Bord Gáis Energy Index
Understanding energy

May 2019

BGE/EI/UE/0519

Bord Gáis Energy

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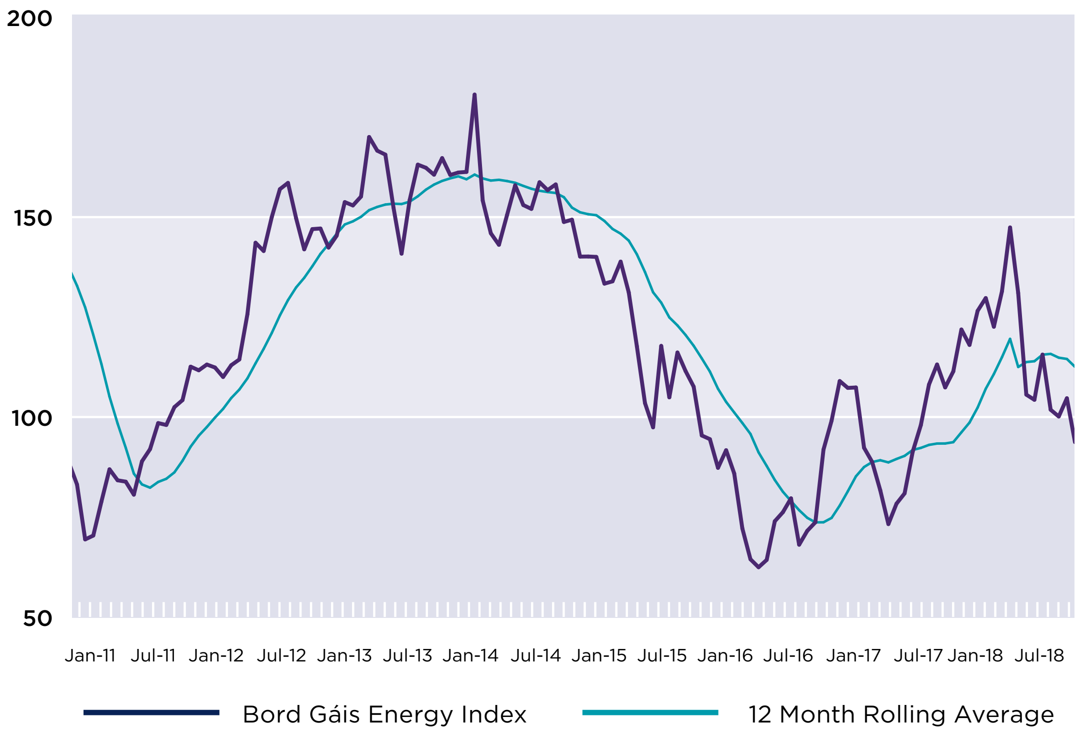
May 2019

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



%	
-8	1 Mth
-6	3 Mth
-16	12 Mth

Summary

The Bord Gáis Energy Index fell 8% in May.

The Bord Gáis Energy Index fell 8% in May. Oil, the largest component of the Index, was the key driver of the fall dropping 11% in the month as escalating trade tensions heightened global growth and oil demand concerns.

The other components of the Index were also weaker with gas prices falling 12% as the UK system remains comfortably supplied. Coal prices dropped 3% on weak demand in Europe and Asia and electricity prices fell 1%.

In May, the Bord Gáis Energy Index stood at 96.

Bord Gáis Energy Index

May 2019

Oil Index

%	
-11	1 Mth
0	3 Mth
-13	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices traded 11% lower in May as the Brent crude benchmark broke through key support levels to fall below $65 a barrel. The benchmark Brent contract opened the month at $72 a barrel and closed the month at $64.49 a barrel, over 11% below April's close and 13% below the comparable period last year.

The bearish tone was set early in the month as oil broke below the $70 a barrel mark on strong American and Russian oil output. The US Energy Information Administration forecast US production will average 12.4 million barrels a day this year and 13.1 million in 2020, driven by growing production in the Permian Basin of Texas and New Mexico.

Oil prices recovered to $72.62 a barrel mid-May after key producer Saudi Arabia signalled it would back sustained output cuts. The Saudis are keen to extend the production-cut deal into the second half of this year as they believe the market remains well supplied and inventory levels are building.

Middle East tensions were back in sharp focus after two Saudi oil tankers were among vessels targeted in a sabotage attack off the coast of the UAE and two Saudi oil pumping stations were targeted in a drone attack. These events coincided with escalating tensions between the US and Iran, with the deployment of US military in the region and comments from Tehran that it would no longer comply with the key elements of the nuclear deal.

Towards the end of the month oil resumed its slide below $70 a barrel as stockpiles of US crude unexpectedly rose to their highest level in nearly two years. Oil prices closed the month below $65 a barrel as US-China trade discussions broke down and trade tensions between the US and Mexico resurfaced. Data showing that US crude inventories were near their highest level since mid-2017 gave further impetus to the view that demand was weakening.

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Natural Gas Index

%	
-12	1 Mth
-34	3 Mth
-42	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The day-ahead contract, the price for gas delivered tomorrow, averaged 32.24p/th in May, a drop of almost 12% in euro terms.

Natural Gas Prices on the UK's NBP continued to weaken in May as high levels of LNG continued to arrive into the UK and Europe. The arrival of strong summer LNG imports, not seen since 2011, has fundamentally altered the supply picture this summer. Increasing global LNG capacity is hitting the market at a time of subdued Asian demand. Asia, particularly Japan, China and South Korea, is the key market for LNG absorbing over 70% of global capacity.

This lower Asian LNG demand due to mild weather and increased nuclear generation has seen cargoes head to Europe, which given its underutilised regasification capacity and liquid gas hubs, acts a sink for excess LNG cargoes.

LNG flows into the UK system climbed to 2.08bcm this May over eight times the volume received in the same period last year.

The robust supply story in recent months has resulted in strong storage injections. Storage levels in Europe are currently at 62%, over double last year's levels. Norwegian pipeline imports to the UK fell 1.5bcm due to maintenance and the diversion of flows to the Continent by the Norwegian operator Equinor.

Further out the curve, the combination of lower spot prices and weaker oil, coal and carbon weighed on forward prices. Contracts for delivery this summer continued to lose value as the market anticipates continued strong supplies for the remainder of the period. The front month June contract broke under 30p to settle 5p lower at 28.28p/th. Contracts beyond this summer also succumbed to weaker sentiment with the Winter 19 contract dropping 3.13p to close the month at 52.15p/th, while the Summer 20 contract gave up a relatively muted 1.38p/th to settle at 44.12p/th.

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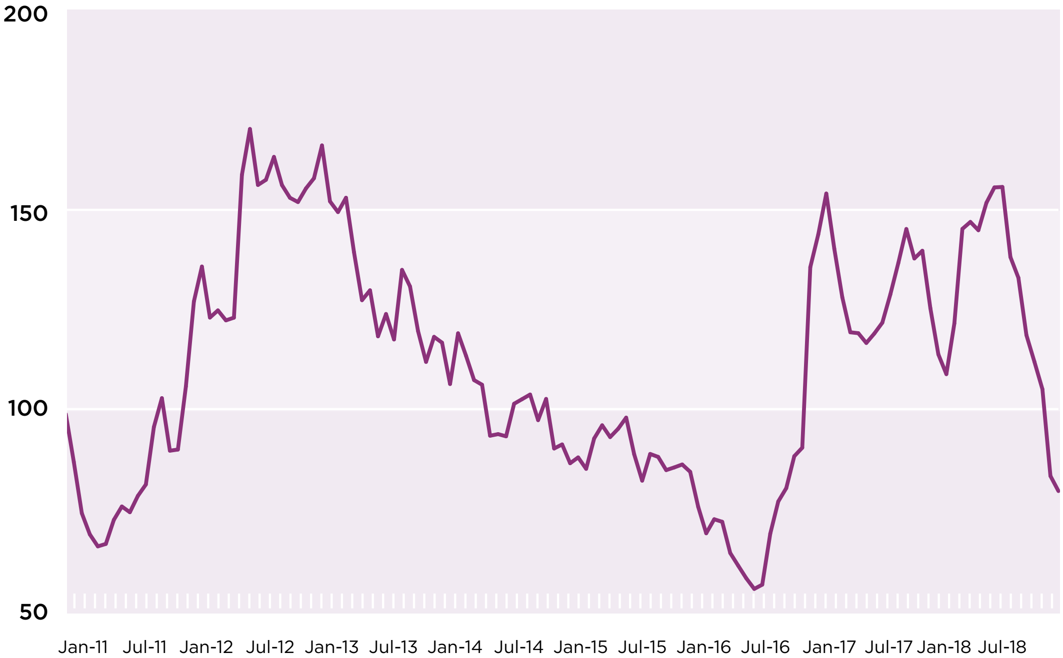
Coal Index



%	
-3	1 Mth
-23	3 Mth
-37	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $57 a tonne in May, a drop of over 3% compared to the previous month and 37% lower than the comparable period last year.

Coal prices traded in a tight range over the month with the outlook remaining weak. In Europe we continued to see strong coal to gas switching as gas prices fell. Coal burn in Japan has declined with the onset of Spring and as utilities undertake maintenance to their coal plants.

Stock levels across Europe remain strong as high volumes of Russian coal keep the supply-side under pressure. During May the UK grid operator National Grid confirmed the first ever fortnight of coal-free operation of the UK electricity system. Coal-fired generation hit record lows in May of 21 GWh as the rapid rise in renewable capacity reduces the call on coal.

US-China trade relations also took a turn for the worst as negotiations broke down. Chinese import restrictions on Australian coal imports remained in dispute in May, with speculation that Chinese buyers were waiting for clarity on the bilateral relations. Due to these import restrictions China has been buying more cargoes of Russian coal. Currency weakness was another factor driving coal prices lower with the Yuan dropping to a five-month low against the US dollar increasing the cost of US-dollar priced import cargoes for Chinese buyers.

Towards the end of May, coal prices dropped to $57 a tonne, on muted coal demand and high stock levels which reduce China's appetite for imports. China's coal demand is expected to further weaken after local governments ordered hundreds of cement plants to shut down from June to September in a bid to curb air pollution. This is expected to have a dampening impact on coal demand, which could result in prices softening even further.

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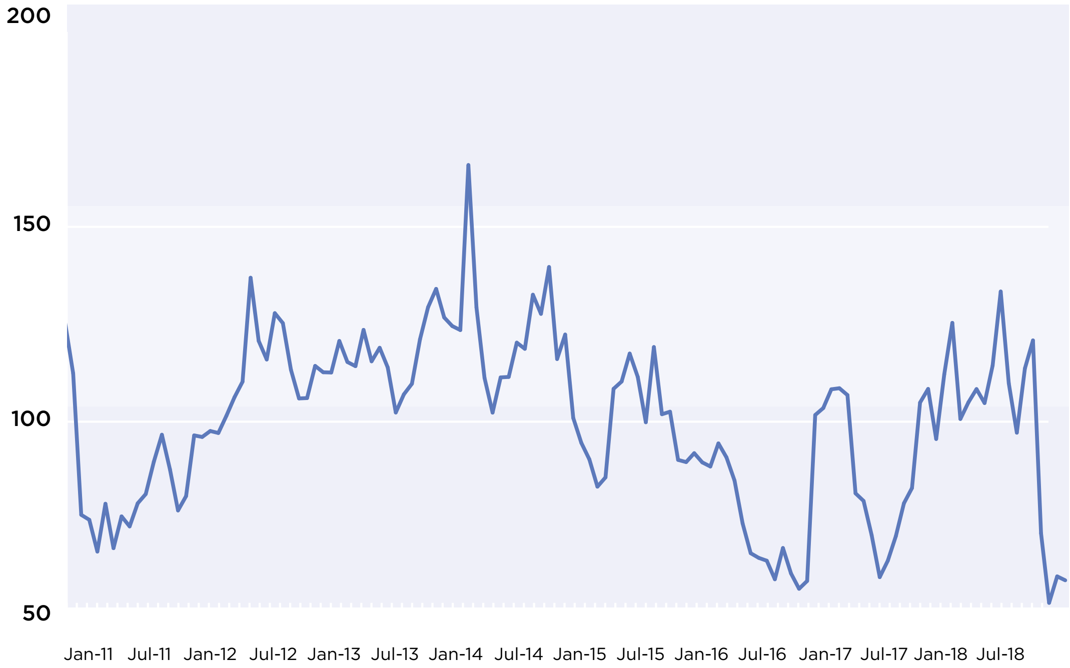
Electricity Index



%	
-1	1 Mth
-11	3 Mth
-16	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price went from €49.41/MWh in April to €48.92/MWh in May, a reduction of 1% 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.

Wind output was down 36% to 873MW versus 1360MW the previous month and the average portion of demand met by wind in May was 21.7%.

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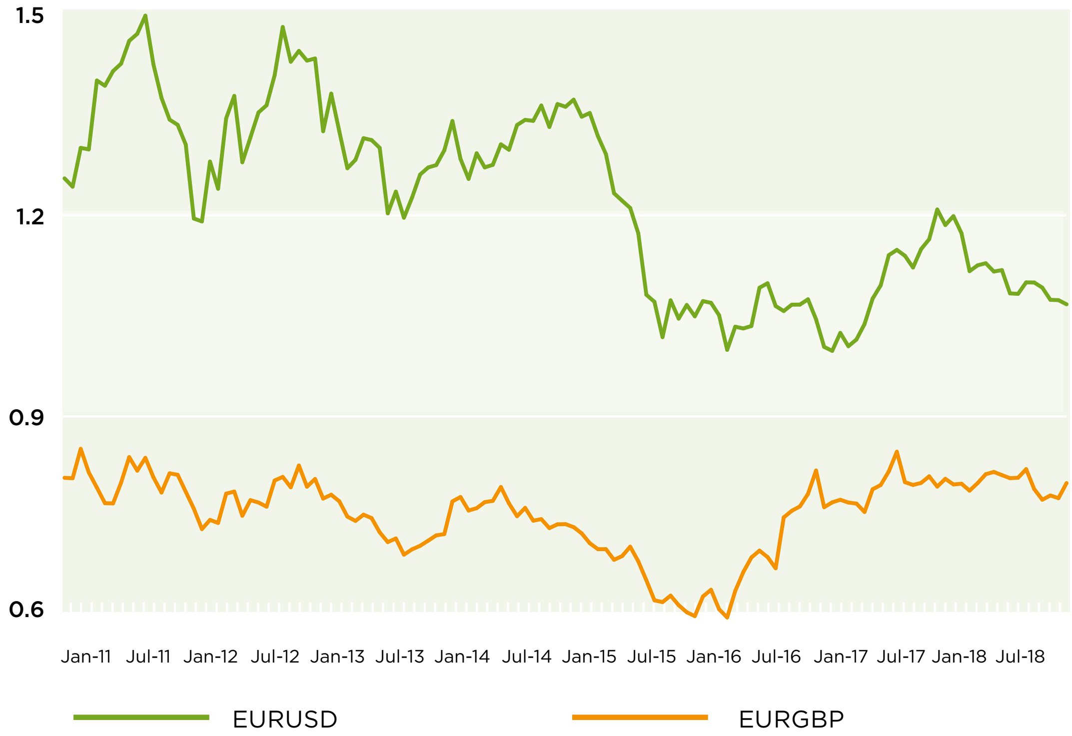
FX Rates



EURUSD %	
0	1 Mth
-2	3 Mth
-4	12 Mth

EURGBP %	
3	1 Mth
3	3 Mth
1	12 Mth

FX Rates

It was a mixed month for the euro which traded weaker versus the dollar but gained strongly against the pound. The single currency settled at $1.1162 versus the greenback, a fall of 0.5%, and at 0.8839 versus the pound, a gain of 2.8%.

The dominant story in May was escalating trade tensions and the threat they represent to global growth. The US had imposed a range of tariffs on over $200 billion of Chinese imports, while China retaliated and imposed tariffs on a range of US goods. Adding to growth concerns was threats from President Trump that he would also impose tariffs on Mexico unless they acted to curb illegal immigration into the US.

The impact of these escalating tensions will be lower growth globally. The US Federal Reserve minutes, released in May, suggest that the Fed remains comfortable holding rates at current levels for the time being.

The European Parliament elections took place in May and while populist parties made gains, the results were not as bad as many in the EU had feared. Economic data in the eurozone was mixed over the month but attention was focused on the potential for trade tensions to hit already anaemic growth in the Euro-zone.

On the Brexit front, the prospects for the current withdrawal agreement were dealt a fatal blow with the announcement that the Prime Minister, Theresa May, would step down. The ex-Foreign Secretary, and Brexit figurehead, Boris Johnson is the favourite to succeed Theresa May as Conservative party leader and UK Prime Minister. All in all, events during the month have increased the prospects of a disorderly no-deal Brexit significantly and Sterling weakened accordingly!

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