Bord Gáis Energy Index

Understanding energy

March 2019

BGE/EI/UE/0319

Bord Gáis Energy

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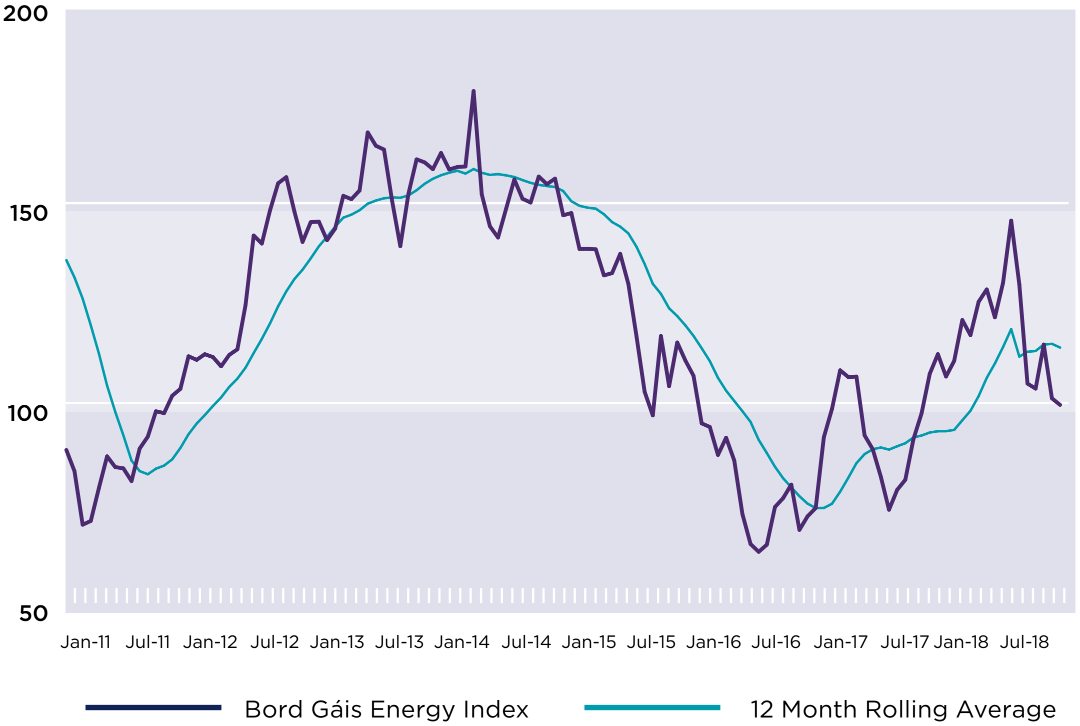
March 2019

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



%	
-1	1 Mth
-3	3 Mth
-8	12 Mth

Summary

The Bord Gáis Energy Index fell 1% in March and is now 8% below the comparable period last year.

Oil, the largest component of the Index, had a strong month gaining over 5% in euro terms as OPEC+ production cuts and continuing sanctions on Iran and Venezuela supported prices.

Among the other components the tone was more bearish; gas prices fell a further 18% as waves of LNG supply continue to crash onto Europe's shores at a time of lower demand and strong pipeline imports. The fall in gas prices carried through to the electricity and coal markets which fell 10% and 5% respectively.

In March, the Bord Gáis Energy Index stood at 101.

Bord Gáis Energy Index

March 2019

Oil Index

%	
5	1 Mth
30	3 Mth
7	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices strengthened for the third month in a row, opening at $65 a barrel and hitting a 2019 record level of $68.50 a barrel. The benchmark Brent contract closed the month just off the 2019 peak at $68 a barrel, over 5% above the previous month close.

Oil prices averaged $65 a barrel in the first week of March, tracking the record high crude oil production and crude inventories in the United States which beat market expectations. Oil prices ended the second week of March on a bullish note on news that Saudi Arabia planned to reduce output to 9.8 million barrels, over half a million barrels below the production level agreed under a global supply-cutting deal.

Oil prices continued to be supported by supply risks from Iran and Venezuela and news that OPEC+ would defer discussions on the existing production cuts until June as the initial review date in April was too soon to assess how the cuts are affecting the oil market.

Oil output from OPEC members Venezuela and Iran is expected to dip further as sanctions take hold. Venezuelan output is also expected to decline by 300,000 barrels per day year-on-year and Iranian production to drop to an average of 2.4 million barrels per day in the second half of 2019 from current levels of c. 2.65 million.

Brent hit a 2019 peak on 20 March at $68.50 a barrel on OPEC supply cuts and the threat of extension of sanctions against Iran and Venezuela. In an attempt to lower oil prices President Trump went after OPEC in a tweet saying it's "very important" that the cartel "increase the flow of oil" and that "world markets are fragile, price of oil getting too high". Oil prices saw a slight decrease after President Trump's tweet, however, prices recovered on progress in trade talks between the US and China in Beijing.

The announcement of a trade deal between the US and China remains a wild card. Talks are progressing, but the timing of any announcement is uncertain. Some trade officials fear that President Trump may walk away from a deal he doesn't like. A successful resolution to trade talks is likely to add impetus to oil prices.

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Natural Gas Index

%	
-18	1 Mth
-35	3 Mth
-35	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The day-ahead contract, the price for gas delivered tomorrow, averaged 39.61p/th in March, a drop of 18% in euro terms on the previous month.

Gas markets across Europe and further afield remain in a downward spiral as soft demand and ample supplies weigh on prices. March was another month of mild temperatures with average UK Local Distribution Zone demand 7% below seasonal norm for this time of year.

A key driver of the relentless decline in gas prices, in place since the start of October 2018, has been a surge in LNG deliveries into Europe. Asia is the key global LNG market, absorbing well over 60% of LNG supply. This winter a combination of softer Asian LNG demand and a material increase in new LNG capacity has resulted in excess LNG cargoes looking for a home. Northwest Europe, with its liquid gas hubs and underutilised regasification capacity is the obvious market to clear these excess supply cargoes.

The arrival of record volumes of LNG into the UK and Continental Europe coincides with softer demand, on the back of a mild winter, and strong pipeline imports from Russia and Norway. In addition, the wave of LNG imports has reduced the need for storage withdrawals resulting in robust storage levels across the Continent. We enter the summer with European storage levels over 15bcm above the comparable period last year.

Further out the curve it was a similar story as contracts continued to lose value as the market anticipates a loose market over the coming summer months. The front month, April 19 contract fell over 8p/th to settle at 36.05p/th, while the Summer 19 contract expired at the end of March at 36.74p/th, a drop of 8.2p/th on previous month's close and the winter 19 contract fell 7.3p/th to settle at 57.54p/th.

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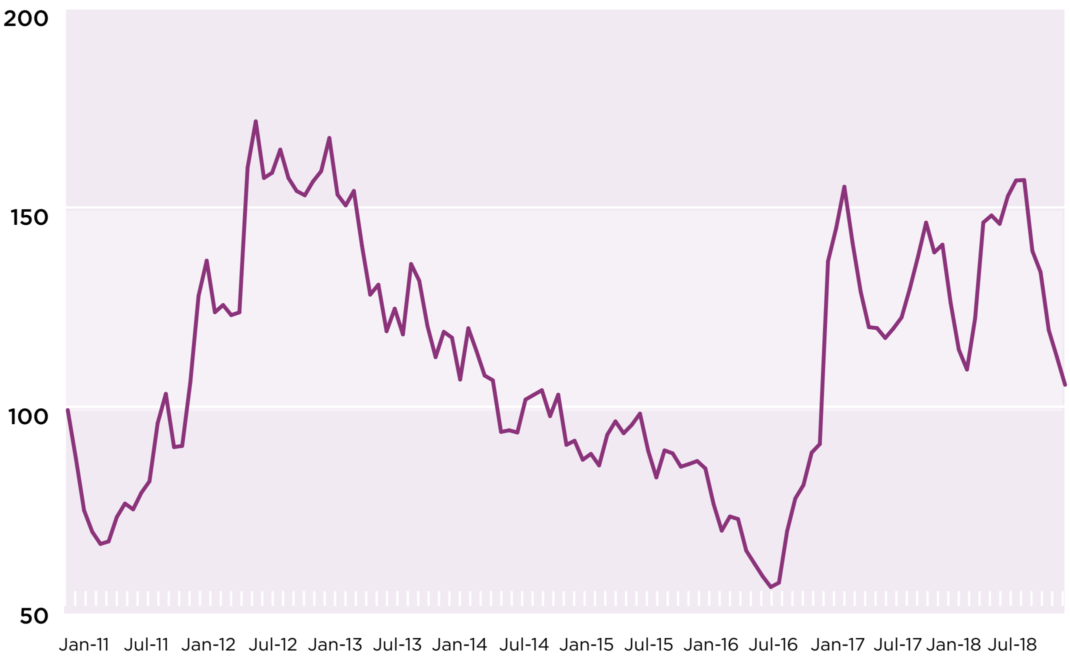
Coal Index



%	
-5	1 Mth
-17	3 Mth
-3	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $70 a tonne in March, a drop of nearly 5% compared to the previous month and almost 3% lower than the comparable period last year.

The price fell by $5 a tonne in the month of March, opening at $75 and dropping through the month to a low of $70 on the last day of trade.

Coal prices followed a bearish trend through March 2019, driven by an increase in coal-to-gas switching gas prices dropped due to an influx of LNG into both the UK and Europe and storage levels at comfortable levels compared to last year. This switching is expected to continue into Q2 2019, as it continues to be more profitable to burn gas over coal. There was no upward sentiment from Asian markets during March as key market China showed strong domestic production and this left abundant volume of Australian coal displaced in the seaborne market.

The closure of another UK coal plant, Fiddler's Ferry in Warrington, Cheshire, was also announced supporting the UK's plans to phase-out coal fired power stations by 2025.

Towards the end of the month coal prices hit a 30-month low, trading close to $70 a tonne, levels not seen since September 2016. This is due to weak global demand for coal, high stock levels and sellers looking to offload cargoes at lower levels. Coal stockpiles at Dutch terminals were reported up over 53% on the same time last year.

The import restrictions in China for Australian coal continued in March with long delays reported at several ports. This follows Chinese officials implementing curbs on Australian coal cargoes at five north eastern ports. Chinese thermal coal buyers are looking at US cargoes as a replacement for Australian shipments. Some market participants believe China may turn to the US for replacement coal given the politically sensitive current trade talks between both parties.

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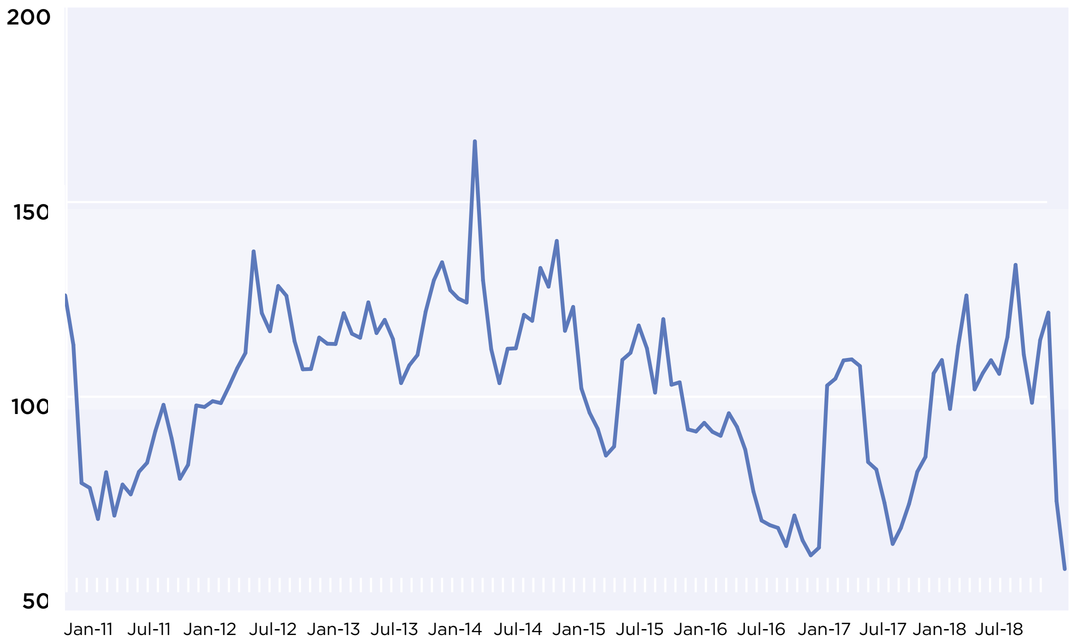
Electricity Index



%	
-10	1 Mth
-35	3 Mth
-26	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price in March was €49.28/MWh, a reduction of 10% 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.

In March, the clean spark decreased to 7.98/MWh from €9.11/MWh in February.

Wind output was down 23% to 1,639MW versus 2,129MW the previous month. The average portion of demand met by wind in March was 37%.

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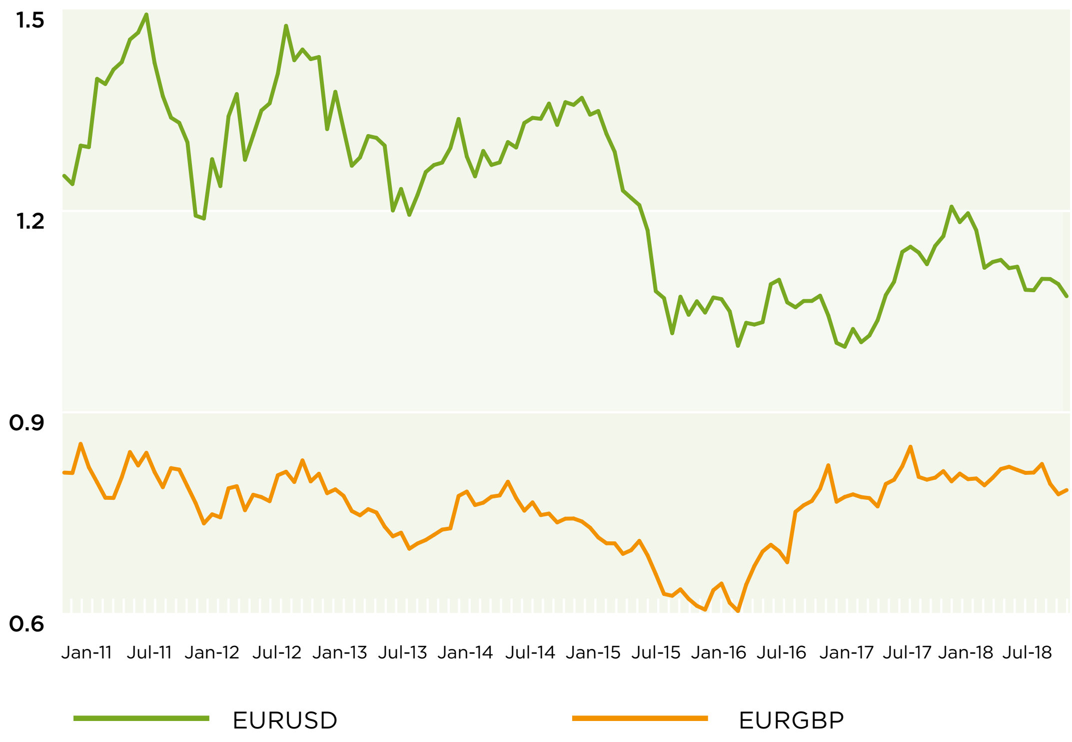
FX Rates



EURUSD %	
-1	1 Mth
-2	3 Mth
-9	12 Mth

EURGBP %	
1	1 Mth
-4	3 Mth
-2	12 Mth

FX Rates

It was a mixed month for the euro, falling in value versus the dollar but gaining against the pound. The single currency settled at $1.1221 versus the greenback, a fall of 1.4%, and at 0.8636 versus the pound, a gain of .66%.

The Federal Reserve maintained its dovish stance in March voting to keep interest rates at current levels. In recent months, market forecasts for US interest rates shifted from at least two rate hikes in 2019 to a potential rate cut as the Federal Reserve downgraded expectations for US and global growth.

A resolution to the ongoing trade talks between the US and China remains elusive. A successful conclusion to discussions would help bolster confidence and remove a key uncertainty weighing on global economic growth.

In Europe, economic indicators remain weak and the European Central Bank has indicated that it will not raise rates until 2020. Brexit uncertainty continues to impact the euro and is reflected in weak business investment and consumer confidence indicators.

As we move past the March 29 Brexit deadline, we are no nearer a Brexit resolution! Theresa May has now seen her Brexit agreement voted down three times by the House of Commons. A series of indicative votes in the UK parliament failed to reach a consensus on a way forward which could command the support of a majority in the House. The UK and European Union are now in discussions to agree a further extension and while it's clear that neither the House of Commons or the European Union want a no deal Brexit, the escalating confusion and chaos increases the risk of an accidental crash out!

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