Bord Gáis Energy Index

Understanding energy

Bord Gáis Energy

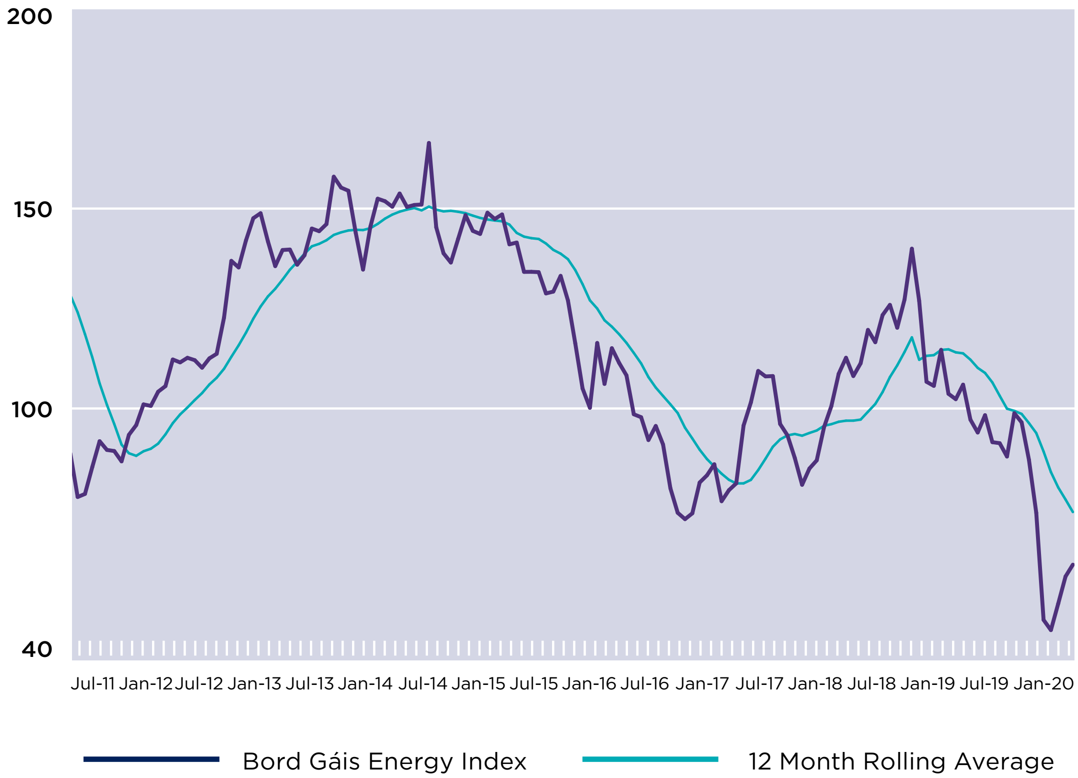
July 2020

BGE/EI/UE/0720

Bord Gáis Energy Index

July 2020

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



%	
5	1 Mth
37	3 Mth
-39	12 Mth

Summary

The Bord Gáis Energy Index gained 5% in July 2020.

Energy markets continue to climb back from the lows seen in April when coronavirus lockdowns crushed energy demand in key markets. The index was 5% higher in July led by a 16% increase in electricity prices due to outages at some gas power stations and an increase in the average carbon price over the month. Gains in the overall Index would have been higher but for weakness in the US dollar versus the Euro.

Oil had another strong month gaining 6% in dollar terms as easing coronavirus restrictions and tightening supply helped support prices. The good news was a stronger euro helped mitigate some of this increase and in euro terms oil prices were only 2% higher for the month.

Among the other components, the day-ahead gas price gained 2% as supplies were hit by annual Russian maintenance, while coal was flat on the month, but fell 5% in euro terms due to euro strength versus the US dollar.

In July, the Bord Gáis Energy Index closed at 60.

Bord Gáis Energy Index
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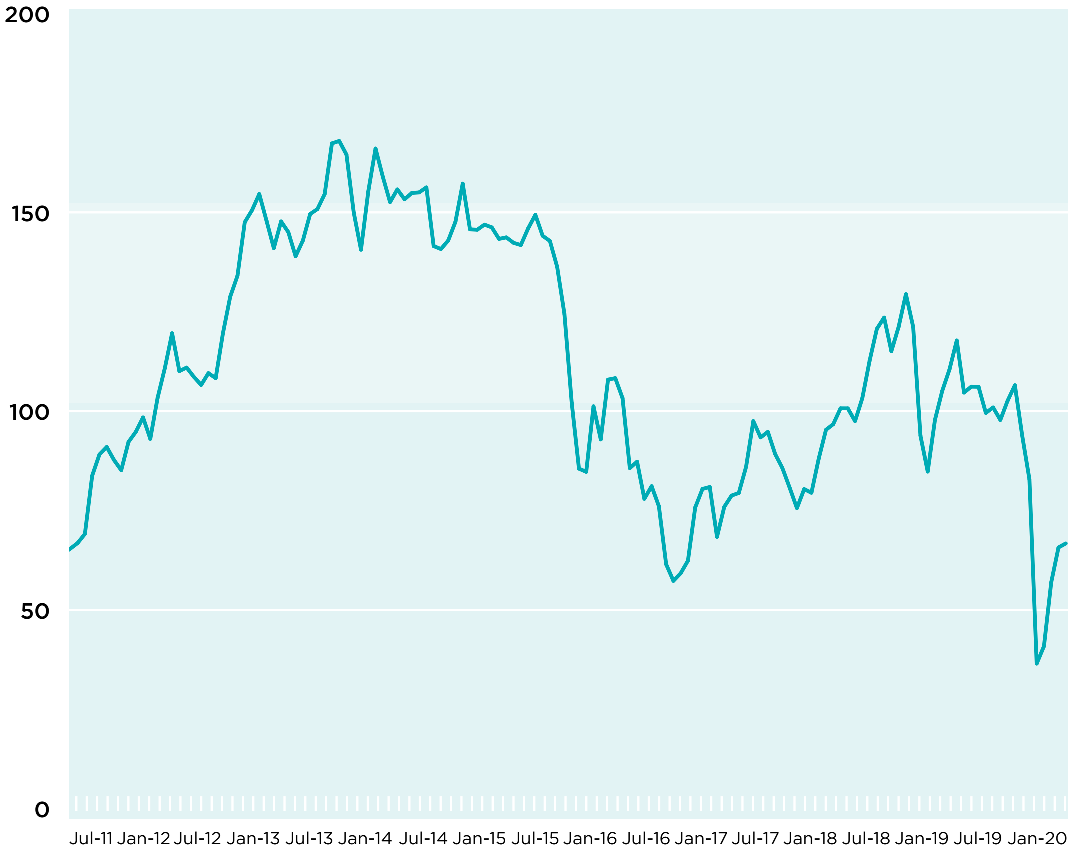
Oil Index



%	
2	1 Mth
61	3 Mth
-37	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

July continued to see oil prices climb back from the record low levels seen in April when coronavirus restrictions crushed economic activity and consequently demand. The crude oil Brent benchmark gained $2.50 this month to settle at $43.68 a barrel. That was a gain of over 6% in dollar terms but only an increase of 2% in euro terms given dollar weakness versus the single currency.

Increased economic activity, OPEC+ production restraint and falling US production have helped lift oil prices over 70% in the past three months.

However, caution remains as the recovery in risk assets has stalled in recent weeks as markets contemplate the effects of renewed virus outbreaks and the potential for further lockdowns.

There are now almost 17million confirmed cases of coronavirus globally with the death toll reaching 658,755. In the United States, authorities continue to struggle to get the first wave under control with cases hitting record levels on an almost daily basis.

The key for oil prices from here is the demand recovery path. The market has spent much of the past decade debating when we will reach peak oil demand, the level at which oil demand starts to decline. Some suspect that that level has now been met. Key producers are faced with the real possibility that the coronavirus may have shifted consumer behaviour to such an extent that a proportion of lost demand may prove permanent.

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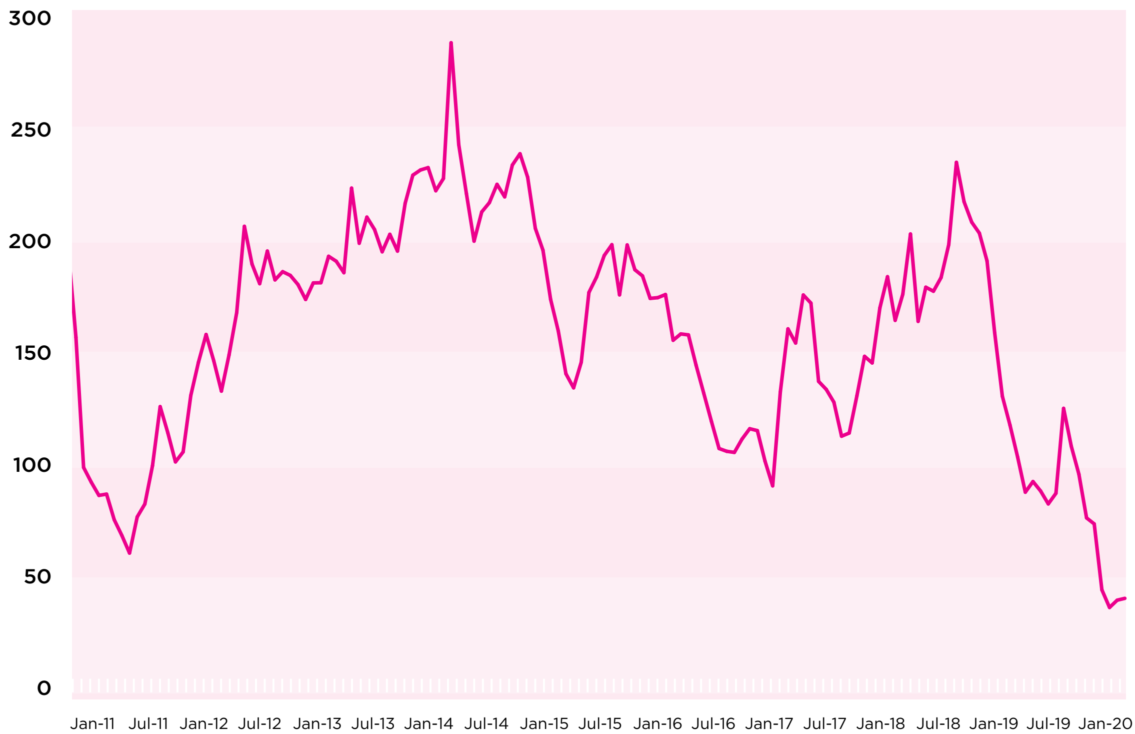
Natural Gas Index



%	
2	1 Mth
-8	3 Mth
-57	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The NBP day-ahead contract, the price of gas for next day delivery, averaged 13.4p/th in July, a gain of almost 2% in euro terms.

The bullish trend in June continued in the first couple of weeks of July as day ahead and forward curve prices rose. A continuation of the rally in carbon prices, that was seen in April and re-emerged in July, was a contributory factor for higher gas prices in the first half of the month. Carbon prices rallied from €23 in early July to €30 by the middle of the month and European power and gas prices were pulled higher as a result. This was particularly evident in seasonal gas contracts which finally broke their 8-month downtrend. However, the carbon rally lost momentum towards the end of the month and prices fell, bringing gas prices lower also.

Gas supply into Europe fell further in July as a key transport pipeline from Russia to Germany was closed for annual maintenance, while US exports of LNG into Europe were also lower due to the shut-in of many US export facilities. The Nordstream pipeline from Russia to Germany was in maintenance for two weeks and in that time storage withdrawals were needed to balance the system. However, this had a minimal impact on prices as overall supply comfortably met reduced summer demand. The low-price scenario continues to depress US gas exports also as many LNG producers have reduced output in response to very low prices in Europe.

The fundamental picture for gas prices has changed little in recent months with high inventory levels across Europe coupled with strong imports from Russia and Norway ensuring the market remains well supplied. Lower demand due to the coronavirus and seasonal factors are also weighing on prices but we can expect to see demand increase as we move towards the colder winter months.

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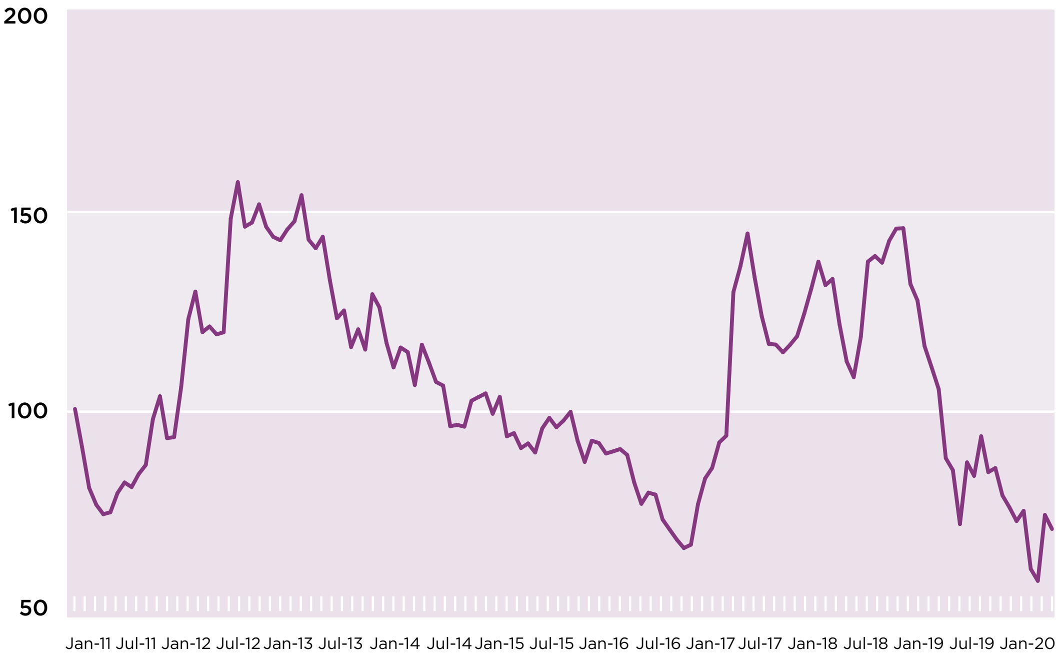
Coal Index



%	
-5	1 Mth
16	3 Mth
-19	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices were flat on the previous month's close, settling at $49.70 a tonne. However, the weaker dollar versus the euro meant that in euro terms coal prices fell by around 5%.

Despite continued strong competition in the power generation sector from low priced gas and renewables, coal managed to gather support in July as carbon prices retreated in the second half of the month and economic activity continued to recover, from coronavirus lockdown levels, in the key Asian market.

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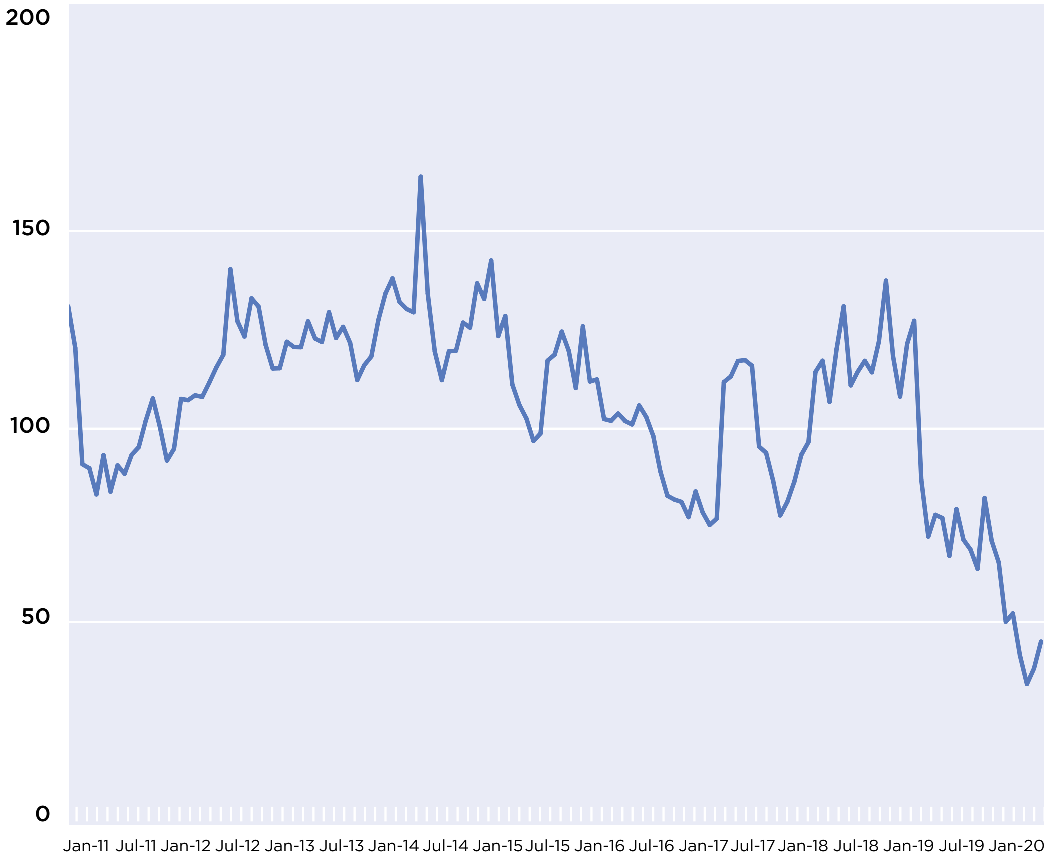
Electricity Index



%	
16	1 Mth
7	3 Mth
-40	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price gained 16% going from €25.94/MWh in June to €30.07/MWh in July. The increase was the result of unplanned outages at key gas power stations coinciding with planned and extended outages at other plants. Prices peaked on Monday 20th of July at €47.04/MWh when two of these plants were on outage at the same time and wind levels were particularly low.

In addition, an increase in the average carbon price over July supported power prices. The average carbon price over July was 17% above the previous month.

Wind was relatively static month-on-month and filled 30% of outturn demand.

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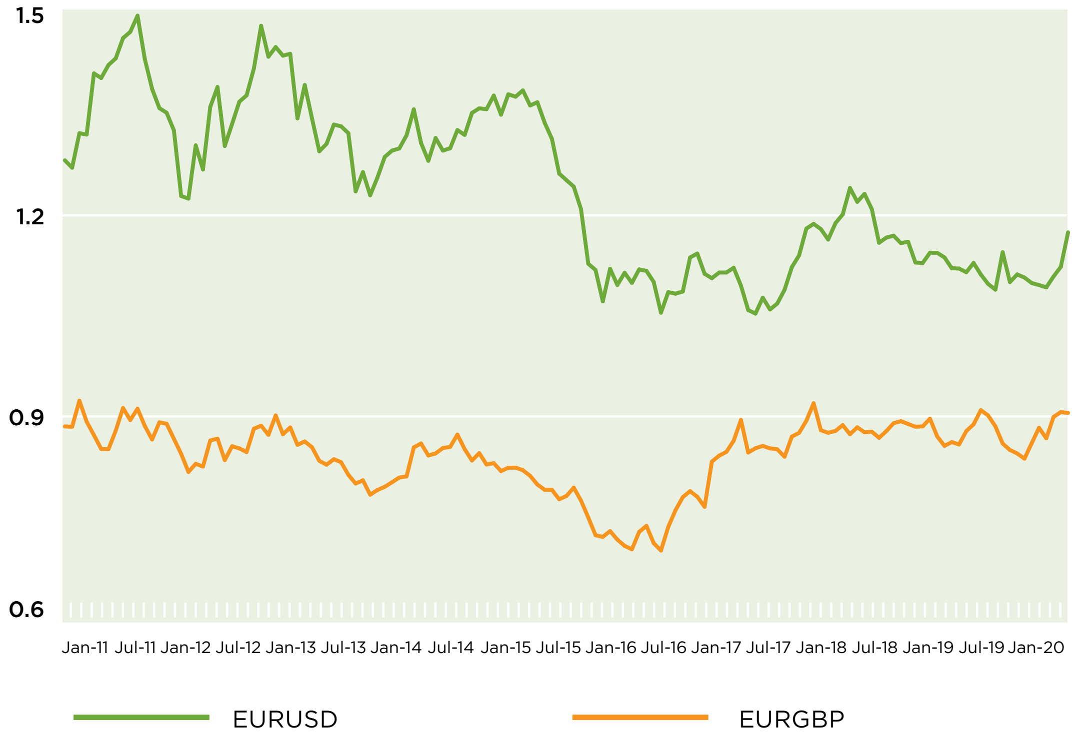
FX Rates



EURUSD %	
5	1 Mth
7	3 Mth
6	12 Mth

EURGBP %	
0	1 Mth
4	3 Mth
0	12 Mth

FX Rates

The big story in currency markets has been the rapid fall in the dollar against a basket of currencies. The euro settled 5% higher versus the dollar at $1.17, a two-year high, as the deepening coronavirus crisis in the U.S. continues to raise concerns.

The inability of the Trump administration to effectively slow the spread of the virus highlights the absence of political leadership at a time of increased trade, political and social tensions. Markets have started to question how robust the recovery in the US economy, the world's largest, will be and expectations of further stimulus continue to build. The growing negativity around the dollar and growing uncertainty is reflected in the sharp rise in Gold which traded close to a record $2,000 an ounce.

The euro was marginally lower versus the pound at £0.907 as uncertainty continues to surround the trade relationship between the UK and the European Union following Britain's departure at the end of this year.

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