Bord Gáis Energy Index
Understanding energy

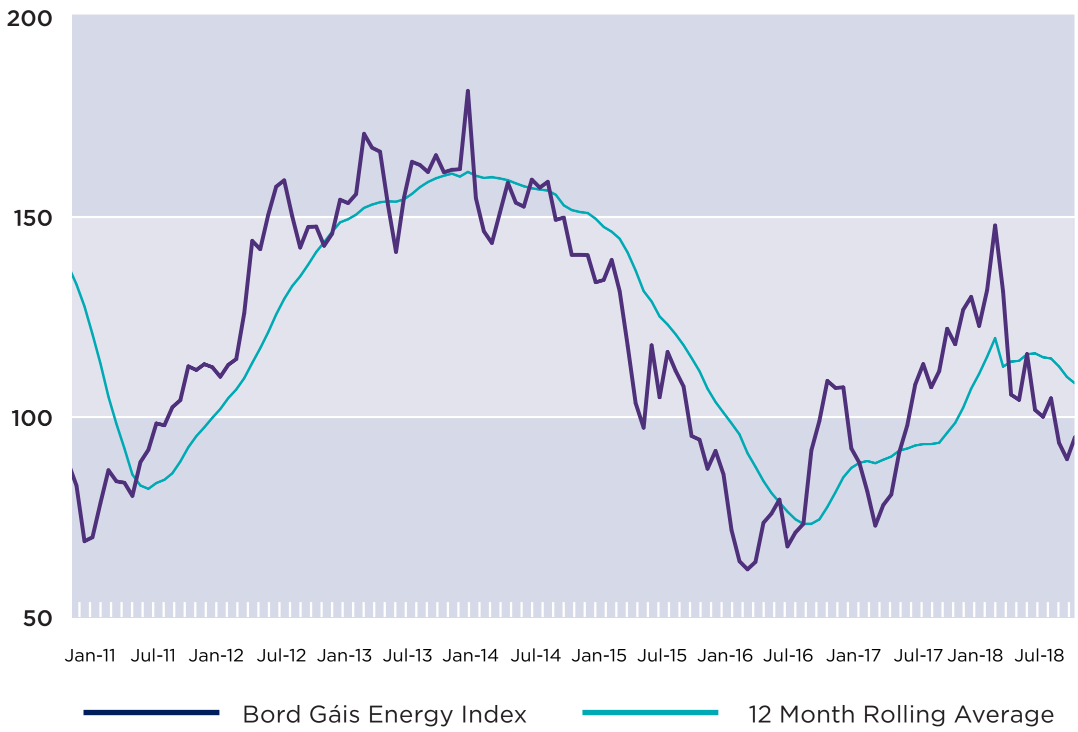
July 2019

BGE/EI/UE/0719

Bord Gáis Energy Index

July 2019

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



%	
5	1 Mth
-7	3 Mth
-14	12 Mth

Summary

The Bord Gáis Energy Index gained 5% in July.

The key driver behind the increase was electricity prices which gained 17% over the month on lower wind output and outages at key power stations. Oil, the largest component of the Index, was flat on the month as trade tensions and a weakening global growth outlook was offset by rising tensions in the middle east.

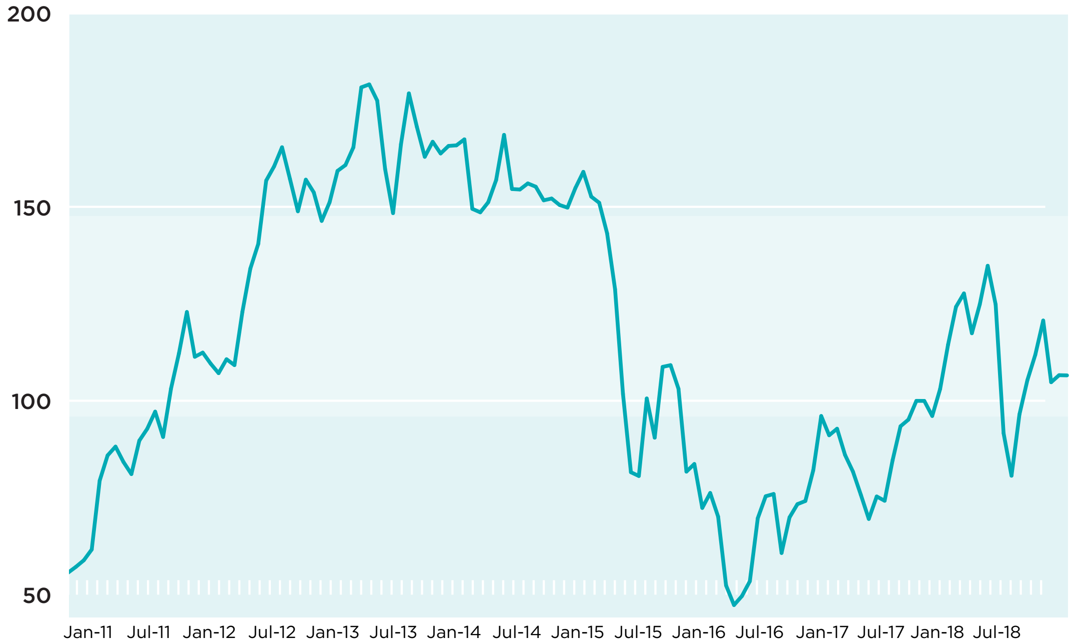
The other components of the Index had a strong month with gas prices rising 5% on supply outages, while coal traded 21% higher on stronger demand.

In July, the Bord Gáis Energy Index stood at 97.

Bord Gáis Energy Index

July 2019

Oil Index



%	
0	1 Mth
-10	3 Mth
-8	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices were flat over July closing at $65 a barrel, however this masks considerable volatility over the month. Brent crude traded as high as $67 a barrel and hit a low of just under $62 a barrel.

In the first week of July oil prices traded to a low of $62 a barrel despite OPEC extending their supply reduction pact to March 2020. The extension was agreed on the back of heightened demand concerns as the International Energy Agency lowered its estimate for global oil demand growth this year to 1.2m barrels a day from 1.3m barrels a day, pointing to a “vulnerable global economy”.

In the second week of July, oil prices rose to a high of $67 a barrel on the back of heightened geopolitical tensions in the Middle East and a significant drawdown in US inventories. It was a month of escalating tensions between the west and Iran. The UK initially seized an Iranian tanker, en route to Syria in breach of an EU embargo. In retaliation, Iran seized a UK crude tanker passing through the Persian Gulf. In addition, the US navy brought down an Iranian drone, close to one of its ships, that failed to respond to warnings.

By month end oil prices were supported above $65 a barrel as US stockpiles hit their lowest level in over 8 months. A further support for oil was market expectations that the Federal Reserve will cut interest rates, potentially weakening the dollar making oil cheaper for non-dollar buyers.

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Natural Gas Index

%	
5	1 Mth
-21	3 Mth
-49	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The day-ahead contract, the price for gas delivered tomorrow, averaged 29.8p/therm in July, a gain of 5.3% on the price for June, when adjusted to euros. July sees the first increase in gas prices since September 2018.

The day ahead price started the month trading at 24p/th. It rose to 38p by the middle of the month before falling back to 27p by the end of July. We have seen sharp price moves in the market in the past, but these typically occur in the winter time when demand is high. Summer time demand is much lower, and prices reacted even though there was ample supply in the system.

July prices started at very low levels with the day ahead price trading close to three years lows. Prices have been falling for several months as demand was low due to mild weather last winter and supply has been strong due to high gas imports via Liquified Natural Gas (LNG). However, prices turned higher on reports of field outages in the North Sea.

These outages had a minimal impact on gas supply, but they did attract buyers into the market. Prices were squeezed higher on further outages and in anticipation of planned maintenance on the Nordstream pipeline, a key pipeline between Russia and Germany, that was due to begin mid-month. Prices peaked at 38p before retreating in the last two weeks of the month.

Overall gas market fundamentals changed very little in July. European storage levels remained high and continued to fill ahead of the winter season. Gas supply via LNG tankers was also steady, although we have seen lower tanker arrivals in recent months. Gas deliveries from Russia fell due to the Nordstream outage but flows quickly resumed after maintenance ended.

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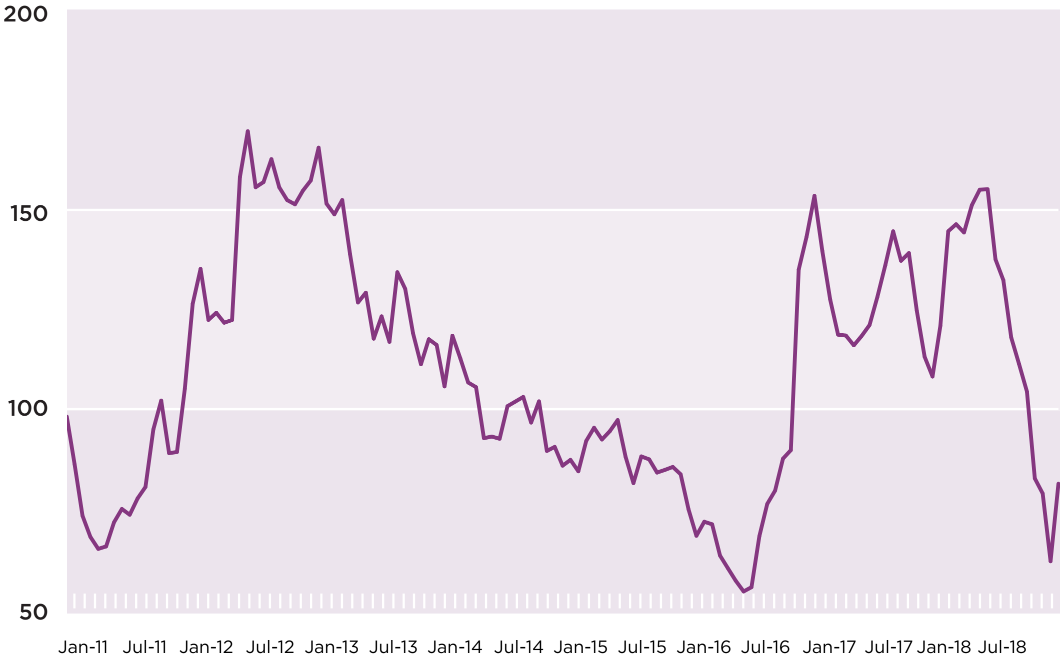
Coal Index



%	
21	1 Mth
-1	3 Mth
-36	12 Mth

Index adjusted for currency movements.
Data Source: ICE

Coal

Coal prices settled at $57.90 a tonne in July, recovering from multi-year lows in June, representing an increase of over 20% compared to the previous month and the first monthly increase in nine months.

Coal prices opened the month stronger with Chinese buyers in the market trying to book spot cargoes ahead of a possible tightening of import restrictions. Official statistics show a sharp increase in China's imports of Australian coal as the market pre-empted a government clampdown on imports. Provincial government officials reacted to coal import statistics in July by freezing all further customs declarations for coal cargoes at some key ports.

Coal prices found additional support during July from falling inventories in India and China. In addition, the heatwave in Europe helped support coal prices higher as additional demand for coal fired generation was required due to curbs on nuclear output. French nuclear power production was reduced as some reactors had to be taken offline as the heatwave in France pushed water temperatures from rivers, used as a coolant, above regulated levels.

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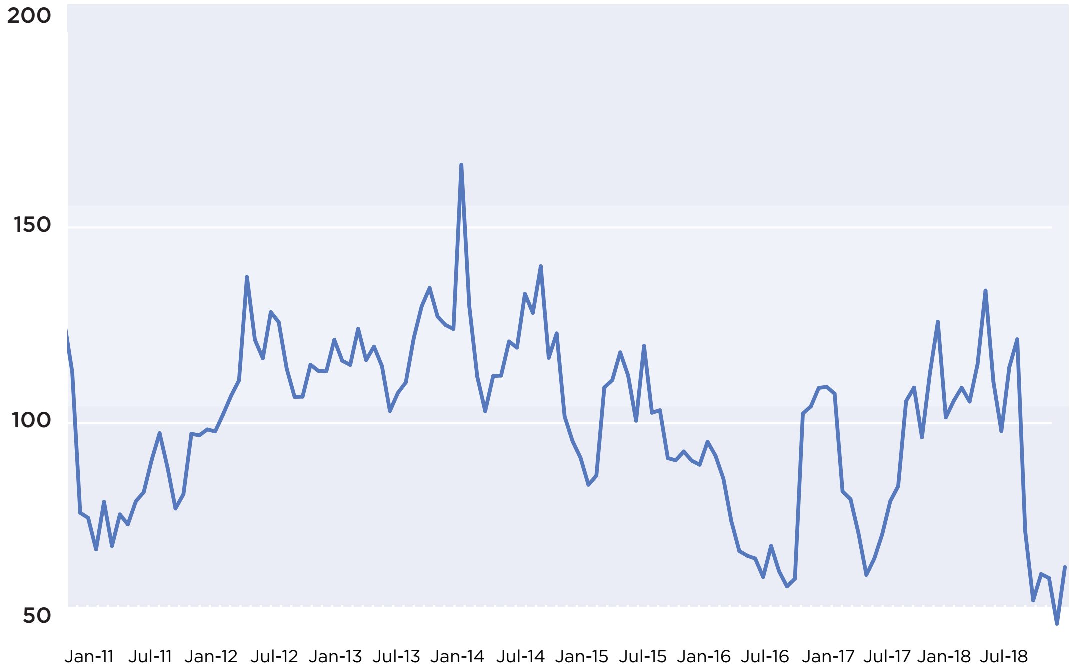
Electricity Index



Data Source: SEMO

%	
17	1 Mth
2	3 Mth
-15	12 Mth

Electricity

The average Day-Ahead price went from €43.15/MWh in June to €50.26/MWh in July, an increase of 17% over the month, as lower wind output, stronger carbon and outages to a number of power stations helped lift prices over the month.

Wind output was down 19% to 811MW versus 1001MW the previous month. The average portion of demand met by wind in July was 21%.

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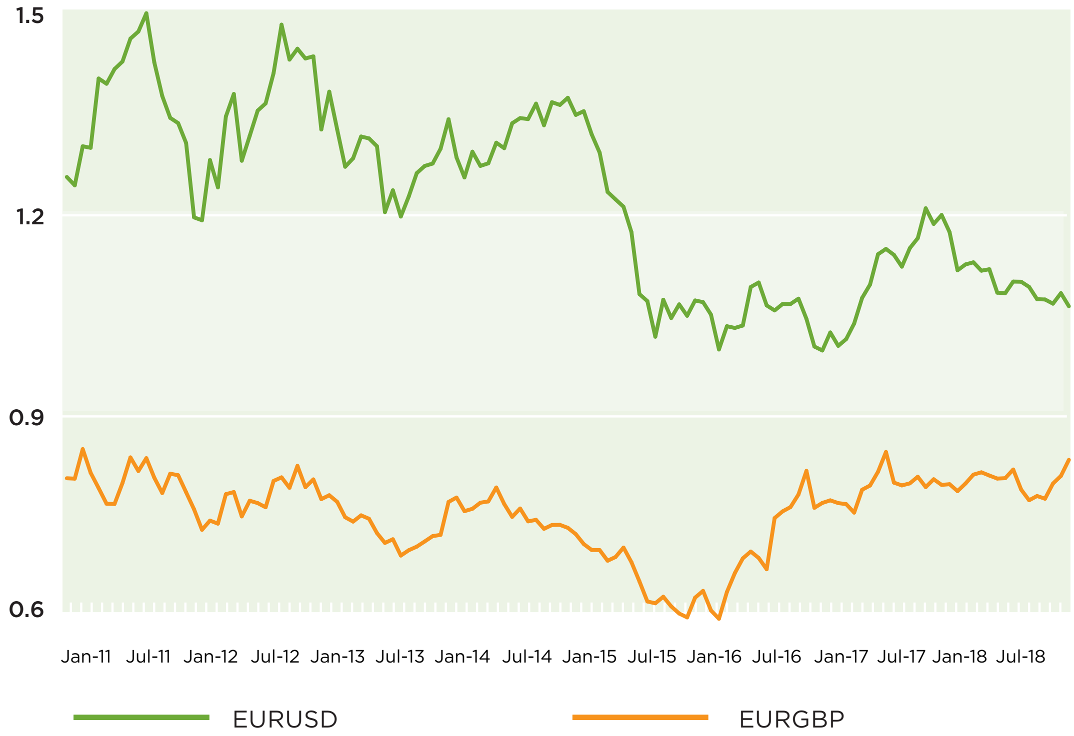
FX Rates



EURUSD %	
-2	1 Mth
-1	3 Mth
-5	12 Mth

EURGBP %	
2	1 Mth
6	3 Mth
2	12 Mth

FX Rates

The Euro fell versus the Dollar but recorded gains relative to Sterling in July. The Euro settled at $1.113 versus the Dollar, a loss of 2% and £0.911 against the pound, a gain of 1.8%.

The mixed picture for currencies comes amid a gloomier backdrop for economies across the globe. The US Federal Reserve signalled its intentions to cut interest rates and delivered on this promise on July 31st cutting its target rate by 0.25%. Low inflation and weaker growth, due to trade tariffs with China, were two issues affecting the US economy. While employment remains strong in the US, there is evidence of slowdown in some areas.

The picture in Europe is arguably weaker with evidence from Germany that manufacturing is contracting at an accelerated rate with the Purchasing Managers Index at four-year lows. Germany is the bellwether for the broader European economy and the ECB started to actively talk about reducing interest rates or loosening its monetary policy also in July. This had the intended effect on the Euro which fell against the Dollar.

The Euro still managed to record a gain relative to Sterling as the market adjusted its expectations of a hard Brexit as Boris Johnson was appointed Prime Minister. The more aggressive stance of the new British government towards Brexit put considerable pressure on Sterling in July and the Euro gained versus Sterling as a result.

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