Bord Gáis Energy Index

Understanding energy

March 2020

BGE/EI/UE/0320

Bord Gáis Energy

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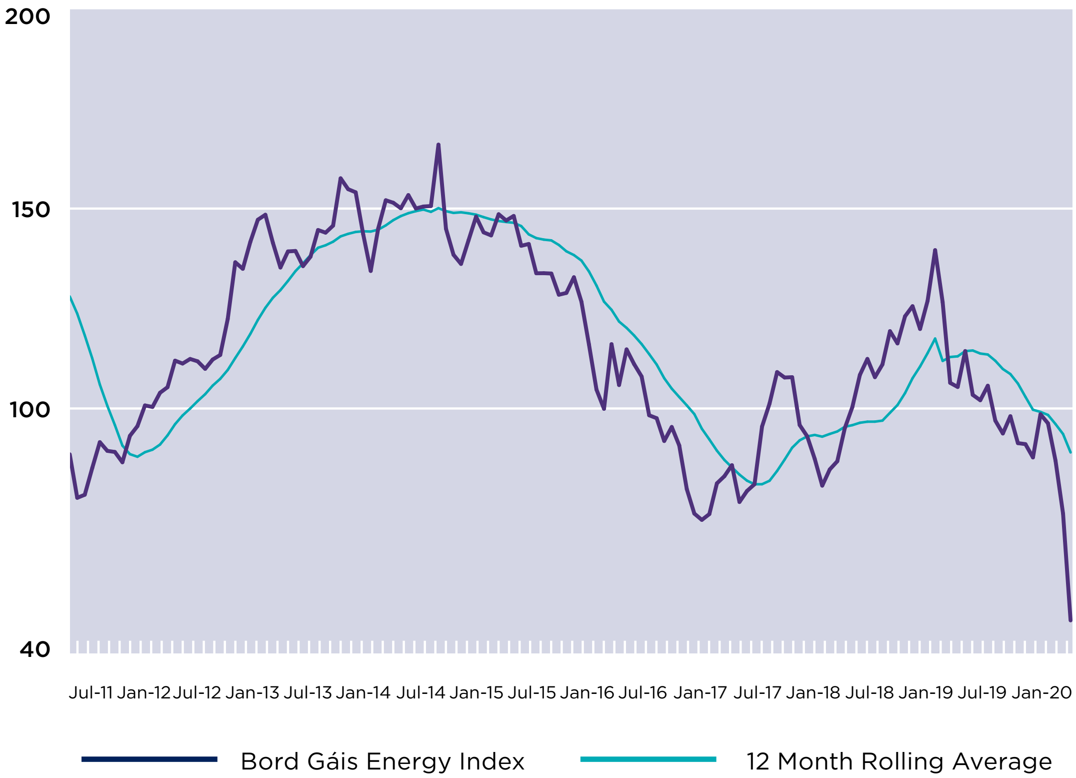
March 2020

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



%	
-37	1 Mth
-52	3 Mth
-55	12 Mth

Summary

The Bord Gáis Energy Index was down 37% in March 2020.

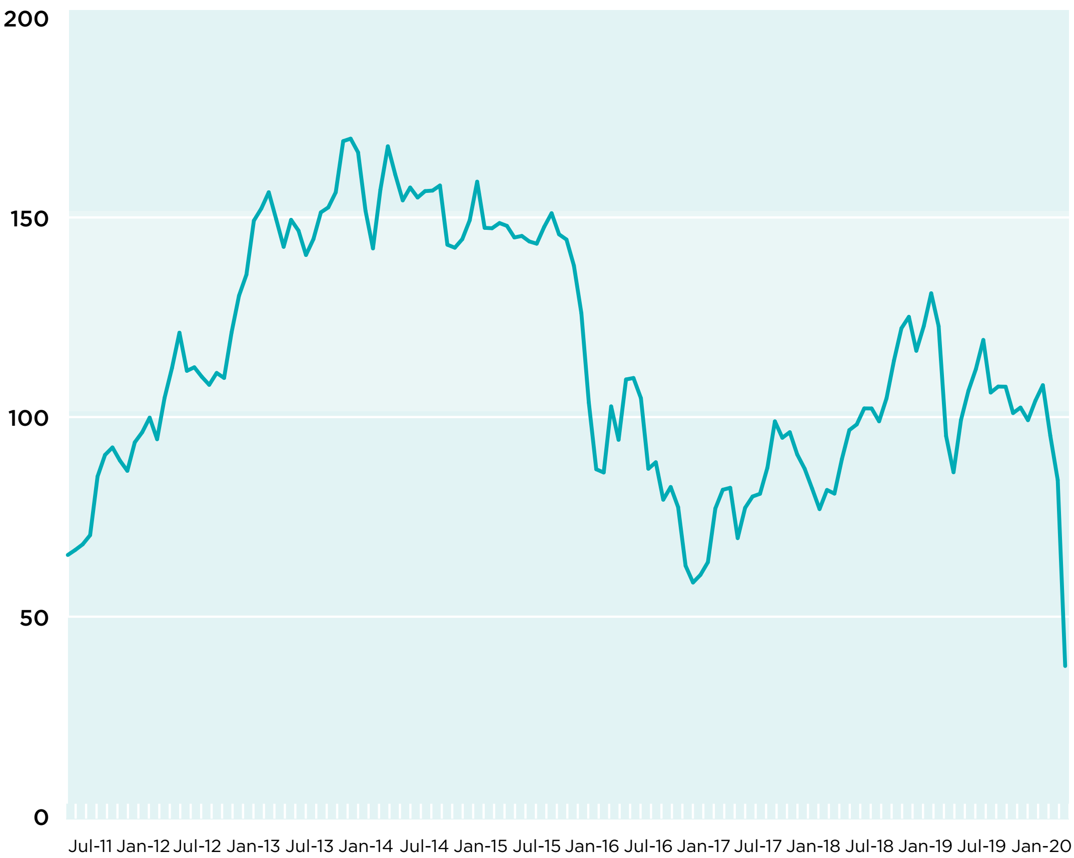
The Bord Gáis Energy Index plummeted in March as oil, the largest component of the Index, experienced an unprecedented drop as the Covid-19 outbreak spread to every corner of the globe decimating global growth and energy demand.

The Brent crude benchmark closed at an 18-year low of $22.7 a barrel, a drop of 55% over the month. The gas market, already awash with supply before Covid-19, fell a relatively muted 3%. Electricity increased 4% on lower wind generation and Coal gained 3% as China, the key global market for coal, began to see a drop in Covid-19 cases.

In March , the Bord Gáis Energy Index closed at 46, a ten-year low.

Bord Gáis Energy Index
March 2020

Oil Index



%	
-55	1 Mth
-65	3 Mth
-66	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The fall in oil over recent months, due to trade disputes and softening demand, was only a prelude to the absolute destruction we saw in March. The Brent crude benchmark contract settled at $22.7 a barrel, the lowest in 18 years and a drop of 55% over the month. The precipitous drop in March was the result of falling oil demand and the collapse of the OPEC+ supply restraint agreement.

Ever-tighter restrictions in place to combat the spread of Coronavirus have seen an unprecedented drop in oil consumption. Whole sectors of the global economy are in shutdown with oil related industries such as tourism, travel and aviation particularly badly affected.

On top of this unprecedented demand shock, in the first week of March, an agreement that had been in place since 2016 between OPEC and Russia to restrain oil production collapsed.

OPEC presented a take-it-or-leave-it production cut to Russia to support oil prices in the face of falling demand due to Covid-19. The plan backfired, however, when Russia refused to accept any further production cuts. The collapse of the deal brings an end to production restraint and fires the starting pistol on a producer price war for market share.

Since 2016, the so-called OPEC+ production restraint has been more than offset by explosive growth in US shale oil production. US shale operators have been the big beneficiaries of OPEC+ restraint, taking significant market share in key markets. Russia appears to have tired of the status quo instead deciding to test US shale resilience at lower oil prices.

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Natural Gas Index

%	
-3	1 Mth
-31	3 Mth
-52	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, settled at 23.2p/th in March, a decrease of 3% on the month in euro terms.

Gas markets have been weak for much of the past year due to a mild winter, a weakening economic outlook and a surge of LNG. Prices were dealt a further blow as gas demand fell further due to extensive restrictions put in place to combat the spread of Covid-19. Recent economic data shows many economies are experiencing historic contractions in economic activity as the fight against Covid-19 intensifies.

The virus, first identified in Wuhan China in December 2019, has spread to every corner of the globe with latest estimates putting the total number of cases at 860,000 with over 42,000 fatalities. Health authorities predict the worst is yet to come and fear the health systems of even the most developed economies may struggle to cope with a deluge of new cases over the coming weeks. European countries have therefore ordered lockdowns in a bid to slow the spread of the virus.

This bearish sentiment carried through the curve as traders priced in a deteriorating demand outlook and forward contracts hit fresh lows. The front month April contract traded 4.7p/th lower to settle at 17p/th, a drop of 21%. Further out the curve, the Summer 20 contract fell the same amount to settle at 18p/th, while Winter 20 traded 3p lower to settle at 31.6p/th

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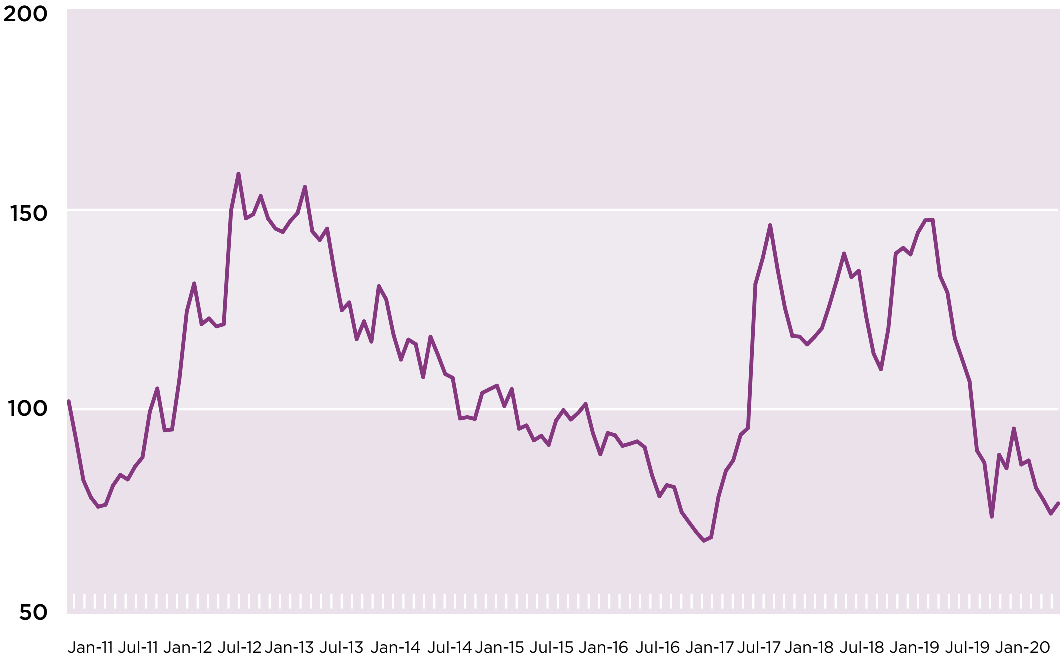
Coal Index



%	
3	1 Mth
-5	3 Mth
-28	12 Mth

Index adjusted for currency movements.
Data Source: ICE

Coal

Surprisingly, while much of the global economy went into shutdown, coal managed to gain 3% in euro terms, settling at $49.3 a tonne.

The likely explanation for the increase is the relative recovery in Asia. China is the key global market for coal, accounting for over half of global consumption. The Covid-19 virus originated in China back in December 2019 and while it spread aggressively into Europe and North America in March, it was also the month we saw Chinese authorities start to lift restrictions as the number of new cases in China dropped sharply.

The resumption in economic activity in China was probably behind the surprising rally in coal.

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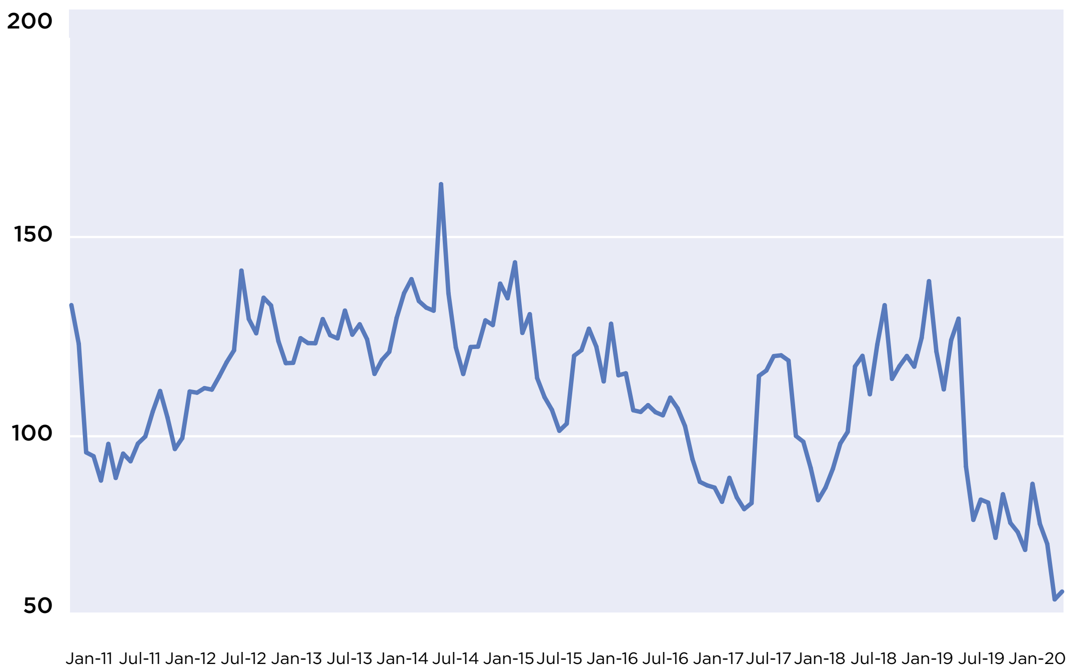
Electricity Index



%	
4	1 Mth
-24	3 Mth
-30	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price was up 4% going from €33.02/MWh in February to €34.29/MWh in March.

A 5% reduction in demand was more than offset by a reduction in wind output to result in higher day-ahead power prices. Wind provided 44% of total power generation in March compared to 56% in the previous month. Lower power generation from wind typically leads to higher Electricity prices.

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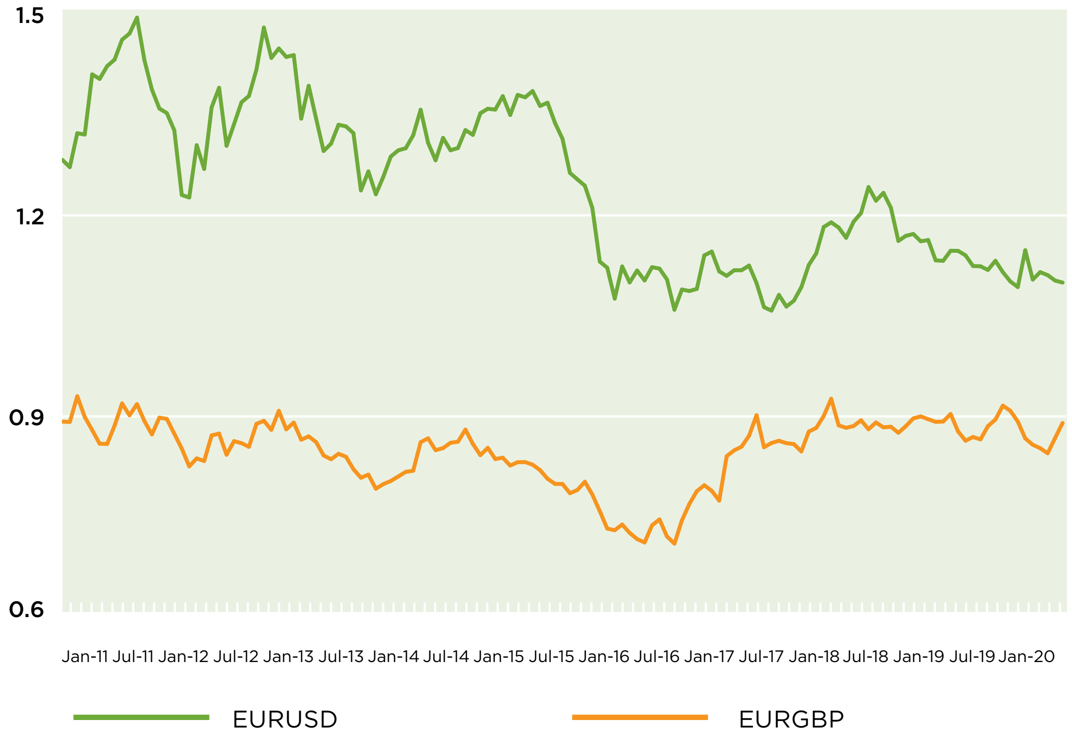
FX Rates



EURUSD %

-1	1 Mth
0	3 Mth
-3	12 Mth

EURGBP %

3	1 Mth
1	3 Mth
0	12 Mth

FX Rates

The euro gained against the pound in March, settling 2.6% higher at £0.885, as the UK economy was expected to experience a relatively sharper contraction. The euro was marginally lower versus the dollar at $1.097, as the dollar benefitted from its safe haven status.

Covid-19 was the dominant story in foreign exchange markets as governments and financial authorities across the world threw everything in their arsenal at the crisis. We saw a raft of new interest rate cuts, quantitative easing and income support programmes as unemployment numbers surged. Once the crisis passes, the bill is likely to be enormous and debt levels are likely to reach wartime levels.

The timing and shape of the recovery remains far from clear! What shape will the recovery take? A rapid return to normal in the form of a V shaped recovery, a longer U-shaped recovery or worst a limited L shaped recovery. The answer to these questions will likely dictate currency movements for the foreseeable future.

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