



# **Bord Gáis Energy Index**

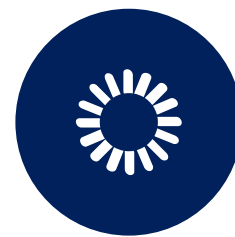
Understanding energy

April 2020

BGE/EI/UE/0420

# Bord Gáis Energy Index

April 2020



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



## Summary

### The Bord Gáis Energy Index fell 6% in April 2020.

It was another tumultuous month in global energy markets as restrictions in place to combat the spread of the coronavirus continued to crush economic activity and energy demand. Having dropped over 50% in the previous month, oil prices managed to claw back some ground gaining 11% in April.

The other components of the index, however, experienced continued weakness. The supply glut continues in the gas market pushing day-ahead gas prices 39% lower, while electricity prices dropped 19% due to lower demand and gas prices. Coal experienced a similar drop to electricity as weak fundamentals and increased competition from gas and renewables pushed coal to multi decade lows.

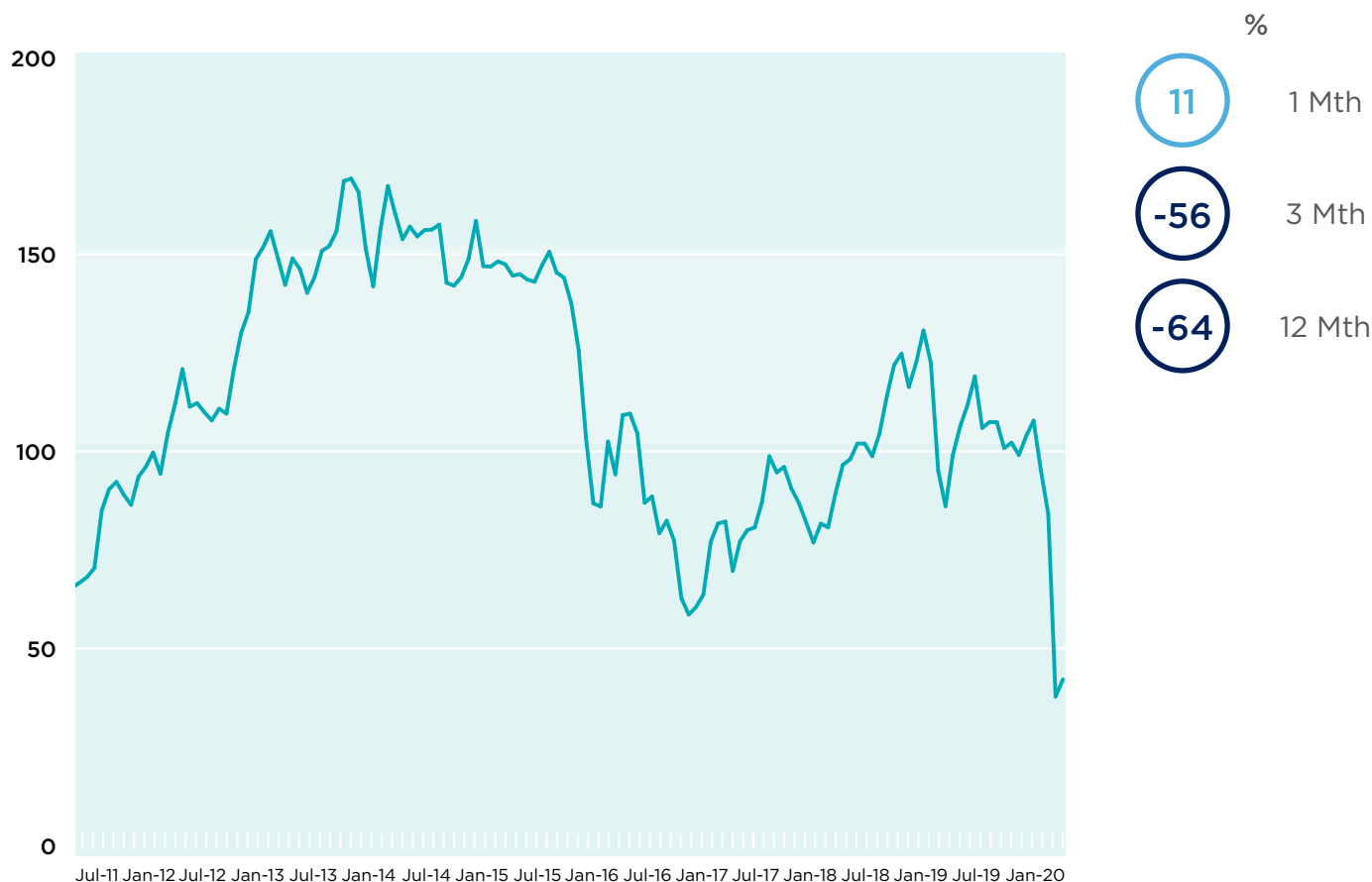
**In April, the Bord Gáis Energy Index closed at 44 a fall of 6% and another record low in the history of the index.**

# Bord Gáis Energy Index

April 2020



## Oil Index



Index adjusted for currency movements.

Data Source: ICE

## Oil

Oil prices have dropped over 60% since the start of the year as the market experienced supply and demand shocks simultaneously. The restrictions in place to contain the spread of the coronavirus have hit sectors such as Travel and Leisure, crucial for oil demand, particularly hard. At the same time, key producers abandoned a supply restraint agreement in early March when they failed to agree new production limits going forward.

The subsequent steep decline in oil demand and prices brought the key players, colloquially referred to as OPEC+, back to the table in early April. Producers led by Saudi Arabia and Russia eventually agreed to cut 9.7m barrels of oil production for May and June.

While the size of the production cut announced was unprecedented, it still proved insufficient to turn sentiment in a market which has seen demand fall by over 25% (c.25m barrels) in the space of a few weeks and for which storage facilities are filling fast.

Despite the historic production cut, oil prices continued to retreat. Brent prices dropped under \$20 a barrel in the third week of April and the US WTI May contract settled in negative territory for the first time ever as producers paid buyers to take oil off their hands!

Toward the end of the month oil prices managed to claw back some ground as countries started to ease lockdown measures and we saw falling US rig counts and production. The Brent crude benchmark contract closed the month at \$25.27 a barrel, an increase of 11%.

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## Natural Gas Index



## Natural Gas

The NBP day-ahead contract, the price of gas for next day delivery, settled at 14p/th in April, a decrease of 39% on the month in euro terms.

The gas market remains in the grip of a gas glut as the combination of weak demand due to lockdown restrictions, warmer temperatures and robust supplies weigh on prices. Much of Europe has been in lockdown for the best part of two months as the coronavirus, first identified in Wuhan China in December 2019, continues to wreak havoc across the globe. The latest estimates put the total number of cases at 3.2m and fatalities at 214,000. Even more worryingly, these figures are likely to underestimate the true mortality levels as deaths occurring outside hospitals may not be included in official figures in some jurisdictions.

Gas markets were already suffering from weak demand even before the virus hit but the additional demand destruction due to lockdowns has exacerbated the situation. It's difficult to see demand picking up anytime soon as the effects of the current crisis on the global economy are likely to persist. If gas prices are to recover, it may require a supply adjustment!

The bearish sentiment on the prompt carried through to the near curve with contracts for the remaining summer months dropping sharply on the weak demand outlook. The front month May contract traded 3.1p/th lower to settle at 13.2p/th, a drop of 19%, while the Q3 20 contract fell 11% to close at 17.1p/th. Further out the curve, movements were relatively muted with the Winter 20 contract flat over the month and Summer 21 falling a meagre 0.2p to settle at 28.4p/th.

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## Coal Index



Index adjusted for currency movements.

Data Source: ICE

## Coal

Coal prices were weaker in April amid weak fundamentals and a bleak outlook due to the ongoing coronavirus containment measures. While some nations are beginning to relax some of the lockdown restrictions, electricity consumption remains weak and coal faces increased competition from cheap gas and growing renewables.

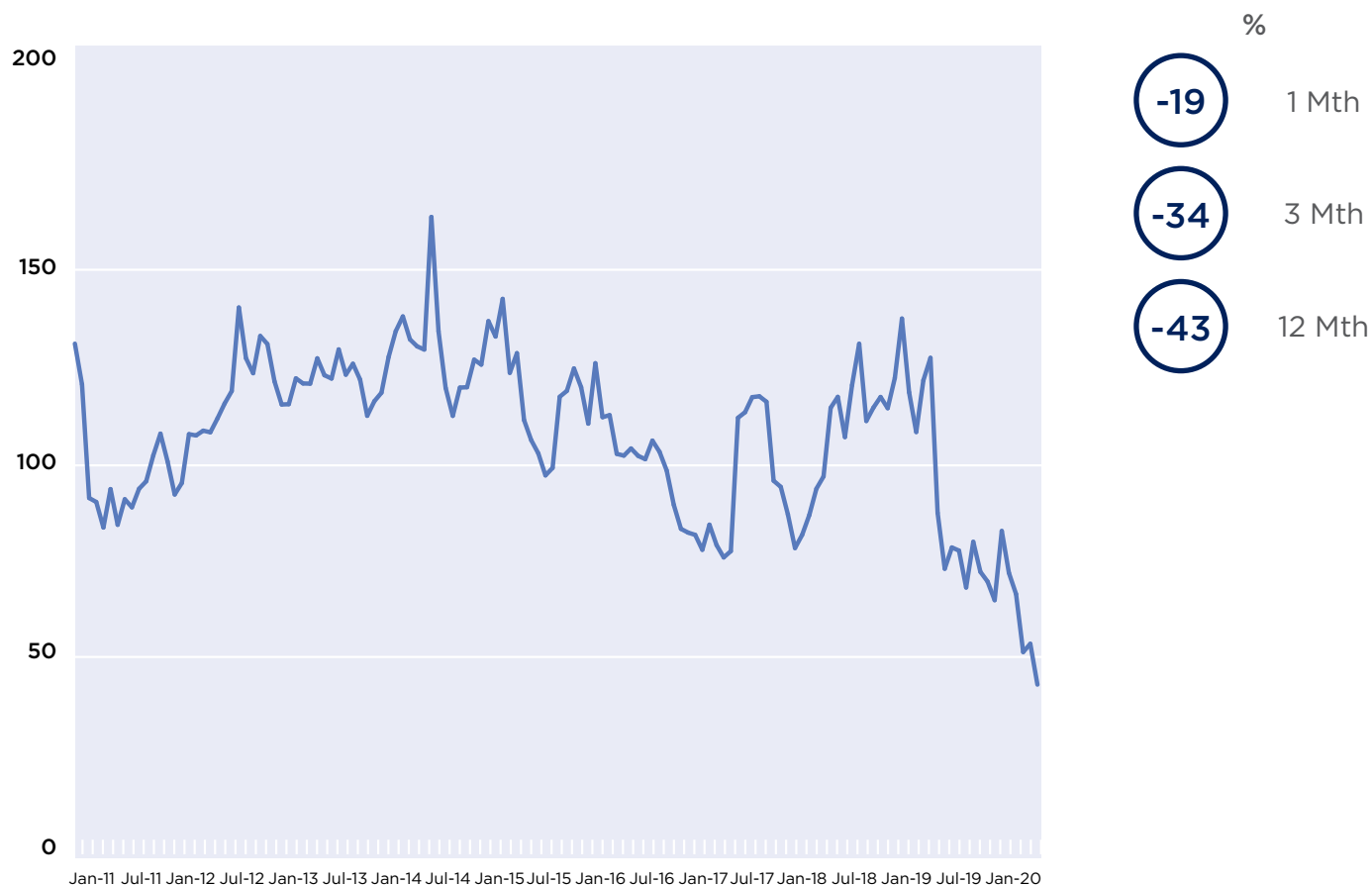
Coal prices fell 19% in euro terms in April settling at \$39.85 a tonne, its lowest level in over twenty years.

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## Electricity Index



Data Source: SEMO

## Electricity

The average Day-Ahead price fell 19% from €34.3/MWh in March to €28/MWh in April.

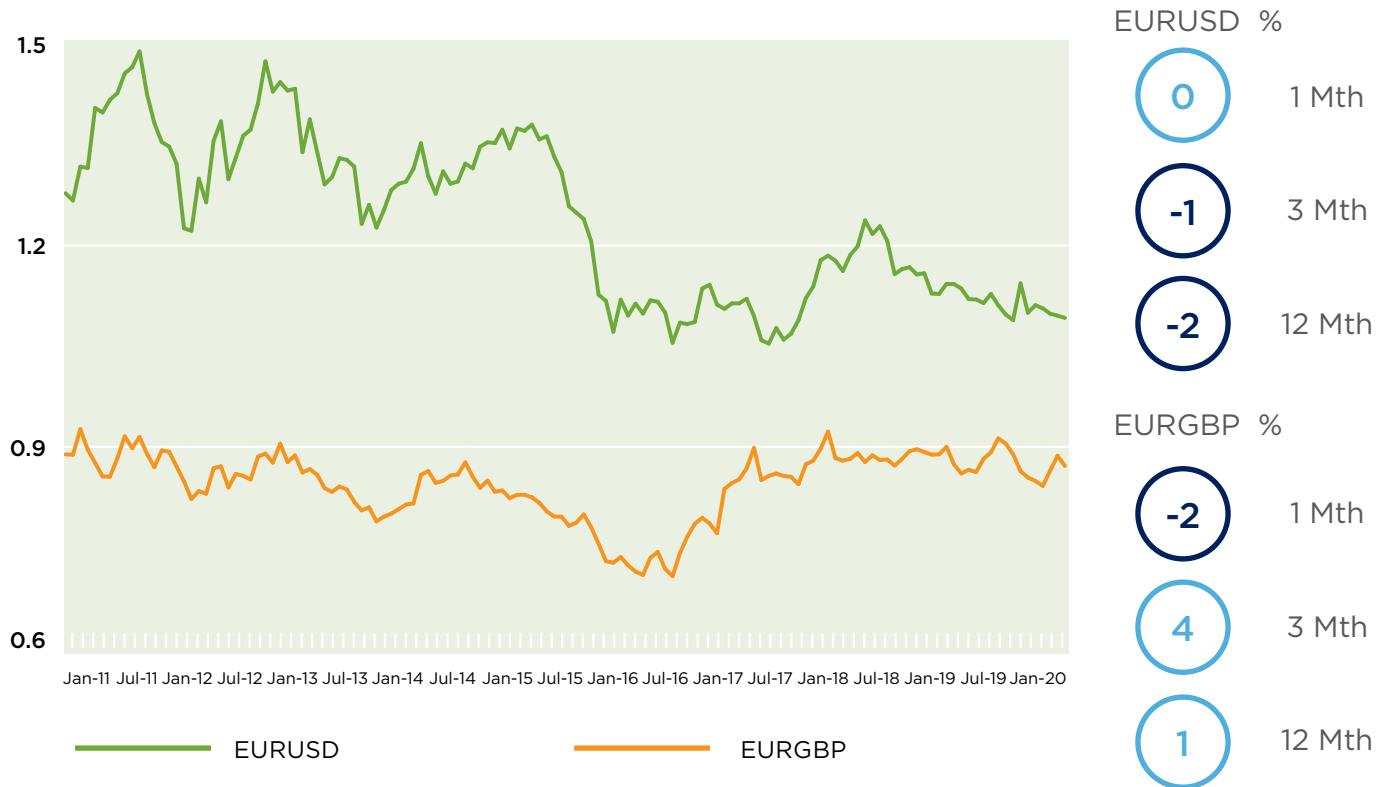
A reduction in demand as well as a sharp fall in the cost of gas offset lower wind output. Wind output met 25% of demand in April down from 44% in March. Lower wind output would normally support prices, but the impact of lower wind was offset by falling gas prices and lower demand.

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## FX Rates



## FX Rates

The euro fell against the pound and the dollar in April settling 2% lower at £0.869 versus the pound and 0.3% lower at \$1.094 against the dollar.

The rapid spread of the coronavirus continues to be the dominant investment theme as economic growth retreats and record numbers register for unemployment assistance. The unemployment rate in the US hit over 18% at the end of April, it was below 4% in February.

Governments in most developed economies are implementing stimulus packages to try and support economic recovery. However, as the weeks pass key economic data suggests that a “V” shaped recovery is looking less and less likely and the effects of the current crisis will likely remain with us for quite a while.

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