Bord Gáis Energy Index
Understanding energy

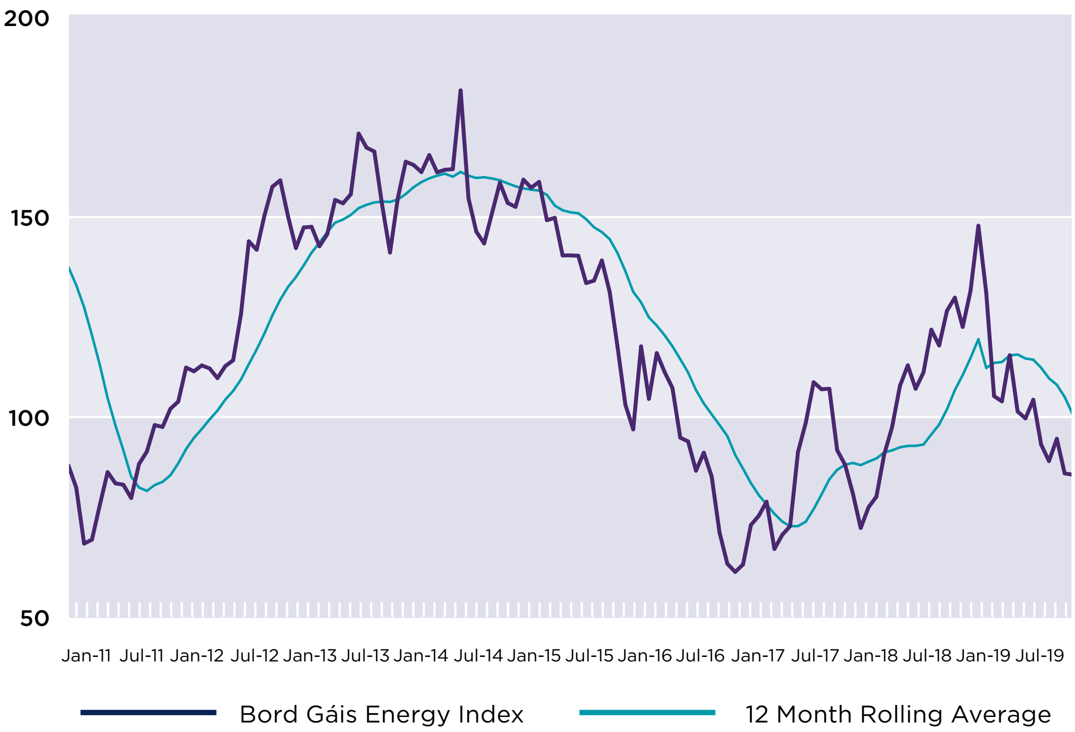
September 2019

BGE/EI/UE/0919

Bord Gáis Energy Index

September 2019

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



%	
0	1 Mth
-3	3 Mth
-31	12 Mth

Summary

The Bord Gáis Energy Index was marginally lower in September falling 0.3% as components of the Index had mixed fortunes in the month.

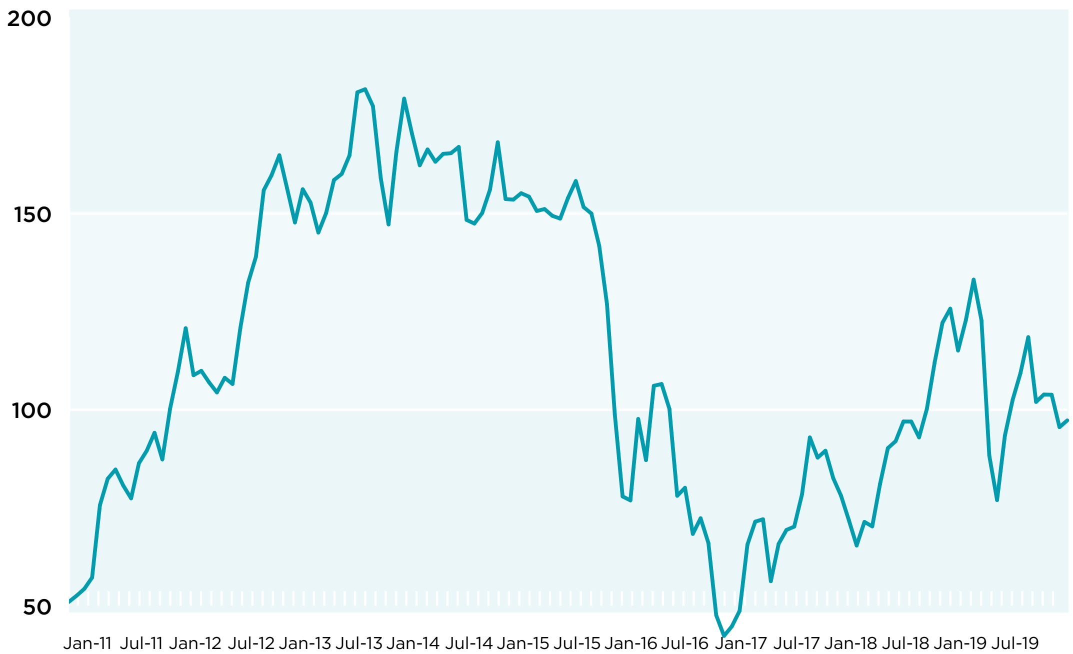
Oil, the largest component of the index, gained 1.4% following drone attacks on key oil facilities which took out approximately 50% of Saudi production. The biggest surprise in the energy complex this month was the muted gain in oil prices to the dramatic attack on one of the world's key producers. Gas prices fell 6.5% on continued benign demand and robust supplies. Among the other components of the index, electricity fell 3.3% on weaker gas prices, a key variable in power prices, while coal prices gained nearly 12% due to increased demand.

In September, the Bord Gáis Energy Index was flat on the previous month at 90.

Bord Gáis Energy Index

September 2019

Oil Index



%	
1	1 Mth
-5	3 Mth
-18	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The price moves in the oil market in September were unprecedented as Saudi Arabia, the largest exporter of oil in the world, saw its production collapse during the middle of September after drone attacks affected production at two of its refineries. The short-term impact was that over 50% of Saudi production, representing 5% of global oil supply, was cut immediately. In the days that followed the attacks, Saudi production recovered, and the Saudi Government also reassured the market that it had ample oil in storage to meet customer needs.

The actual Brent crude price fell to $57 at the beginning of the month as economic growth concerns weighed on the price. Prices recovered in the first week of September to trade back above $60. On Monday September 16th, the price rallied up to $72 after news broke that Saudi production was to be cut following the drone attacks. However, prices weakened in the weeks that followed as production levels in Saudi Arabia recovered and the initial fears surrounding the impact of the drone attacks subsided.

Oil prices closed the month at $60 as fears of a global economic slowdown overshadowed the attack on Saudi Arabia's key energy facilities. Political tensions have dampened since the air strike on Saudi Arabia as the parties involved have struck a more cautious tone. The US and Saudi Arabia have blamed Iran for the attacks, though Iran denies it. Saudi Arabia agreed to a limited ceasefire in several areas of Yemen, further easing tensions in the region.

The oil market has taken direction from a prolonged clash between the US and China over trade and the knock-on effects on economic growth, with weak manufacturing data having an impact on oil demand. The world's two largest economies are due to hold another round of high-level talks following China's week-long national holiday starting October 1.

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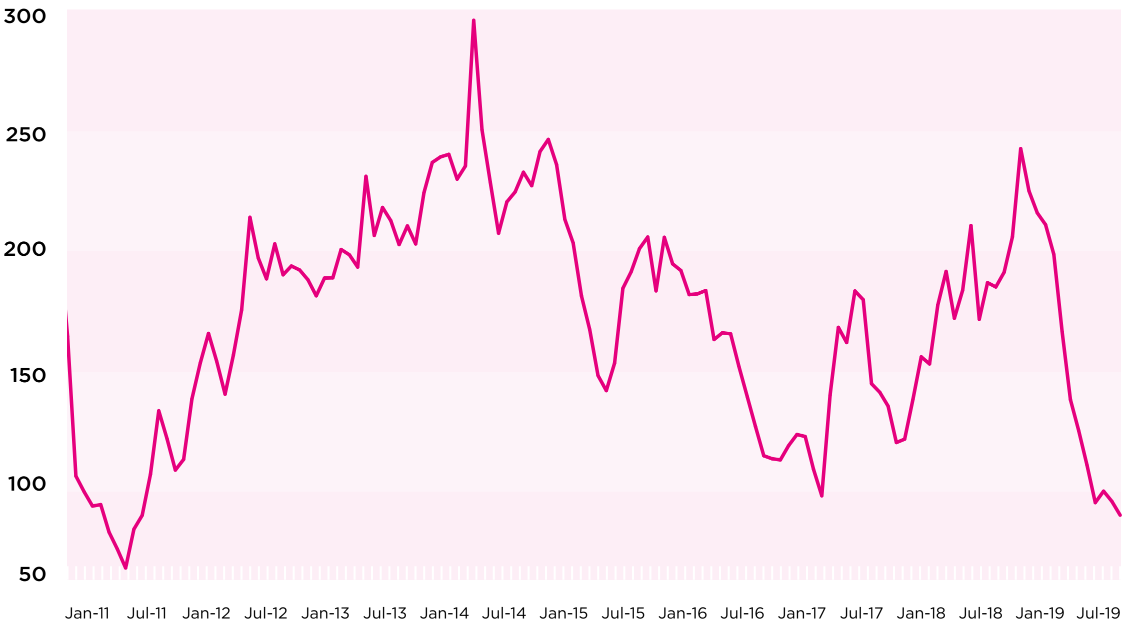
Natural Gas Index



%	
-6	1 Mth
-6	3 Mth
-64	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, finished the month 2p lower settling at 25.97p/th a drop of over 6% in euro terms on the previous month. This bare statistic, however, masks the choppy trading over the month as the market was hit with a series of announcements which threatened to blow apart the bearish sentiment gripping the market of late.

It was business as usual in the first week of trading as prices dropped back on a well-supplied system. However, that changed on September 10th when the market was hit with three separate announcements which drove prices higher. The first was a European Court of Justice decision restricting Gazprom access to the OPAL gas pipeline. While this would not impact European gas supply in the summer, it becomes an issue this winter as overall Russian flows to Europe could be lower.

On the same day the Dutch Government announced that it intended to accelerate the reduction in gas production at the Groningen gas field in response to seismic activity blamed on gas extraction. This news was expected but the scale of the cut was larger than some anticipated.

The third issue, and perhaps the most important, was an announcement from French utility EDF that mouldings in some of its nuclear power plants may be defective. The announcement was reminiscent of 2016/17 when up to 19 reactors where taken offline due to issues with components being identified. At that time, the reduced nuclear output was replaced by increased gas generation pushing the demand and price of gas higher across Europe. The market feared a repeat of these events this winter.

The combination of the three events pushed prices sharply higher with the front month gaining 26% over the following week, while Winter 19 contract gained a more muted 16%.

As we moved through the month, market concerns started to dissipate. Russia diverted OPAL flows through Ukraine and even more importantly, EDF identified the reactors affected by the moulding issue and noted that they didn't believe that remedial work on the reactors would be necessary. The front month October contract closed the month 2.4p lower at 30.65p/th, while Winter 19 and Summer 20 gained .9p/th and 2.2p/th respectively.

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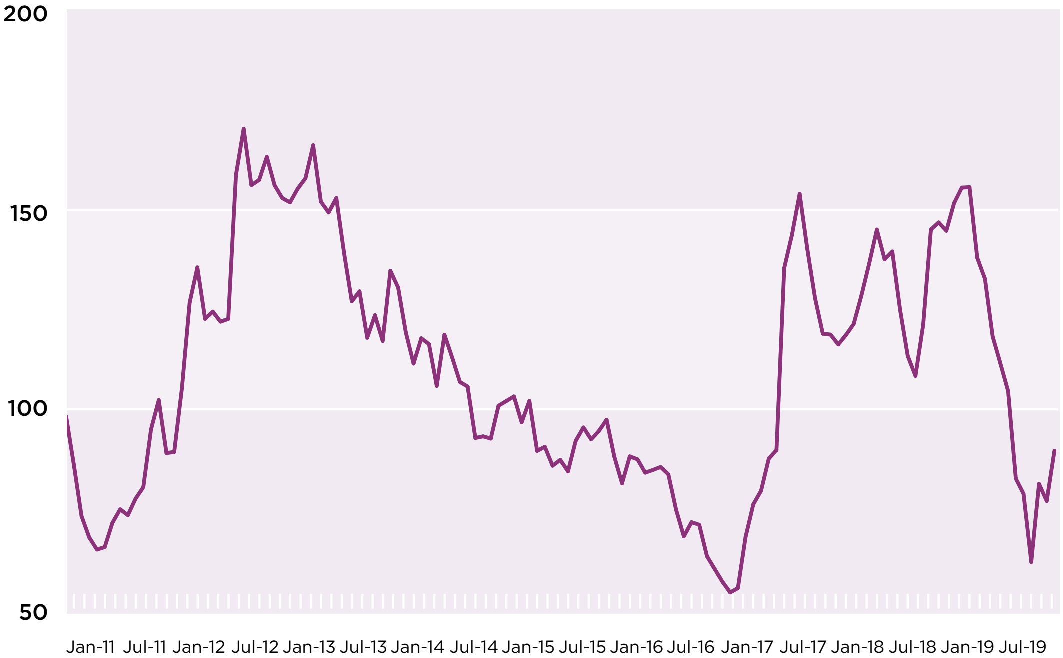
Coal Index



%	
12	1 Mth
30	3 Mth
-35	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $60 a tonne in September, an increase of nearly 12% in euro terns compared to the previous month. Coal prices opened the month at $55 a tonne and edged higher during the month to close over $5 a tonne above the opening level.

It was a bearish start to the month with strong hydro generation in China reducing coal fired generation. The continuation of strong German wind power generation also had a softening impact on prices during the month, with year-to-date wind power generation increased by 19% year-on-year.

Another contributing factor to low coal prices were low Rhine water levels at Kaub, which resulted in inventories at the ARA (Amsterdam-Rotterdam-Antwerp) region continuing to remain high due to transportation constraints in transporting coal via barges.

Coal prices strengthened above $60 a tonne mid-month, following French power utility EDF's announcement that it was investigating an issue related to its nuclear reactors, which could potentially lead to nuclear outages and higher demand for coal fired generation. Coal imports into China are increasing, reflecting a 11% increase in imports year-on-year for January to August 2019 (September data not available). However, the near-term uncertainties in respect to stricter Chinese import restrictions for Q4 2019 remains the biggest risk to the downside for coal prices in the coming weeks.

Coal prices tracked higher oil prices, following the attacks on Saudi Arabia's Abqaiq processing facility. Towards the back half of October, prices stayed supported in a tight range of $60 to $61 a tonne, capped by the fact that coal stocks are high and gas prices are weak in Europe. Demand from Indian buyers for South African export market is expected to ramp up from November after the country's wet season finishes, which could potentially support prices.

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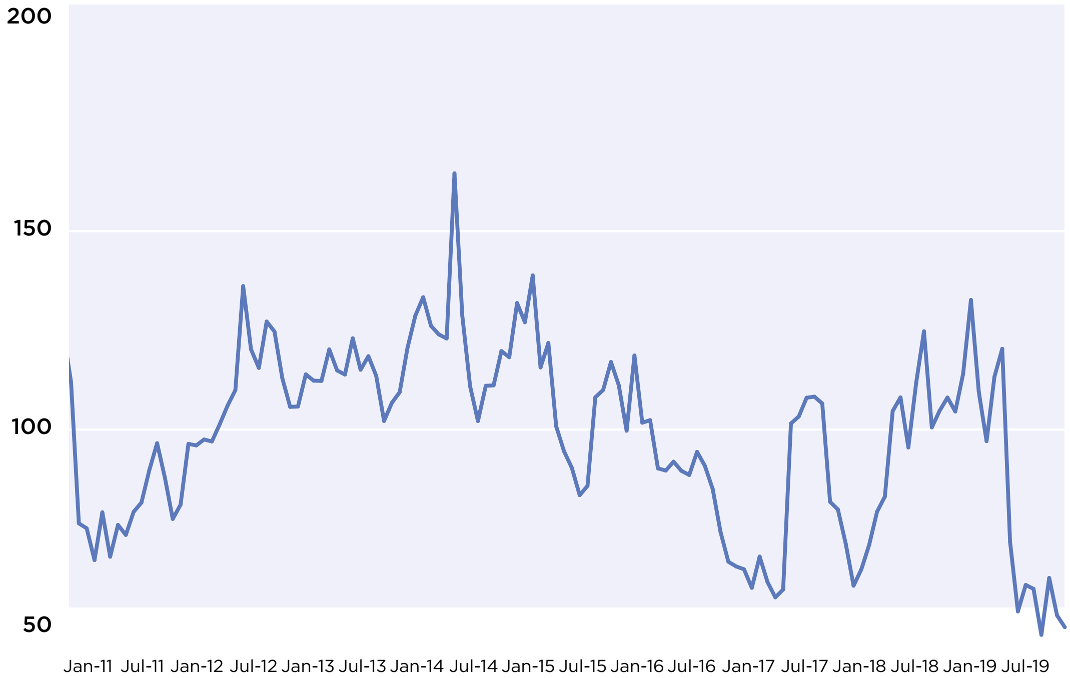
Electricity Index



Data Source: SEMO

%	
-3	1 Mth
2	3 Mth
-38	12 Mth

Electricity

The average Day-Ahead price went from €45.60/MWh in August to €44.10/MWh in September, a reduction of 3.3% over the month, predominantly driven by a reduction in gas prices.

The average wind output was very similar to the previous month at an average hourly output of 1273MW (versus 1274MW in August) but a 3.2% increase in the average hourly demand drove the portion of demand met by wind down slightly to 32% from 33% in August.

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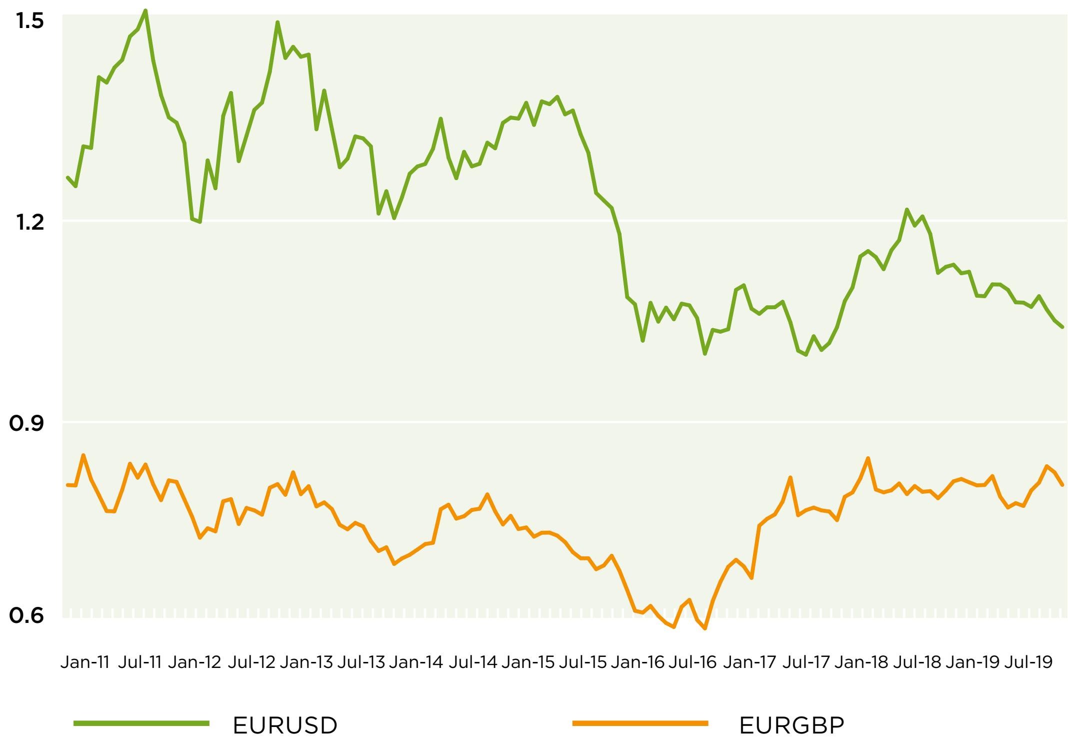
FX Rates



EURUSD %	
-1	1 Mth
-4	3 Mth
-6	12 Mth

EURGBP %	
-2	1 Mth
-1	3 Mth
0	12 Mth

FX Rates

The Euro was weaker versus the Dollar and Sterling in September as the global economic outlook continues to deteriorate. The Euro settled at $1.09 versus the Dollar, a loss of .8% and £0.887 against the pound, a loss of 1.8%.

The European Central Bank cut interest rates and resurrected quantitative easing in an attempt to bolster flagging economic performance in the single market. It’s a similar story in the US where the Federal Reserve (Fed) cut interest rates again in September as consumer confidence and economic indicators flash increasing signs of a slowdown.

In the UK, Brexit confusion continues to dominate. The UK Government faced a series of setbacks in September as Parliament was recalled following the Supreme Court ruling that the recent prorogation of Parliament was unlawful. In addition, Parliament passed legislation blocking a no deal Brexit on 31st of October. The legislation requires the Government to seek an extension if a deal isn’t in place by that date. However, the Prime Minister, Boris Johnson, continues to insist that the UK will exit on 31st October with or without a deal. The most probable outcome looks like an extension followed by a general election.

For more information please contact:

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