Bord Gáis Energy Index
Understanding energy

September 2018

BGE/EI/UE/0918

Bord Gáis Energy

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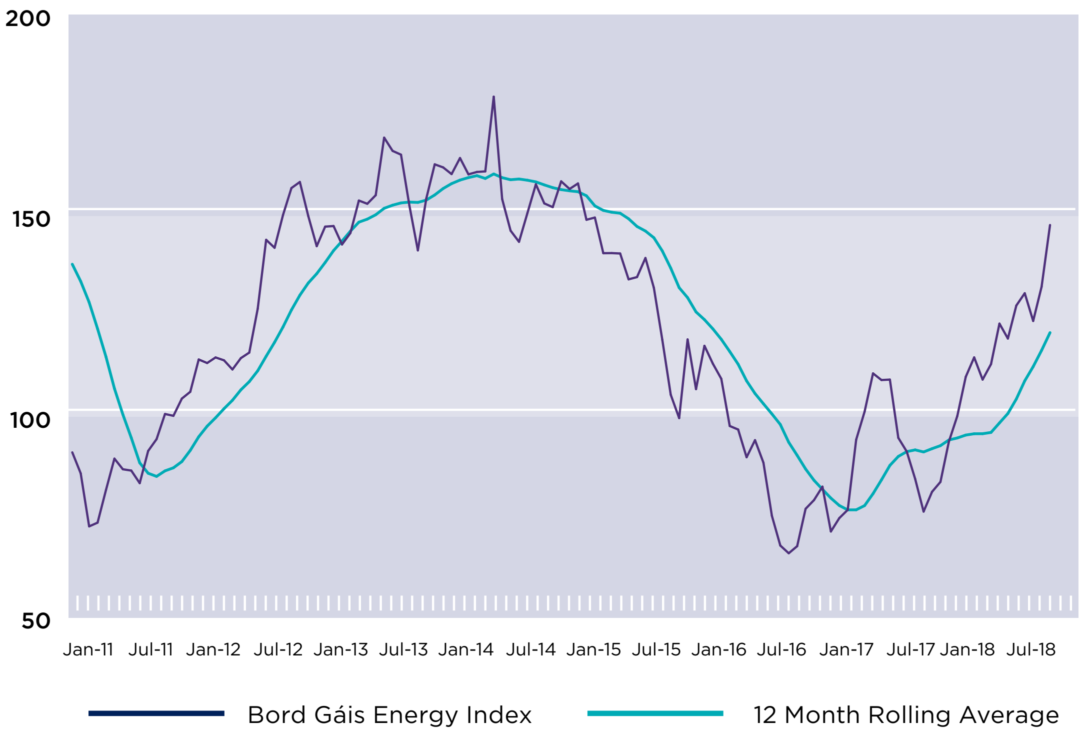
September 2018

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



%	
9	1 Mth
11	3 Mth
46	12 Mth

Summary

In September, the Bord Gáis Energy Index rose 9% and is now 46% above the comparable period last year.

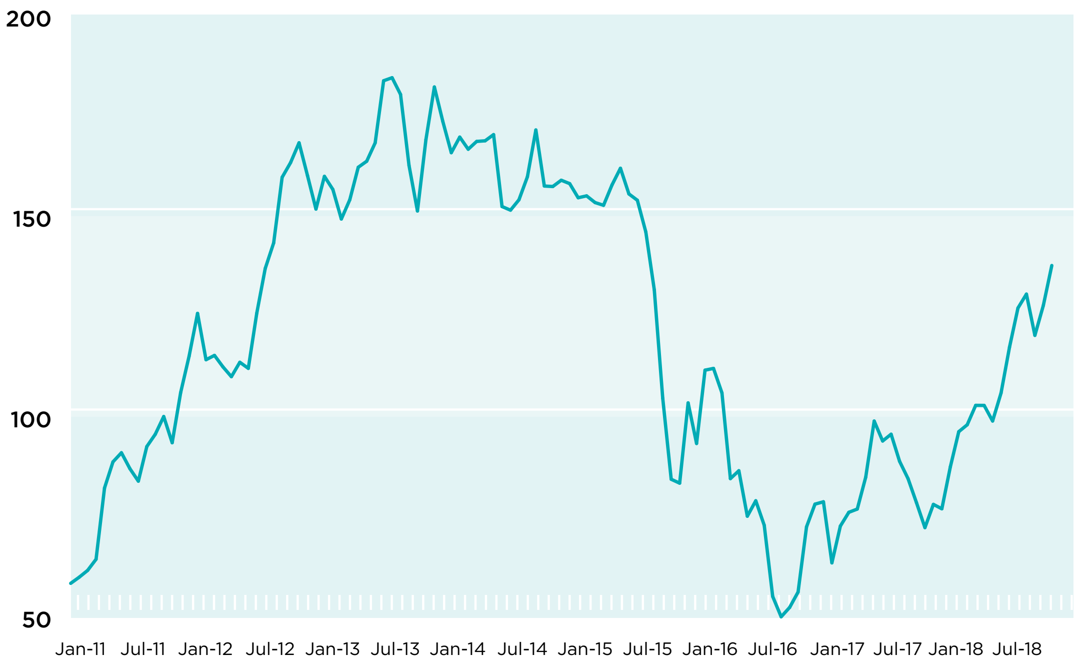
All components of the Index gained over the month with natural gas once again heading the charge gaining 18%. A heavy maintenance schedule, scarce LNG and continued strength across the energy complex combined to push prices higher. The Brent crude benchmark, the largest component of the Index, gained 7% over the month, while electricity and coal were 12% and 2% higher respectively.

In September, the Bord Gáis Energy Index stood at 138.

Bord Gáis Energy Index

September 2018

Oil Index



%	
7	1 Mth
5	3 Mth
46	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices rallied 7% in euro terms during September with prices settling at $82.72 a barrel, which is 46% above the comparable period last year.

The main driver for oil was heightened concerns ahead of impending sanctions on Iran. In April, the United States announced that it was pulling out of the Iranian nuclear agreement, a key Trump campaign promise. The Trump administration also announced sanctions on Iran, beginning this November, effectively reducing the amount of Iranian oil that can be traded on the global market.

The exact impact of the sanctions remains unclear but analysts expect a cut of up to 1.5 million barrels from OPEC production of approximately 30 million barrels. While the sanctions are set to begin in November, many buyers of Iranian oil have already begun to cut their purchases and Iranian exports have fallen in recent months. Saudi Arabia, Iraq and other OPEC members have said that they will pump additional barrels to replace the lost Iranian barrels. However, this reduction in spare capacity leaves the oil market increasingly susceptible to supply shocks.

After four months of sideways trading, with oil trading between $72 and $78, the price broke above the $78 level at the beginning on the month. Brent hit fresh four-year highs later in September breaking through the $80 level, settling at $82.72 by month end.

Comments by the Saudi oil minister that they were “comfortable with prices in the $80’s” added to bullish sentiment during the month. Previous pronouncements from the Saudis’ suggested that $80 was a price ceiling, a level at which OPEC members can make money but global economic growth and, therefore, oil demand is not impeded. The suggestion that Saudi were comfortable with higher prices saw Brent move easily through $80.

Higher oil prices in the month drew a predictable twitter response from President Trump who called on OPEC to increase production and relieve supply concerns. The irony being, it’s the US sanctions on Iran that has reduced OPEC production, stoking supply concerns in the market.

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Natural Gas Index

%	
18	1 Mth
32	3 Mth
57	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

It was another bullish month for gas prices as the NBP day-ahead contract, the price for gas delivered tomorrow, averaged 72.92p/th over the month. This is an 18% increase in euro terms from the previous month and an increase of over 57% on the comparable period last year.

A heavy maintenance schedule in September on key Norwegian and UKCS fields, ahead of the high demand winter season, reduced gas flows into the UK and Europe resulting in a tighter system.

The dearth of LNG cargoes into Northwest Europe and strong storage demand also continued to support prices. The long-anticipated LNG wave forecast for Europe has failed to materialise as increasing volumes of LNG are attracted east in response to resurgent Asian demand and prices. The Chinese policy shift targeting a move to gas from coal, in response to air pollution issues in large urban centres, has resulted in a surge in Chinese LNG demand pulling cargoes east.

European storage demand remained robust in September as shippers attempted to close the storage deficit in the European market ahead of the colder winter months. In particular, with March fresh in traders' minds when prices surged to historic highs as the market scrambled for supplies in the face of a cold snap across the continent.

NBP forward contracts also gained in September as prompt strength, broad energy commodity strength and continued concerns that the gas market may struggle to balance in the event of a cold winter; particularly given the reduced flexibility and increasing import reliance in the UK and European gas markets. The front winter contract hit 82p/th, during the month, a level not seen since 2008, before settling at 77.02p an increase of 4p over the month. The summer '19 contract also hit fresh highs gaining 4.3p/th to settle at 62.55p/th.

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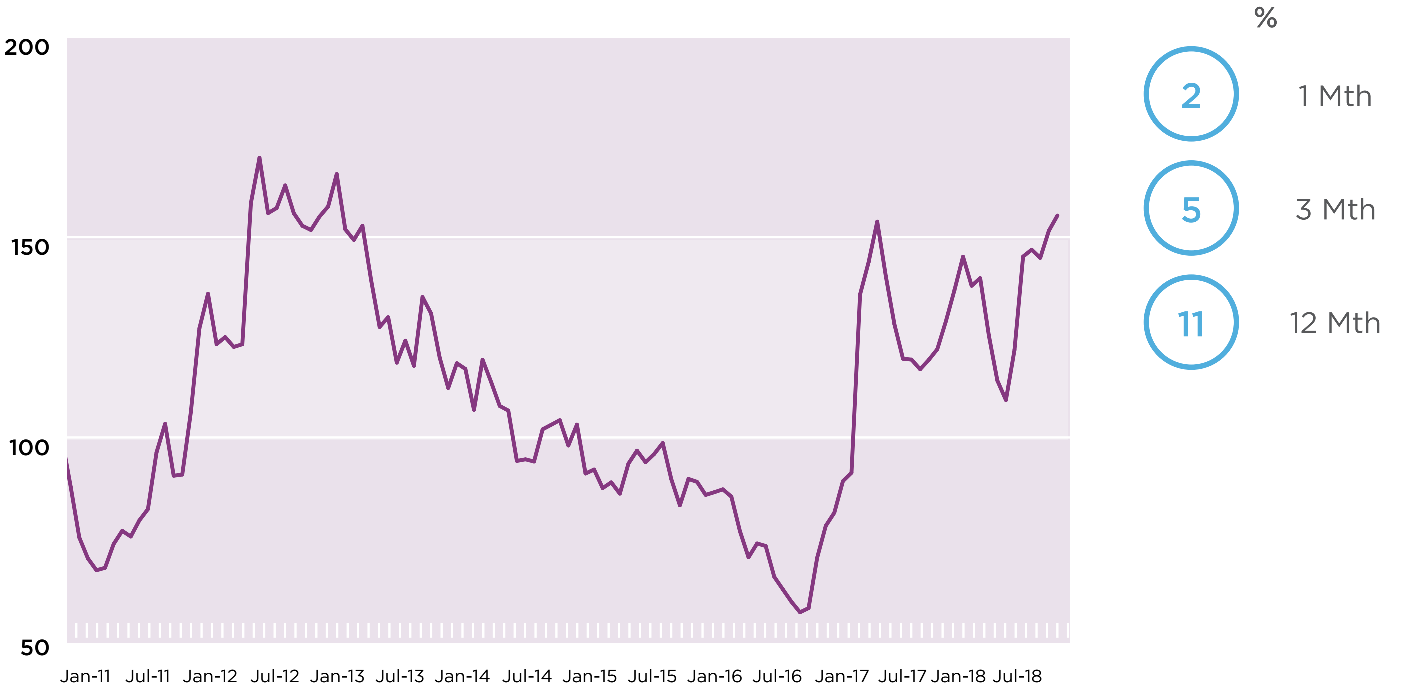
Coal Index



Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $100.15 a tonne in September, an increase of over 2% in Euro terms over the month and over 11% above the comparable period last year.

Coal prices had a volatile month, trading as high as $101.45 a tonne at the start of the month, dropping to a low of in the third week to $98.65 and settling the month above $100 a tonne.

Coal was supported by strong coal generation in Germany due to lower renewable power generation and bullish sentiment across all commodities.

Coal demand has been driven by a surge in wholesale gas prices, making it more profitable at times to generate power from coal than gas. Europe is increasingly dependent on imports to balance and must compete in a globalised gas market to attract tankers of Liquified Natural Gas.

Fears of a cold winter and low storage have pushed gas prices higher in Europe leaving more scope for coal prices to increase, as utilities prepare to burn coal if gas shortages are not alleviated.

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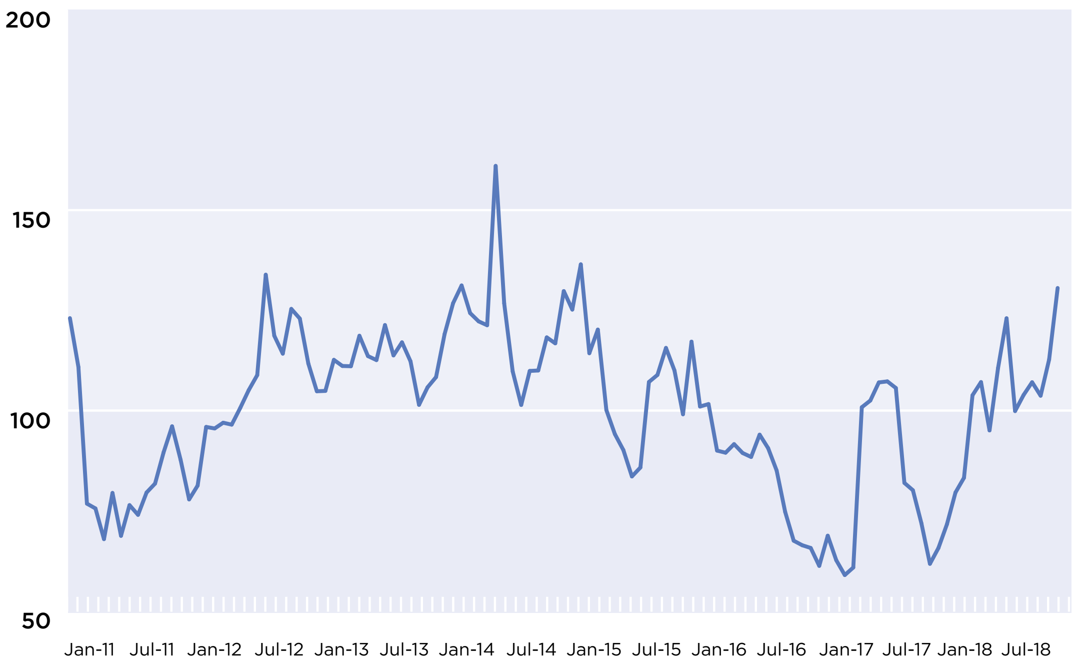
Electricity Index



%	
12	1 Mth
17	3 Mth
45	12 Mth

Data Source: SEMO

Electricity

Wholesale electricity costs, inclusive of forecasted capacity payments, went from €75.88/Mwh in August to €85.16/Mwh in September, an increase of 12% over the month. 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.

The clean spark decreased to €6.30/MWh in September from €8.45/MWh in August. Wind output was up 26% to 945MW versus 751 MW the previous month. The average portion of demand met by wind in September was 24%.

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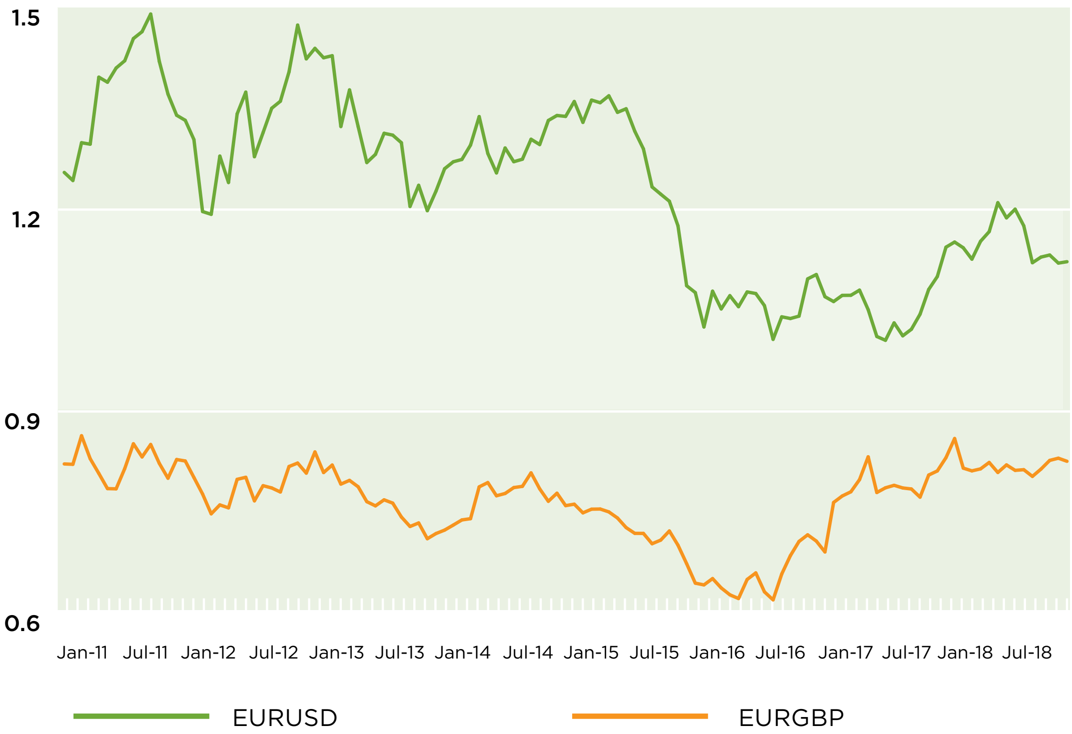
FX Rates



EURUSD %

0	1 Mth
-1	3 Mth
-2	12 Mth

EURGBP %

0	1 Mth
1	3 Mth
1	12 Mth

FX Rates

It was a mixed month for the euro which gained value against the US dollar settling at $1.1614, a gain of 0.16%, and at 0.8905 versus the pound, a loss of 0.47% on the month.

The eurozone continues to be overshadowed by robust US economic performance, particularly as the market monitors events in Italy where the rhetoric moves in an increasingly euro sceptic direction. However, the euro was boosted in September by an upbeat economic outlook from Mario Draghi, the ECB President, highlighting improved growth and inflation indicators.

The combination of weak economic data and perennial Brexit uncertainty remains centre stage in the UK. Sterling was supported in September by reports that the Prime Minister, Theresa May, was preparing to put a new offer to EU leaders on the Irish border, diminishing the risk of a no-deal Brexit. However, the Pound is likely to remain volatile as we head to the annual Conservative Party conference where divisions on the shape of the future trading relationship with Europe are likely to be centre stage.

The US economy continues to post robust consumer confidence and labour market numbers. US consumer confidence is at highest levels since 2000, while we continue to see impressive employment numbers. The US Federal Reserve ('Fed') increased rates, for the third time this year, at its September meeting, moving rates by a quarter point and signalling a further raise in 2018 possibly at its December meeting.

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