



**Bord Gáis
Energy Index**
Understanding energy

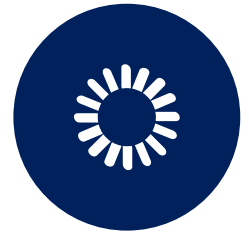
December 2019

BGE/EI/UE/1219

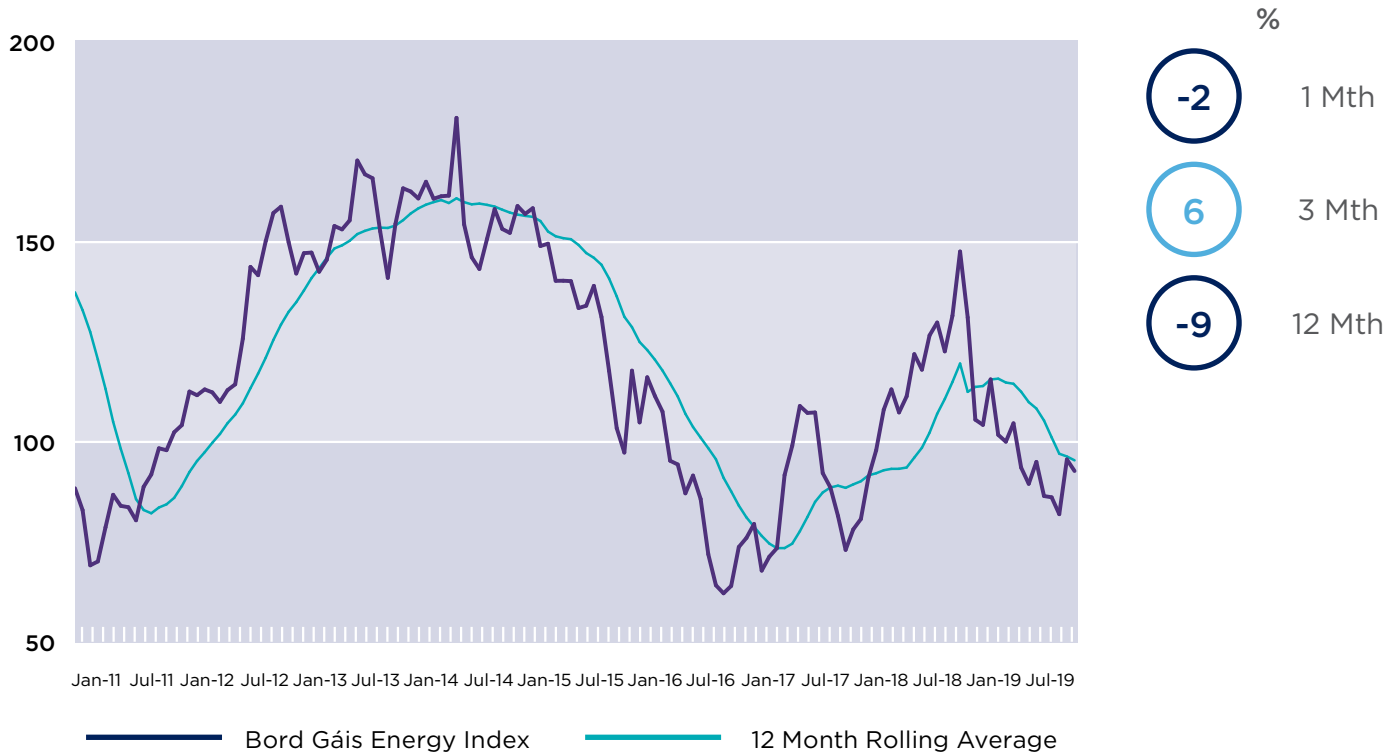


Bord Gáis Energy Index

December 2019



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



Summary

The Bord Gáis Energy Index was down 2% in December 2019.

Oil, the largest component of the index, was up 4% as OPEC and key allies agreed to extend the existing production deal and to reduce oil output by an additional 500,000 barrels.

Among the other components of the index, prompt gas prices fell 13% as benign demand, healthy storage levels and robust liquefied natural gas (LNG) flows meant the system was able to balance comfortably. Electricity prices also fell 13% as falling gas and higher wind weighed on prices. Coal prices settled 8% lower as mild weather and falling gas prices hit demand for power generation.

The monthly move in the index reflects the trend seen throughout 2019, the Index fell 9% over the year. The 25% gain in oil prices over the year was not enough to offset significant losses in Gas (-46%), Coal (-38%) or Electricity (-40%).

A mild winter and new sources of gas entering Europe from countries like the US put pressure on gas prices throughout last year. Lower gas prices fed through to lower electricity prices as gas is a key input in power generation. This also had the effect of substituting coal for natural gas for power generation across Europe which in turn led to lower coal prices

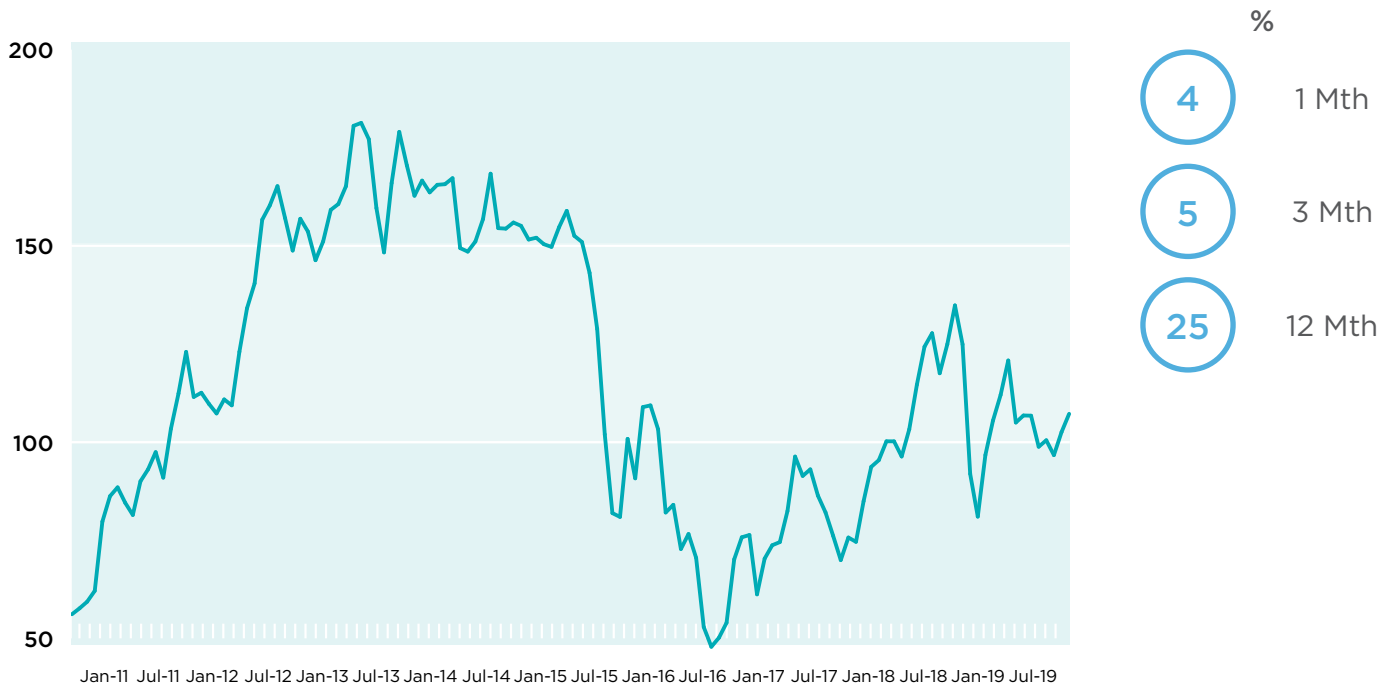
In December, the Bord Gáis Energy Index closed at 96.

Bord Gáis Energy Index

December 2019



Oil Index



Index adjusted for currency movements.
Data Source: ICE

Oil

Oil had a strong month as OPEC+ delivered additional cuts at its December meeting in Vienna. The Brent crude benchmark contract settled at \$66 a barrel, an increase of 4% in euro terms.

OPEC and key allies, led by Russia, agreed to extend the existing deal and cut an additional 500,000 barrels of oil production. The new cuts bring OPEC+ production cuts, in place since 2016 in a bid to support prices, to a total of 1.7million barrels a day.

In addition to the OPEC cut in production, the world's two largest economies, the US and China, have finally agreed a phase one trade deal. Trade tensions and tit-for-tat tariffs have weighed on global economic growth and consequently on oil demand for the past 18 months.

The long-awaited Saudi Aramco Initial Public Offering was successfully launched on the Saudi stock exchange in early December making the Saudi behemoth the world's most valuable company with a market valuation in excess of \$2 trillion.

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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 of gas for next day delivery, settled 5p lower at 32.3p/therm, a decrease of over 13% in euro terms.

A combination of benign demand, healthy storage levels and robust LNG flows meant the system was able to balance comfortably throughout the month. LNG imports into the UK hit record levels with over 2.8bcm of LNG delivered into the UK in December alone.

Russia and Ukraine also eventually signed a transit agreement, on the last day of the month, removing the uncertainty around Russian flows into Europe for 2020 and beyond. The previous transit agreement expired at the end of December 2019 and the failure to pen a new deal over recent months had heightened concerns that we could see Russian gas flows into Europe disrupted.

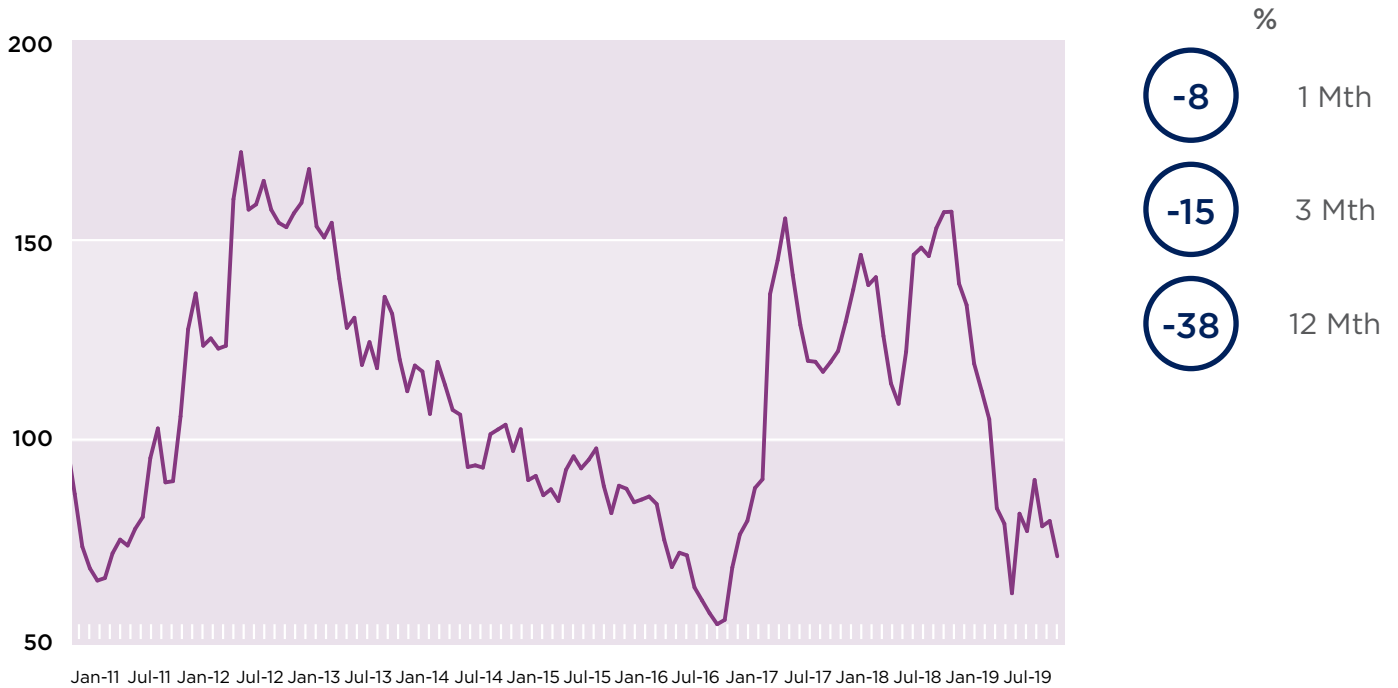
The removal of Ukrainian transit risk pushed forward prices, particularly on the near end of the curve, to fresh lows. The front month December contract settled almost 11p/th lower at 32p/th, a drop of over 25% on the month. Further out the curve, the Summer 20 contract fell 8.8p/th to settle at 39p/th, while Winter 20 traded 4.9p/th lower to finish the month at 43p/th.

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Coal Index



Index adjusted for currency movements.

Data Source: ICE

Coal

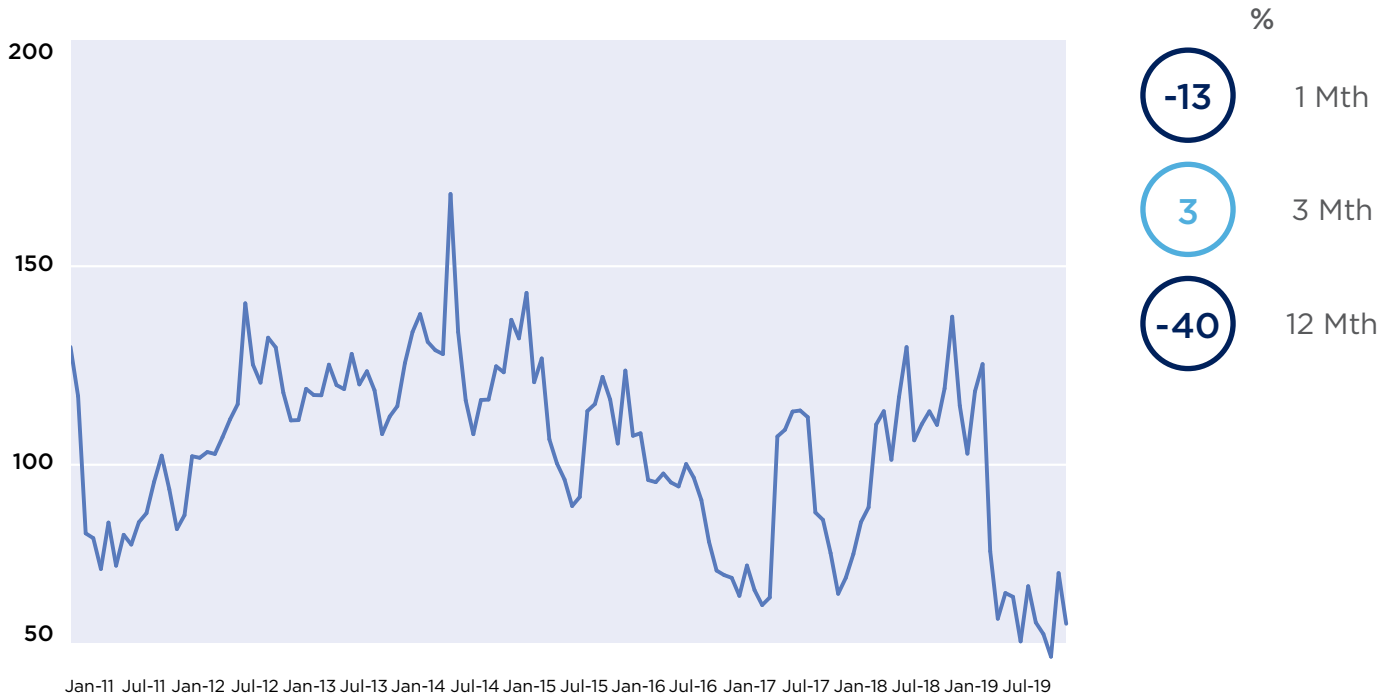
Coal prices settled 8% lower in euro terms at \$53 a tonne in December as softening demand in Asia due to mild weather and weakening industrial output are hitting coal prices. In Europe demand for coal is continuing to be hit by falling gas prices which are pushing coal plants down the power merit order.

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Electricity Index



Data Source: SEMO

Electricity

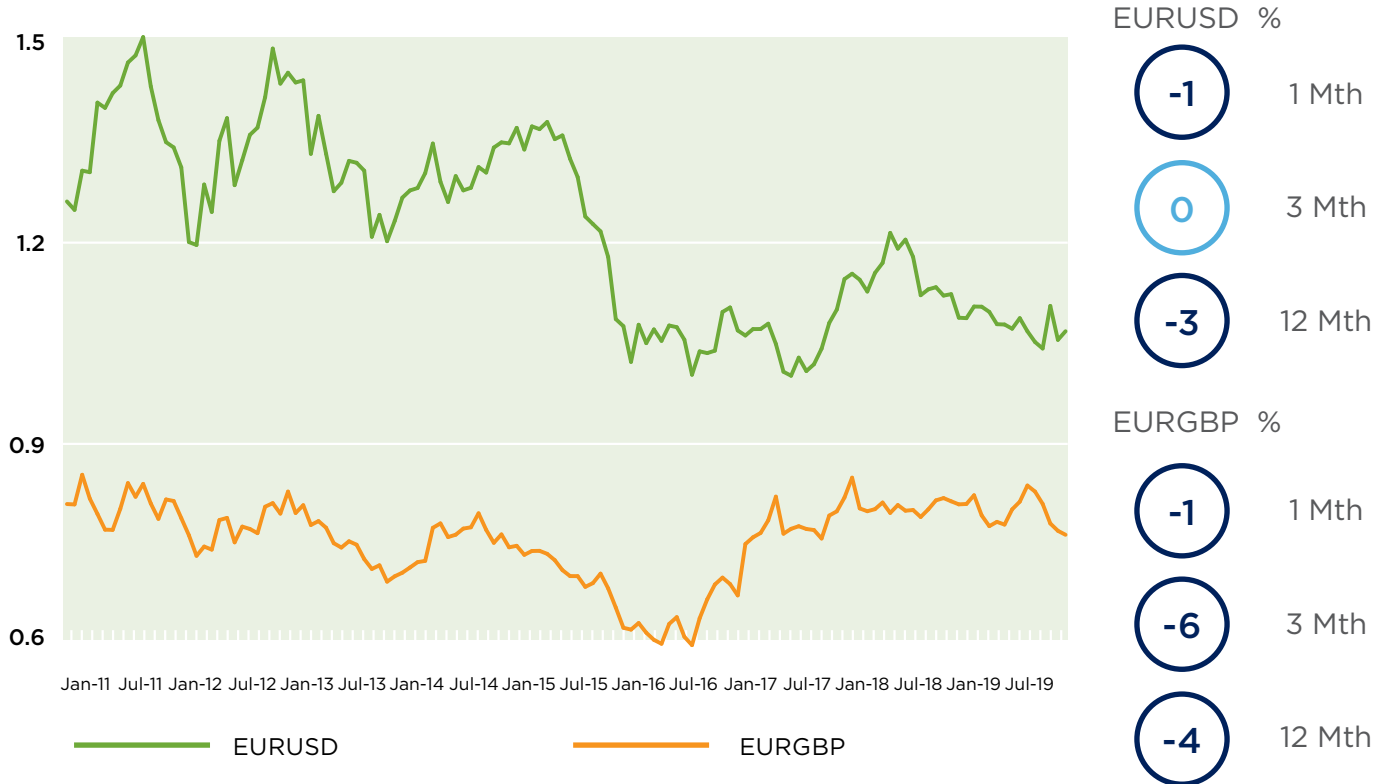
The average Day-Ahead price was down 13% going from €51.96/MWh in November to €45.44/MWh in December. Average hourly demand fell by 2.3% in line with reduced demand over the Christmas period which, when combined with lower gas prices and higher wind, all contributed to the lower DA prices.

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FX Rates



FX Rates

It was a mixed month for the euro as it gained 2% against the dollar settling at \$1.123 but lost 1% against the pound settling at £0.847.

The Conservative party gained a strong majority in the UK general election and promptly pushed Boris Johnson's Brexit agreement through parliament. The removal, for now, of a no-deal Brexit was positive for the pound and for the euro against other currencies.

We now move to the next stage of the UK withdrawal process as both parties attempt to negotiate a trade deal. The political landscape for 2020 will be dominated by these negotiations with sterling responding to each soundbite along the road!

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