

MEDIA RELEASE

Bord Gáis Energy Index Increased 5% In July

The Bord Gáis Energy Index gained 5% in July and is now 14% below the comparable period last year. The key driver behind the increase was electricity prices, which gained 17% over the month on lower wind output and outages at key power stations. Oil, the largest component of the Index, was flat on the month as trade tensions and a weakening global growth outlook was offset by rising tensions in the Middle East. The other components of the Index had a strong month with gas prices rising 5% on supply outages, while coal traded 21% higher on stronger demand.

In July, the Bord Gáis Energy Index stood at 97 (+5%).

David Grainger, Energy Trader with Bord Gáis Energy, said, “The July figures from the Bord Gáis Energy Index show that wholesale energy prices increased by 5% in July. The key driver of the increase was electricity prices which gained 17%, while natural gas reversed its recent falls by increasing 5% in July. Coal gained 21% in July while oil prices, the biggest component of the index, were unchanged”.

Oil prices flat in July...

Oil prices were flat over July closing where they started at \$65 a barrel, however this masks considerable volatility over the month. Brent crude traded as high as \$67 a barrel and hit a low of just under \$62 a barrel.

In the first week of July, oil prices hit a low of \$62 a barrel despite OPEC extending its supply reduction pact to March 2020. The extension was agreed on the back of heightened demand concerns, as the International Energy Agency lowered its estimate for global oil demand growth this year to 1.2m barrels a day from 1.3m barrels a day, pointing to a “vulnerable global economy”.

In the second week of July, oil prices rose to a high of \$67 a barrel following heightened geopolitical tensions in the Middle East, with seizures of an Iranian tanker by the UK and a UK tanker by Iran, along with the US shooting down an Iranian drone close to one of its ships.

By month end, oil prices were supported above \$65 a barrel as US stockpiles hit their lowest level in over eight months. A further support for oil was market expectations that the Federal Reserve will cut interest rates, potentially weakening the Dollar and making oil cheaper for non-Dollar buyers.

Gas prices rise for first time since September 2018...

The day-ahead contract, the price for gas delivered tomorrow, averaged 29.8p/th in July, a gain of 5.3% on the price for June, when adjusted to Euros. July saw the first increase in gas prices since September 2018.

Prices started in July at very low levels with the day ahead price trading close to three-year lows. Prices have been falling for several months as demand was low due to mild weather during winter, and supply has been strong due to high gas imports via Liquefied Natural Gas (LNG). However, prices turned higher on reports of field outages in the North Sea.

Prices were squeezed higher on further outages and in anticipation of planned maintenance on the Nordstream pipeline, a key pipeline between Russia and Germany, that was due to begin mid-month. Prices peaked at 38p before retreating in the last two weeks of the month.

Overall, gas market fundamentals changed little in July. European storage levels remained high and continued to fill ahead of the winter season. Gas supply via LNG tankers was also steady, although we have seen lower tanker arrivals in recent months. Gas deliveries from Russia fell due to the Nordstream outage but flows quickly resumed after maintenance ended.

Coal settles at \$57.90 a tonne...

Coal prices settled at \$57.90 a tonne in July, recovering from multi-year lows in June, representing an increase of over 20% compared to the previous month and the first monthly increase in nine months.

Coal prices opened the month stronger with Chinese buyers in the market trying to book spot cargoes ahead of a possible tightening of import restrictions. Official statistics show a sharp increase in China's imports of Australian coal, as the market pre-empted a government clampdown on imports. Provincial government officials reacted to coal import statistics in July by freezing all further customs declarations for coal cargoes at some key ports.

In addition, the heatwave in Europe helped push coal prices higher as additional demand for coal fired generation was required due to curbs on nuclear output. French nuclear power production was reduced, with some reactors having to be taken offline as the heatwave in France pushed water temperatures in rivers, used as a coolant, above regulated levels.

Electricity increases 17% in July...

The average day-ahead price went from €43.15/MWh in June to €50.26/MWh in July, an increase of 17% over the month, as lower wind output, stronger carbon and outages to a number of power stations helped lift prices over the month.

Wind output was down 19% to 811MW versus 1001MW the previous month. The average portion of demand met by wind in July was 21%.

Mixed month for the Euro, trading lower against the Dollar but up on Sterling...

The Euro fell versus the Dollar but recorded gains relative to Sterling in July. The Euro settled at \$1.113 versus the Dollar, a loss of 2% and £0.911 against Sterling, a gain of 1.8%.

The mixed picture for currencies comes amid a gloomier backdrop for economies across the globe. The US Federal Reserve signaled its intentions to cut interest rates and it delivered on its promise on July 31st, cutting its target rate by 0.25%. Low inflation and weaker growth, due to trade tariffs with China, were two issues affecting the US economy.

The picture in Europe is arguably weaker, with evidence from Germany that manufacturing is contracting at an accelerated rate, with the Purchasing Managers Index at a four-year low. Germany is the bellwether for the broader European economy and the ECB started to actively talk about reducing interest rates or loosening its monetary policy in July.

The Euro still managed to record a gain relative to Sterling as the market adjusted its expectations of a hard Brexit, with Boris Johnson being appointed Prime Minister. The more aggressive stance of the new British government towards Brexit put considerable pressure on Sterling in July and the Euro gained versus Sterling as a result.

For more information, see the full Energy Index at bordgaisenergy.ie/energyindex/.

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For further media information:

Naomi Steen, PR Manager, Bord Gáis Energy, M: 086 701 5226

Luke Hogg, Teneo T: 01 661 4055

About Bord Gáis Energy

Bord Gáis Energy is an energy and services supplier in the Republic of Ireland. The company has been in operation since 1976 and currently supplies energy and services to over 730,000 business and residential customers. In 2014, Bord Gáis Energy became part of the global Centrica plc Group.