



Bord Gáis Energy Index

Understanding energy

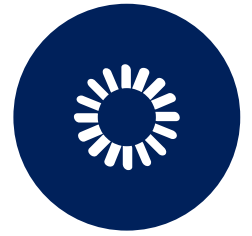
November 2020

BGE/EI/UE/1120



Bord Gáis Energy Index

November 2020



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



Summary

The Bord Gáis Energy Index gained 10% in November 2020.

The key driver of the increase was oil, the largest component of the index, which gained 10% on the back of positive trial results from coronavirus candidate vaccines. The news that we may see the rollout of a vaccine by year end was received positively by markets across the globe. The development of an effective vaccine may mark the beginning of the end to the current pandemic and a return toward normal, albeit a new normal. This would be positive for economic activity and oil demand particularly in oil sensitive sectors such as travel and leisure which have suffered disproportionately in lockdowns.

Among the other components it was mixed month, the day-ahead gas price fell 2% over the month on milder weather and increased LNG imports. The lower gas price and reduced spark spreads also weighed on power prices which fell 5%, while coal prices gained 6% supported by the improved economic outlook and recovering demand in Asia.

In November, the Bord Gáis Energy Index closed at 76.

Bord Gáis Energy Index

November 2020



Oil Index



Index adjusted for currency movements.

Data Source: ICE

Oil

It was a strong month for oil on positive vaccine news and an improving economic outlook. The Brent crude benchmark climbed over \$10 higher to settle at \$47.6 a barrel, a gain of 24% in euro terms.

The key development across all assets this month was the release of successful trial results on not just one vaccine but three! The initial announcement, in early November, from Pfizer that a vaccine they were developing with Biontech was proving 90% effective in protecting against covid-19 was followed by similar positive announcements from Moderna and Astra Zeneca.

This news could signal the end to the current pandemic and expectations that an effective rollout could start before the end of year saw risk assets rally across the board. A return toward normal, albeit a new normal, would be very positive for economic activity and oil demand.

However, while the news on a vaccine is certainly very positive for oil, challenges remain. We are unlikely to see oil demand return to 2019 levels anytime soon. Oil demand fell around 8 million barrels in 2020, according to the EIA, and while a vaccine may signal the road back, the pandemic may have triggered changes in consumer behaviour which endure.

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Natural Gas Index



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 37.2p/th in November, a drop of 2% in euro terms on the previous month.

Following a colder than normal October, temperatures in November were relatively mild with demand averaging almost 20% below the comparative period last year. The milder weather coupled with increased LNG imports and stable Norwegian and Russian supplies weighed on prompt prices over the month. In the final week we saw prompt prices push higher on the back of strike action at the Norwegian Nyhamna gas processing plant in Norway. However, the industrial action proved short-lived.

LNG cargoes into the UK and Europe started to pick up from recent depressed levels in November. The UK received 15 cargoes this month and while that remains well below the November 2019 level of 24, it is still more than double the level seen in October. The high levels of LNG into Europe over the past two winters have been critical in keeping prices subdued and a repeat of these LNG imports into Europe in the coming months would reassure markets and cap price moves.

While prompt prices dropped on milder weather and increased LNG, prices on the curve were supported by higher oil, carbon and positive vaccine news. The front month December contract traded 0.2p/th higher to settle at 41.7p/th, while the first quarter contact climbed 1.5p/th to close the month at 42.6p/th.

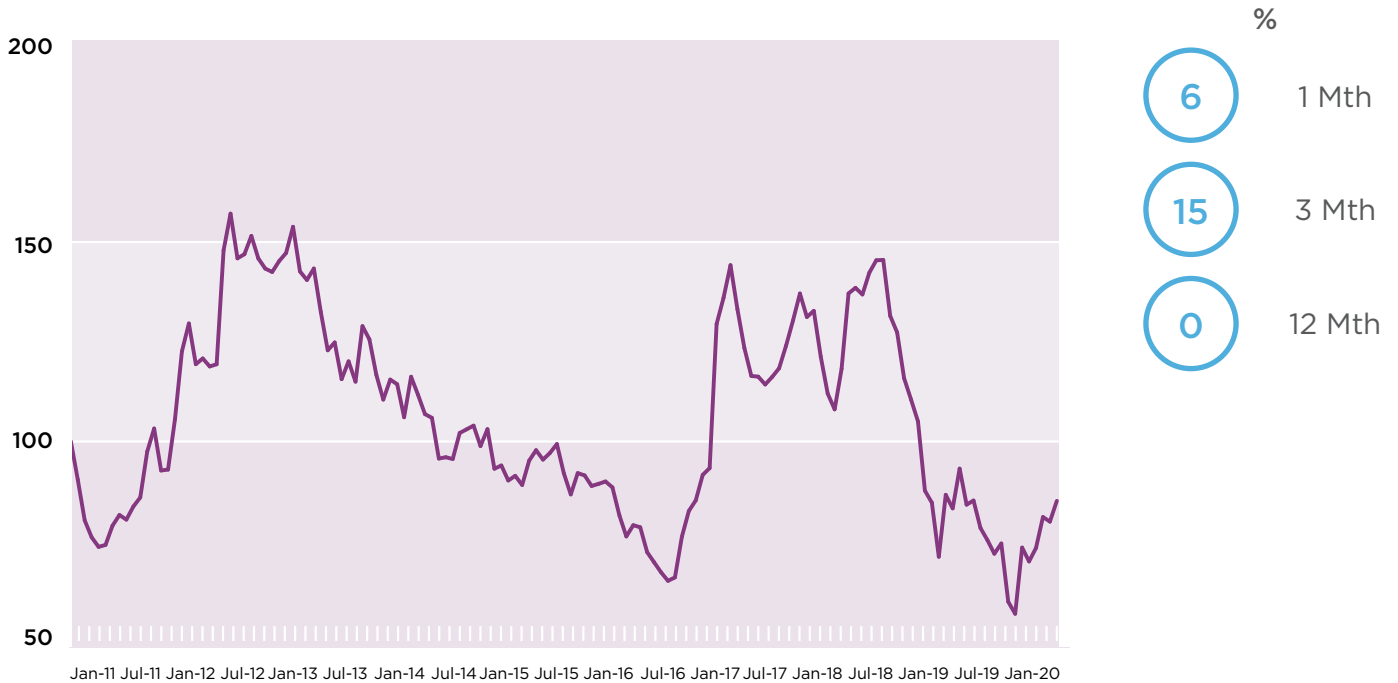
The bullish tone extended out the curve with the Summer 21 contract finishing the month 1.4p/th higher at 34.6p/th, a gain of 4%. The Winter 21 contract climbed a similar amount to close at 43.1p/th

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Coal Index



Index adjusted for currency movements.

Data Source: ICE

Coal

Coal, like other economically sensitive commodities, had a strong November as positive developments on the coronavirus vaccine signalled an improvement in the economic outlook. Coronavirus restrictions and lockdowns have negatively impacted energy demand across the globe and vaccines offer the first hope of an end to the current pandemic and a recovery in energy demand.

In Asia, the key market for global coal, we continued to see a recovery in coal demand particularly in India, the world's second largest coal importer, following a very weak first half of 2020.

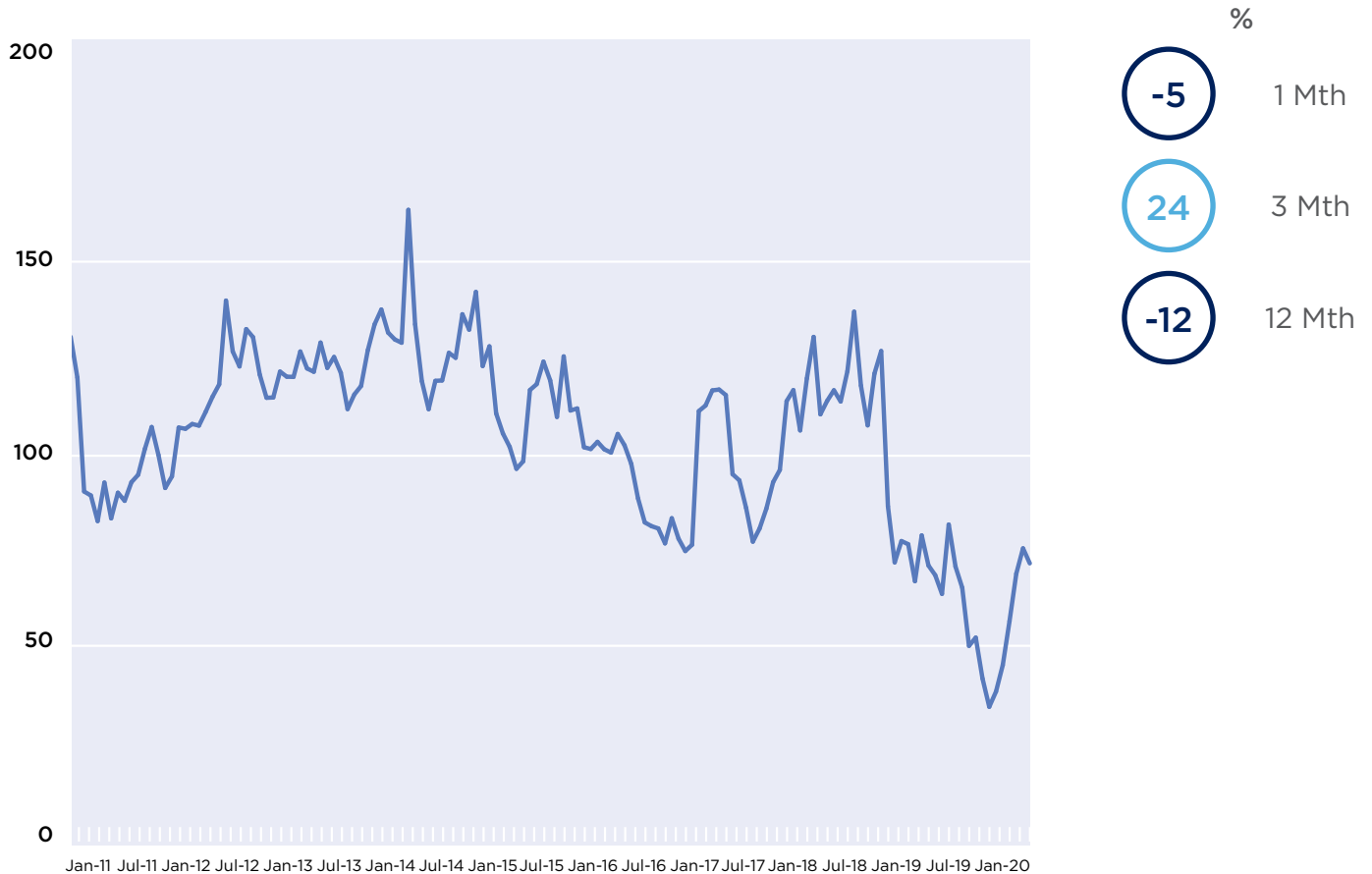
Coal prices closed the month at \$61.2 a tonne, a gain of 6% in euro terms, and their highest settlement level in over a year.

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Electricity Index



Data Source: SEMO

Electricity

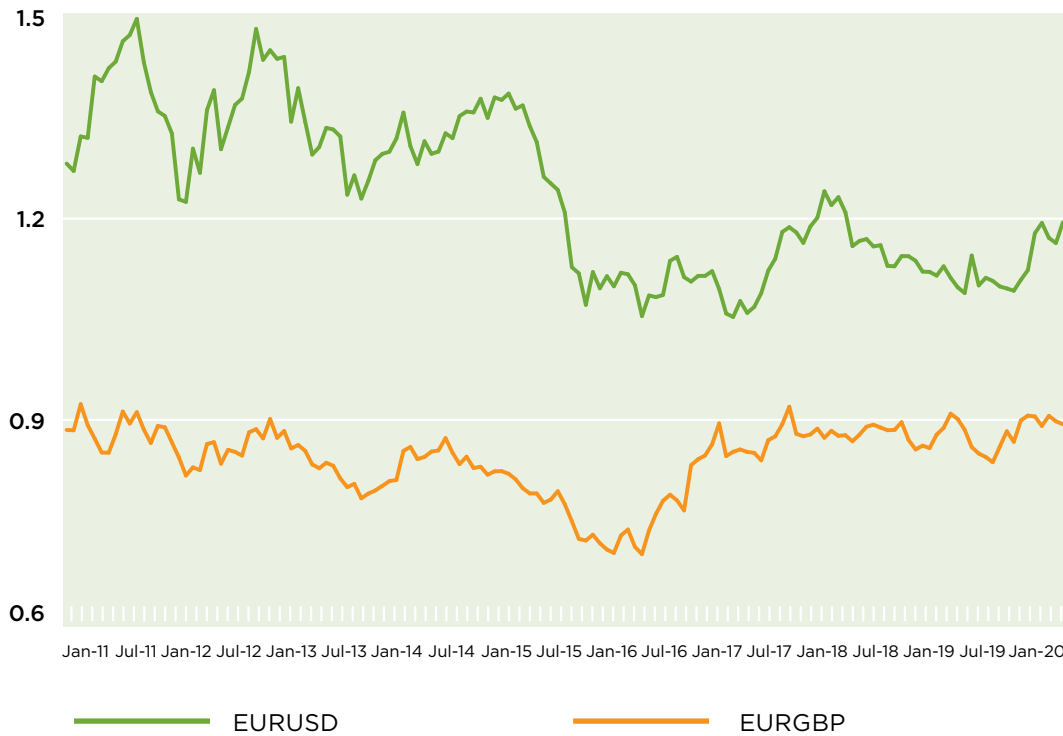
The average Day-Ahead price fell 5% this month moving from €48.3/MWh in October to €45.8/MWh in November. Lower gas prices and lower spark spreads were the primary drivers behind the reduction. The spark spread is the theoretical gross margin of a gas fired plant. The reduction in the spark spread this month was due to competition between plants to sell power across periods of intermittent wind. Wind output was lower in November from an average hourly output of 1825MW in October to 1781MW in November. Higher Carbon prices (+3.8%) and increased demand (+4.6%) would normally push power prices higher, however, this month they proved insufficient to offset the impact of the lower gas and reduced spark spread.

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FX Rates



EURUSD %

- 3 1 Mth
- 0 3 Mth
- 9 12 Mth

EURGBP %

- 1 1 Mth
- 0 3 Mth
- 5 12 Mth

FX Rates

It was a mixed month for the single currency which registered strong gains versus the dollar climbing 3% to \$1.19, while it fell 1% against the pound to close the month at £0.895.

The dollar was under pressure as positive vaccine news helped booster investor confidence triggering a move into risk assets and away from safe havens such as the dollar. The US dollar is often a refuge for capital seeking safety in times of uncertainty and turbulence in financial markets. The improving economic outlook coupled with the Federal Reserve's loosening monetary policy weighed on the dollar in November.

In the UK, we are approaching crunch time as another Brexit deadline approaches. We have seen upbeat statements from key participants in the negotiations suggesting the two sides are moving toward a deal and sterling has responded positively to indications that a deal is close. It appears rational that both parties want to reach an accommodation. However, we've been down this road many times before, a road littered with false dawns, any bets on another extension.

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