Bord Gáis Energy Index
Understanding energy

Bord Gáis Energy

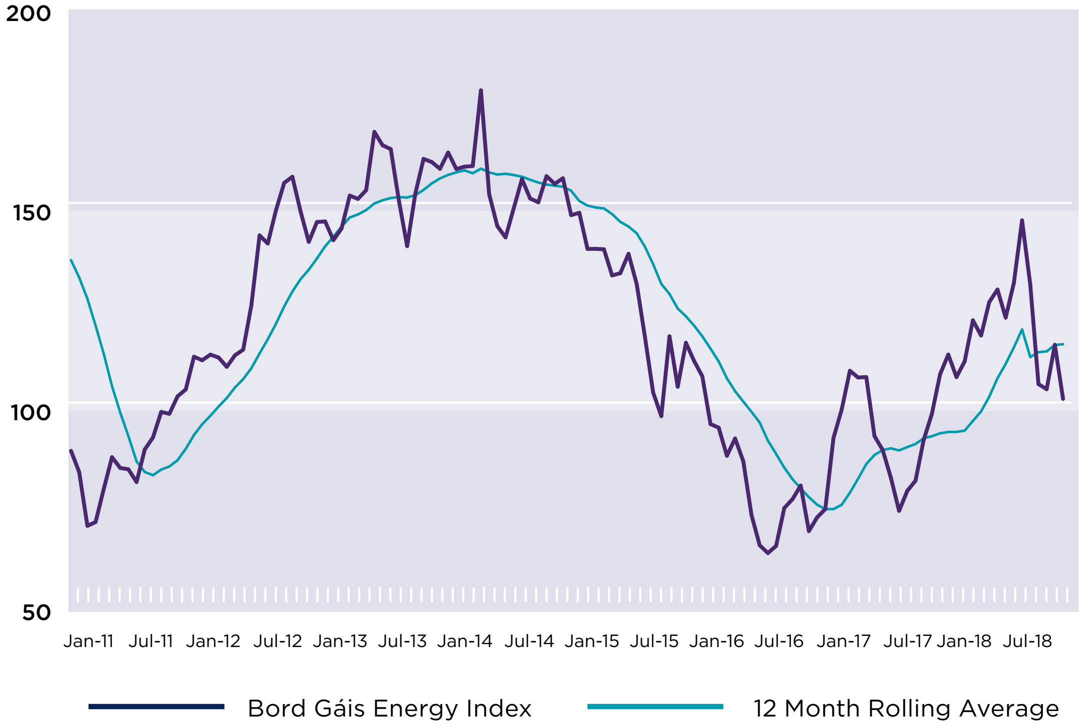
February 2019

BGE/EI/UE/0219

Bord Gáis Energy Index

February 2019

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



%	
-10	1 Mth
-3	3 Mth
2	12 Mth

Summary

The Bord Gáis Energy Index fell 10% in February but remains 2% above the comparable period last year.

It was a mixed month for the components of the Index with oil prices gaining 7% as production cuts and Venezuelan sanctions tightened supplies.

Gas prices were sharply lower over the month with the day ahead contract dropping 17% as a combination of mild weather, lower demand and strong stable supplies added to bearish momentum. This negative tone carried through to electricity where prices fell 31% as falling gas prices and higher wind generation weighed on the day ahead auction price. Coal also traded lower falling 4% over the month.

In February, the Bord Gáis Energy Index stood at 103

Bord Gáis Energy Index

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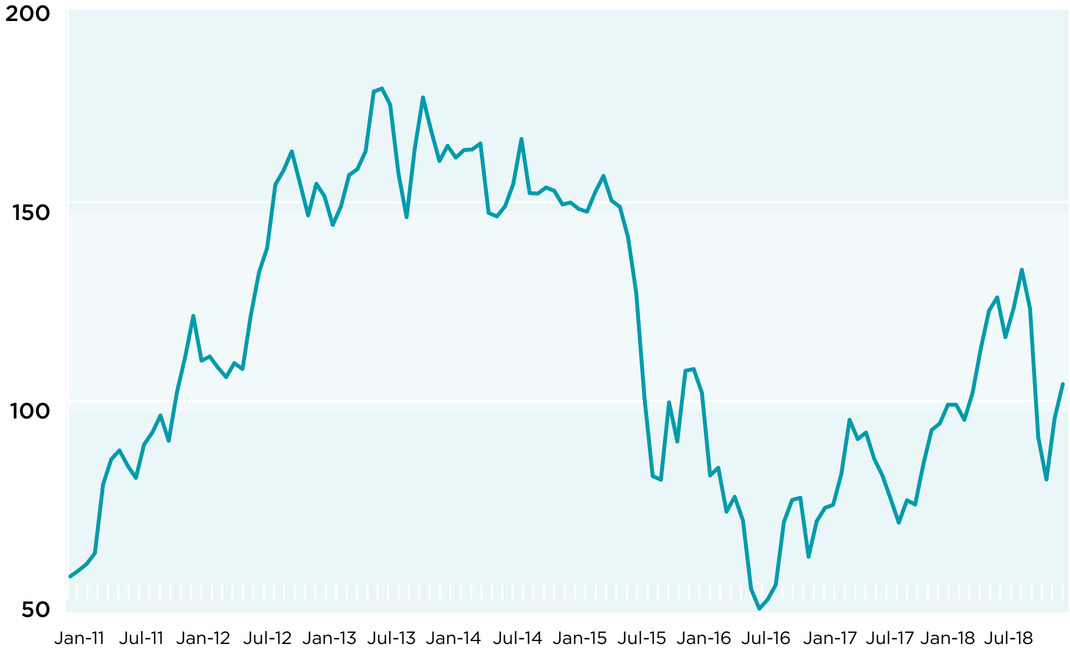
Oil Index



%	
7	1 Mth
12	3 Mth
8	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices opened the month strongly, dropping to $61.5 a barrel before recovering to a three-month high of $67 a barrel. The benchmark Brent contract closed the month at $66.03 a barrel, a $4 increase on January's close. In euro terms, the oil price increased by over 7% on the month.

The month began with news that production would restart in Libya's largest oil field, the El Sharara, which had been shut since December. A restart of the field would bring more oil onto the market.

The US Energy Information Administration (EIA) issued its monthly outlook forecasting that US oil production would hit new milestones faster than previously thought due to booming shale activity. The EIA said it expects domestic crude output to average a record high of 12.4 million barrels a day in 2019, up from its previous estimate of 12.1 million barrels a day. The US shale producers have pumped at a record pace, due to higher prices, on the back of supply cuts by Saudi Arabia and other key producers.

Towards mid-February, oil prices hit their highest level in nearly three months on rising optimism that the US and China can reach an agreement and tariffs can be lifted. The two sides face a 1st March deadline after which the US could increase tariffs on $200 billion in Chinese goods if a deal does not materialise.

U.S. sanctions on oil exporters Iran and Venezuela have helped ease supply glut concerns and supported prices. Venezuela has seen its exports drop to just over 1 million barrels per day, the lowest since a labour strike virtually shut the country's production in 2003, while Iran's exports have dropped by over 1 million barrels to 2.65 million barrels a day, the lowest since 2013. The US re-imposed sanctions on Iran's oil trade late last year after President Trump abandoned an accord with the Islamic Republic regarding its nuclear program.

Oil markets remain well supported, with Saudi Arabia pledging that it would make deeper cuts to production, currently OPEC and Russia have agreed to cut output by 1.2 million barrels per day to prevent a large supply overhang and prop up prices. In a bid to negate the effect of this cut in production and lower oil prices, Donald Trump tweeted that OPEC should "relax" instead of restraining supply. Prices duly dropped after his remarks. Trump has long proclaimed lower gasoline prices as one of the key achievements of his administration.

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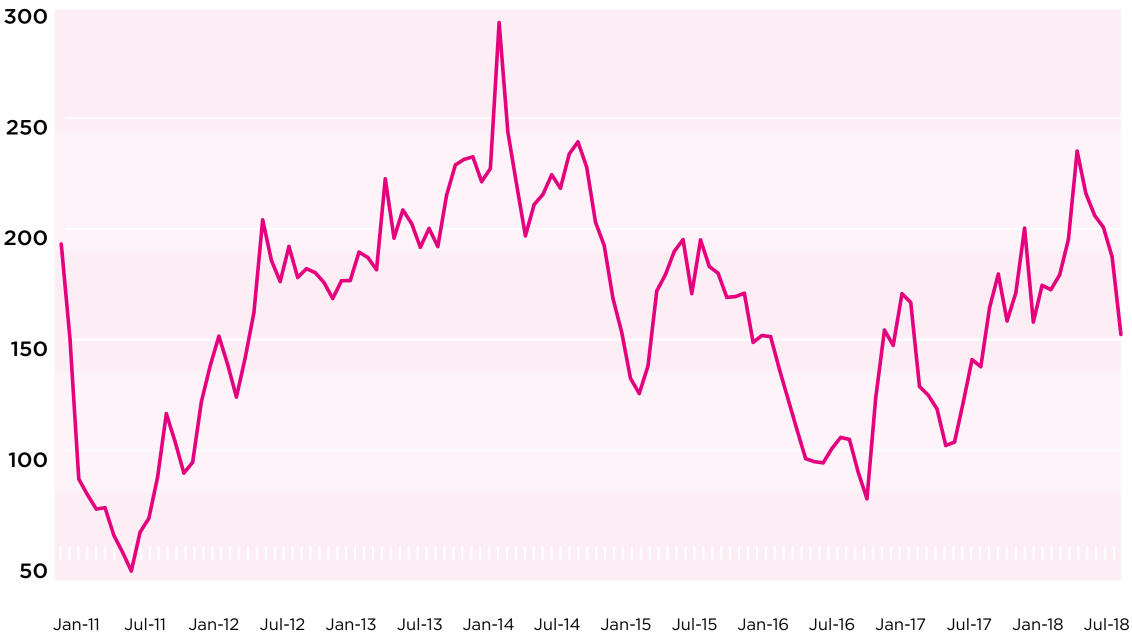
Natural Gas Index



%	
-17	1 Mth
-23	3 Mth
-10	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The day-ahead contract, the price for gas delivered tomorrow, averaged 47.72p/th in February, a drop of 17% in euro terms on the previous month.

A mild February added further bearish momentum to European gas markets. In the UK Local Distribution Zone ('LDZ') demand, gas demand from users connected to gas distribution networks, was 10% below seasonal norm for this time of year. From a supply perspective, it's been a utopian winter with robust indigenous flows, strong and stable Norwegian and Russian pipeline imports and unexpectedly large volumes of LNG hitting the UK and broader European gas market.

In February, the UK imported over 1.2bcm of LNG, an eightfold increase on the same period last year as the surge in LNG deliveries into Europe shows no sign of abating. During the higher demand winter months LNG cargoes normally head east in response to higher Asian prices. However, this winter the price differential between Asia and Europe has all but disappeared, on the back of high Asian storage and lower Asian demand, making Europe the preferred destination for LNG cargoes. In addition, this lower Asian demand coincided with a significant ramp up in supply from new LNG projects. Over 42bcm of new LNG capacity is projected to hit the global market in 2019.

The strong supply and weaker demand landscape in February resulted in reduced storage requirement. Having entered the winter with a significant storage deficit across Northwest Europe, we leave February with storage levels over double what they were at the end of February 2018.

Further out the curve, we continued to see contracts lose value with the heaviest losses recorded on near curve contracts. The front month, March 19 contract fell over 6.6p to settle at 44.89p/th. The front Summer 19 contract gave up 4p to settle at 45.02p/th as expectations of lower storage demand and high LNG flows this summer saw market participants sell the front seasonal contract.

The Winter 19 contract, possibly supported by higher oil, gave up a more muted 1.8p/th to settle at 58.29p/th. However, it is interesting to note that the front summer and winter contracts are still trading 2.5p/th and 8p/th above the comparable contracts at this time last year.

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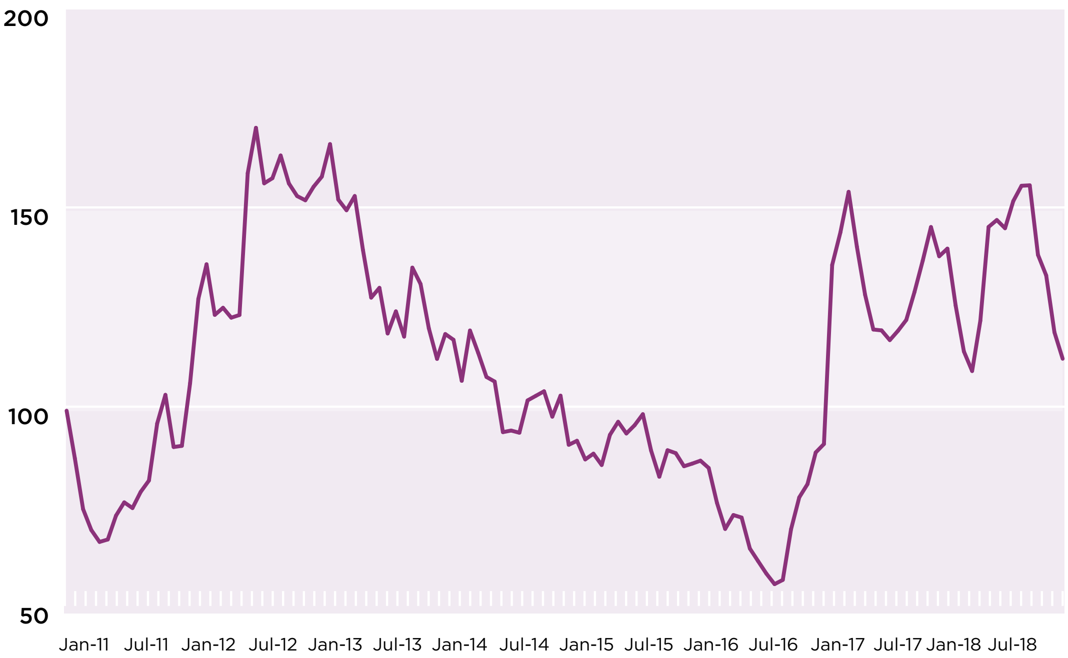
Coal Index



%	
-4	1 Mth
-16	3 Mth
-1	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $75 a tonne in February, a drop of 4.5% compared to the previous month and 1% lower than the comparable period last year.

The price fell from the highs of $77 set early in the month and traded as low as $73 a tonne. Prices recovered towards the end of the month to close at $75.

European coal demand was weaker in February, as strong wind generation reduced the requirement for coal fired generation. The increase in LNG imports in Europe, due to weaker demand in Asia, triggered coal to gas switching as gas prices fell. Coal stocks remained healthy at around 6.2 million tonnes, similar to January levels. Rhine reservoir levels were sufficient to avoid premium payments for coal transportation via barges, resulting in coal prices not including this additional premium.

Coal took its lead from weaker Asian demand, especially in China driven by above normal temperatures for the month and forecasts for continued above normal temperatures. The economic outlook for the coming months could support prices with more positive indicators for Chinese demand, as the market is more optimistic that the US and China will soon end trade disputes.

During the month, one of China's biggest ports banned imports of Australian coal and will cap overall coal imports for 2019 at 12 million tonnes. There was no reason given for the ban, however market participants indicated that it's a result of tensions between Beijing and Canberra over a number of issues. Beijing has been trying to restrict imports of coal to support domestic prices. Australia supplies coking coal which has a very low sulphur content, China would find it difficult to replace it with similar imports.

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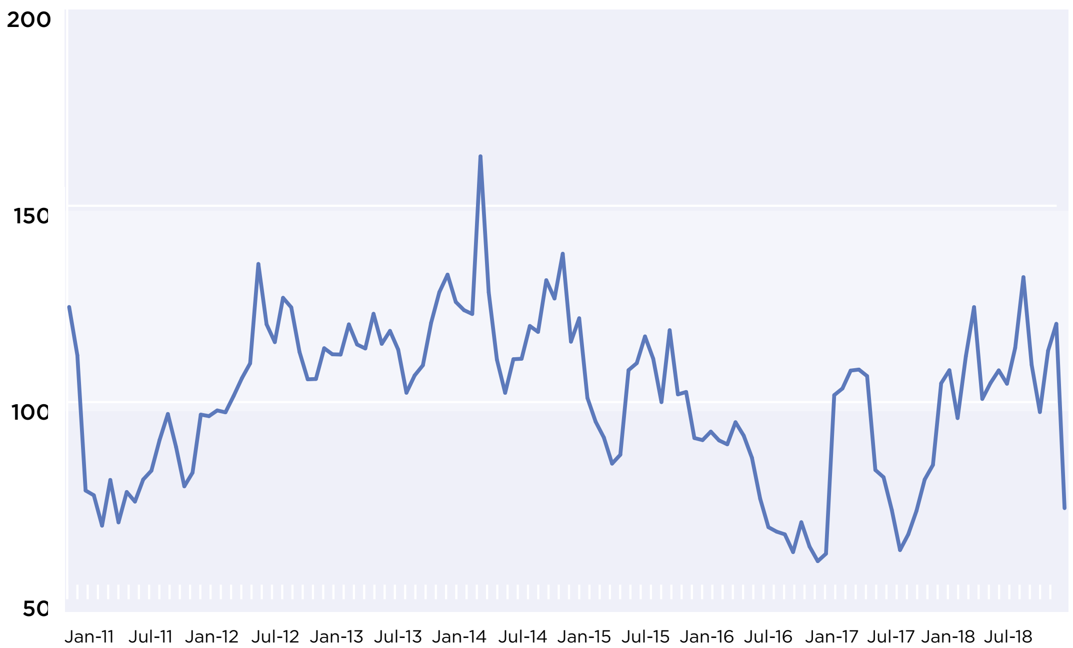
Electricity Index



%	
-31	1 Mth
-19	3 Mth
-5	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price in February was €54.82/MWh, a reduction of 31% 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 February, the clean spark decreased to 9.11/MWh from €23.15/MWh in January.

Wind output was up 106% to 2129MW versus 1033MW the previous month. The average portion of demand met by wind in February was 46.9%.

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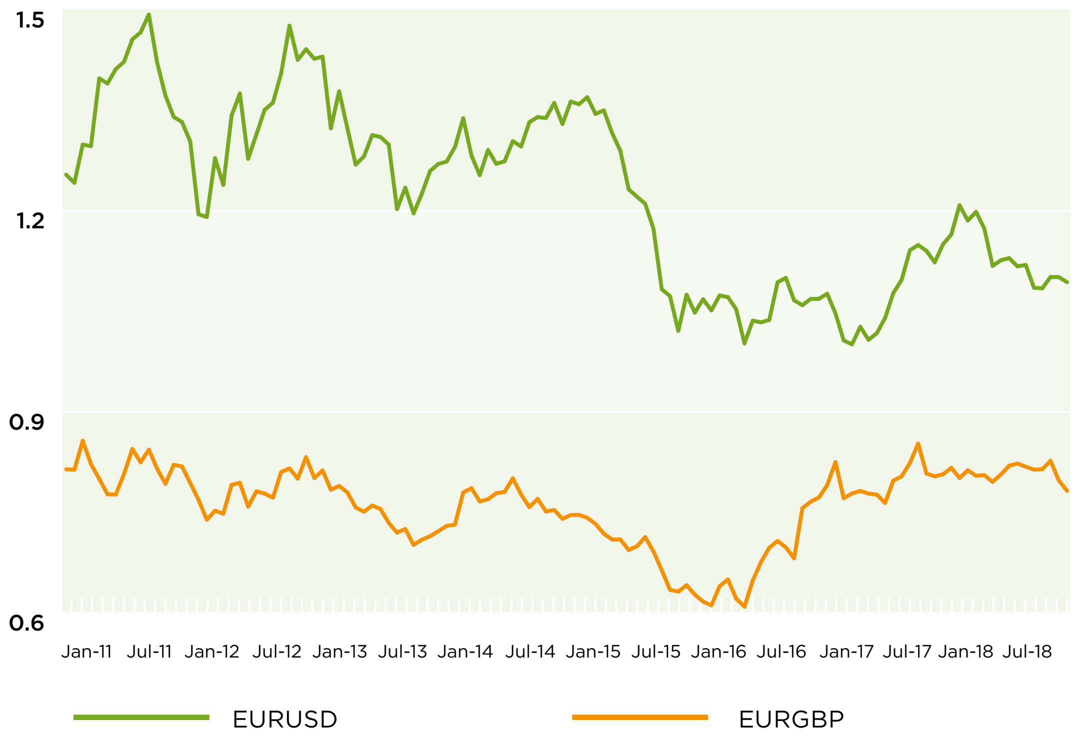
FX Rates



EURUSD %

-1	1 Mth
1	3 Mth
-7	12 Mth

EURGBP %

-2	1 Mth
-3	3 Mth
-3	12 Mth

FX Rates

The euro fell in value versus both the dollar and pound in February settling at $1.1382 versus the greenback, a fall of 0.6%, and at 0.858 versus the pound, a drop of 1.67%.

Economic growth in the US remains robust with fourth quarter GDP coming in at 2.6%. The US Inflation number remains relatively muted with headline inflation falling to 1.6% year on year. The US Federal Reserve maintained their dovish stance with patience the order of the day when it comes to US interest rates.

A resolution to the ongoing trade dispute between the US and China remains elusive as the March 1 deadline, for the conclusion of discussions, was extended by President Trump. The trade dispute has weighed on global growth over recent months. The US delegation have described talks as productive and given the consequences of a trade war between the world's two largest economies, it is in both parties' interest to come to a resolution.

In Europe, economic indicators remain weak with anaemic growth numbers out of the German economy in the fourth quarter. Political concerns remain to the fore as the Spanish Prime Minister announced a snap election, there are ongoing tensions within the Italian government and the format of Britain's exit from the European Union remains unclear.

As the March 29 Brexit deadline trundles ever closer, we still have no withdrawal agreement in place! The UK prime minister, Theresa May, is seeking amendments from the EU on the backstop arrangement, which ensures no physical border on the island of Ireland. A vote on Theresa May's amended deal, to the extent she is successful in obtaining any material amendments, is due to be held in mid-March. However crucially, should the House of Commons not accept the amended deal, the Prime Minister has scheduled a vote to see whether the House would accept leaving the EU with no deal and a potential further vote on extending the March 29 deadline. These additional votes have reduced the chances of a no deal crash out on March 29 and Sterling has rallied accordingly.

For more information please contact:

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