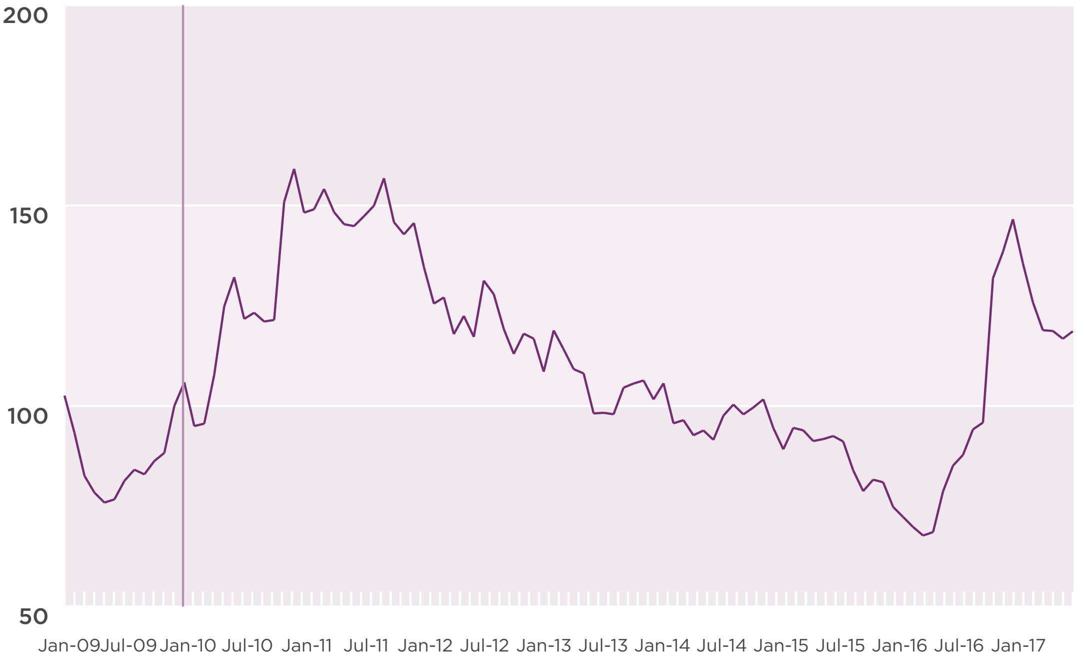
Further out the curve, seasonal contracts posted losses over the month on sustained oil price weakness and lower prompt. The benchmark Winter 17 contract finished the month 1.2p lower at 44.7p/th, while the Summer 18 contract dropped the same amount to close the month at 38.7p/th. We saw a brief rally in forward contracts during the month on escalating tensions in the Middle East. A number of Gulf States, led by Saudi Arabia, severed diplomatic and commercial links with Qatar citing the latter's support of terrorism. The alliance of Gulf States issued Qatar with a list of 13 demands including shutting the Al Jazeera TV channel and downgrading ties with Iran.

Qatar, a key LNG producer, supplies over 30% of global LNG demand. The initial concern centred on the potential for escalating tensions to impact Qatar's ability to deliver LNG into key markets. However, as we moved through the month, we saw these concerns dissipate somewhat, as Qatar LNG cargoes continued unimpeded. However, markets will monitor the situation carefully for any potential impacts on LNG flows.

Bord Gáis Energy Index

June 2017

Coal Index



%	
2	1 Mth
0	3 Mth
39	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices trended higher during June, finishing the month 2% higher at $79 a tonne an increase of over two dollars on May's closing price of $76.55 a tonne.

Informed sources cited the activities of a few key utility buyers for the upward momentum, with at least one northwest European utility buyer understood to be bidding aggressively in order to cover a short position.

President Trump's decision to withdraw from the Paris climate agreement was cited by many as evidence of his desire to revive the US coal industry. At campaign rallies throughout key battleground mid-western states, candidate Trump promised followers that he would "end the war on coal and put coal miners back to work". Coal use in the US has been in decline for over a decade, falling an additional 9% in 2016.

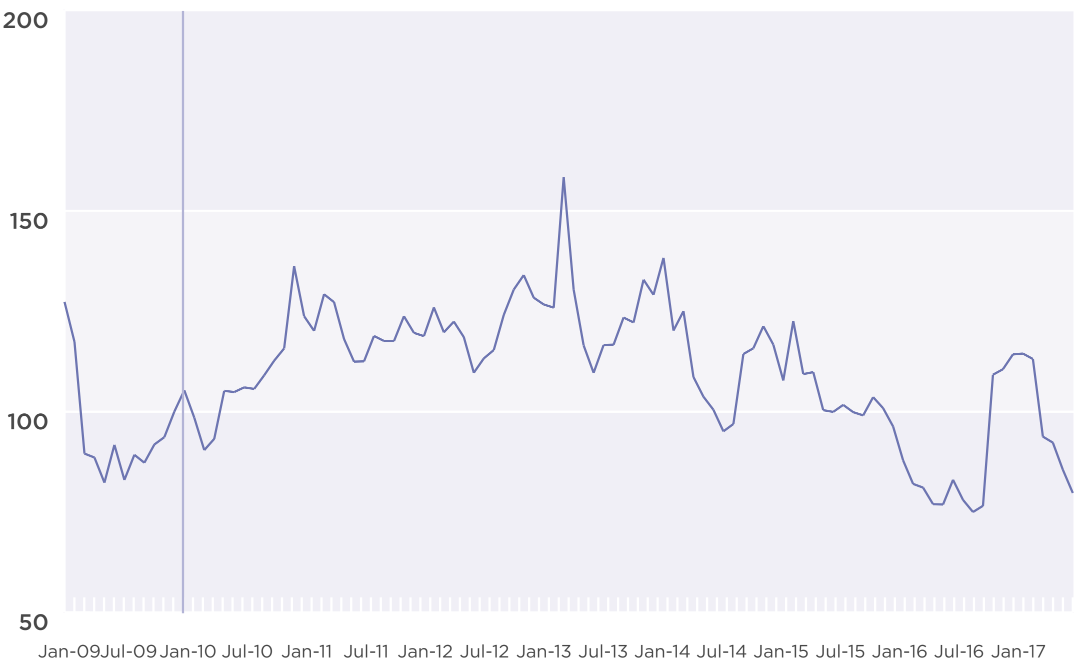
The rhetoric, however, misses the point! The decline of coal is caused by falling natural gas prices as a result of the fracking revolution, stagnant power demand and decreasing renewable costs, rather than any emission reducing measures imposed on the industry.

Toward the end of the month we saw reports that China, the world's largest consumer of coal, intended to ban imports of coal at small ports from July. The latest move by the country to curb coal imports.

Bord Gáis Energy Index

June 2017

Electricity Index



%	
-7	1 Mth
-15	3 Mth
-4	12 Mth

Data Source: SEMO

Electricity

The average wholesale price of electricity was lower by 7% in June.

Excluding supplier capacity payments, the average wholesale price for June was €36.97/MWh compared to €42.02/MWh in May, a decrease of €5.05/MWh on the average wholesale monthly price.

Irish wholesale electricity prices typically tend to track the cost of imported gas as it is the most significant cost in the production of electricity. However, it can vary on a month to month basis.

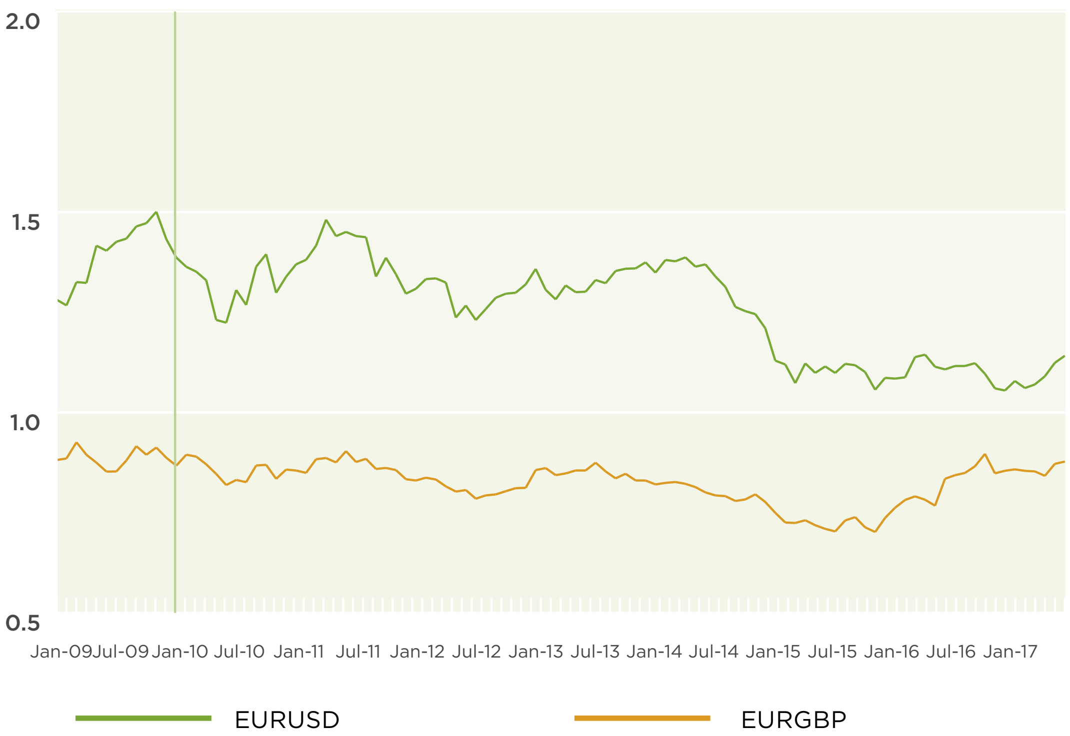
An average monthly clean spark of approximately €7.76/MWh was recorded in June, which decreased 8% from the €8.44 observed in May.

The proportion of demand met by wind in June was 29.75%.

Bord Gáis Energy Index

June 2017

FX Rates



EURUSD %

2	1 Mth
7	3 Mth
3	12 Mth

EURGBP %

1	1 Mth
3	3 Mth
5	12 Mth

FX Rates

The euro strengthened in June versus both the dollar and sterling. The single currency climbed 2% versus the dollar to reach $1.1413 and was 1% higher against the pound settling at £0.8774.

Signs that the European Central Bank (ECB) may put an end to the era of easy money by raising interest rates helped the euro to gain value in June. The renewed euro strength is also a financial manifestation of relief felt over the rejection of nationalist, anti-EU candidates in France, Austria and the Netherlands. The ECB president Mario Draghi said that the Eurozone was headed towards "reflation" which buoyed the single currency. The hawkish comments suggest that the central bank monetary policy could become less accommodating from 2018.

The weakness in sterling since Brexit means that the Bank of England (BoE) may be inclined to act to remove monetary stimulus in a bid to shore up the currency. Data increasingly shows that falling real wages and inflation are outweighing any benefits of a weaker currency. The BoE governor Mark Carney signalled at the end of June that he may lift interest rates if business investment rises.

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