Bord Gáis Energy Index
Understanding energy

December 2020

BGE/EI/UE/1220

Bord Gáis Energy

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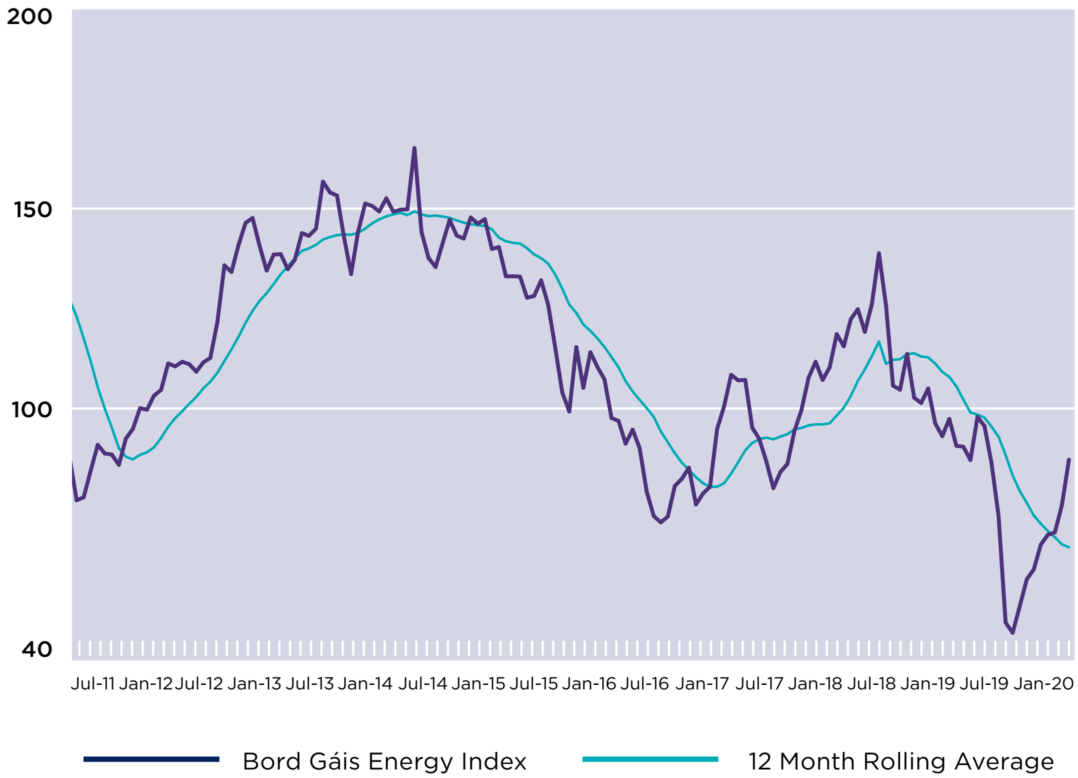
December 2020

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



%	
15	1 Mth
28	3 Mth
-9	12 Mth

Summary

The Bord Gáis Energy Index gained 15% in December 2020.

The year has been dominated by the worst global pandemic in a century which required unprecedented social, economic and political action to try and control the spread of the deadly coronavirus.

Energy prices which collapsed in the second quarter of 2020, as restrictions and lockdowns crushed energy demand, have staged a remarkable recovery. The Energy index was over 50% lower in April but finished 2020 a mere 9% lower.

The recovery accelerated in December as markets clung to the hope that the vaccine rollout would mark the beginning of the end for the current crisis.

Oil, the largest component of the index, gained 6% on an improving economic outlook and hopes that demand would recover in 2021, particularly in oil sensitive sectors such as travel and leisure, which were severely impacted by the coronavirus.

This positive sentiment carried through to the other components of the index as the day-ahead gas price was 22% higher due to colder temperatures and lower LNG arrivals. The increase in gas prices and outages at key CCGT plants also pushed electricity prices 28% higher, while coal prices jumped 10% on higher demand due to colder weather and import restrictions in China.

Electricity was the key driver this month with more than half of the overall gain due to the increase in power prices and its significant weighting in the index.

In December, the Bord Gáis Energy Index closed at 87.

Bord Gáis Energy Index

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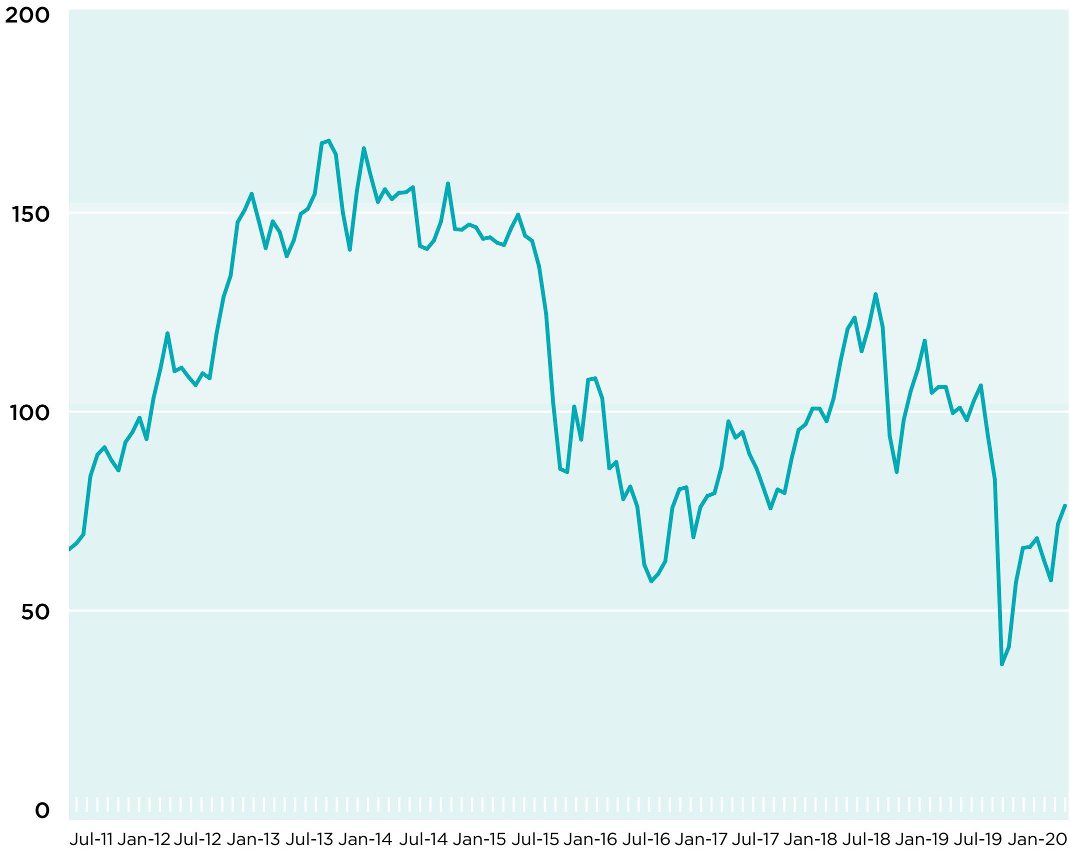
Oil Index



%	
6	1 Mth
21	3 Mth
-28	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The Brent crude oil benchmark climbed over $4 a barrel in December to settle at $51.8 a barrel, the highest monthly close since January 2020 and a gain on the month of 6% in euro terms. Oil prices over the year, however, remain 28% lower.

The start of the coronavirus vaccine rollout in Europe and the United states was the key driver this month as markets clung to hopes that despite accelerating infection levels vaccines will mark the beginning of the end of the current pandemic.

Coronavirus lockdowns and restrictions have hammered oil demand throughout 2020. The restrictions had a devastating impact on oil dependent sectors such as travel and leisure, crushing demand for gasoline and aviation fuel. At the height of lockdowns, we saw oil demand fall an unprecedented 25%. Brent fell to below $16 a barrel in April leading OPEC+, which combines OPEC with other Key producers such as Russia, to agree to boost output cuts to a record 9.7 million barrels per day in order to support prices.

This production restraint succeeded and prices began to recover. Toward the end of the year oil prices received an additional boost with news of a vaccine breakthrough. However, near term, oil markets continue to face significant challenges as we see the reintroduction of lockdowns as infection rates accelerate. In addition, many recent changes in consumer behaviour are likely to endure long after the current pandemic has passed.

Brent is now trading above $50 per barrel and the OPEC+ strategy from here will prove crucial. It took the opportunity last month to raise output by 500,000 barrels per day in January. It will be interesting to see if they continue to release further supply next month into a weakening market.

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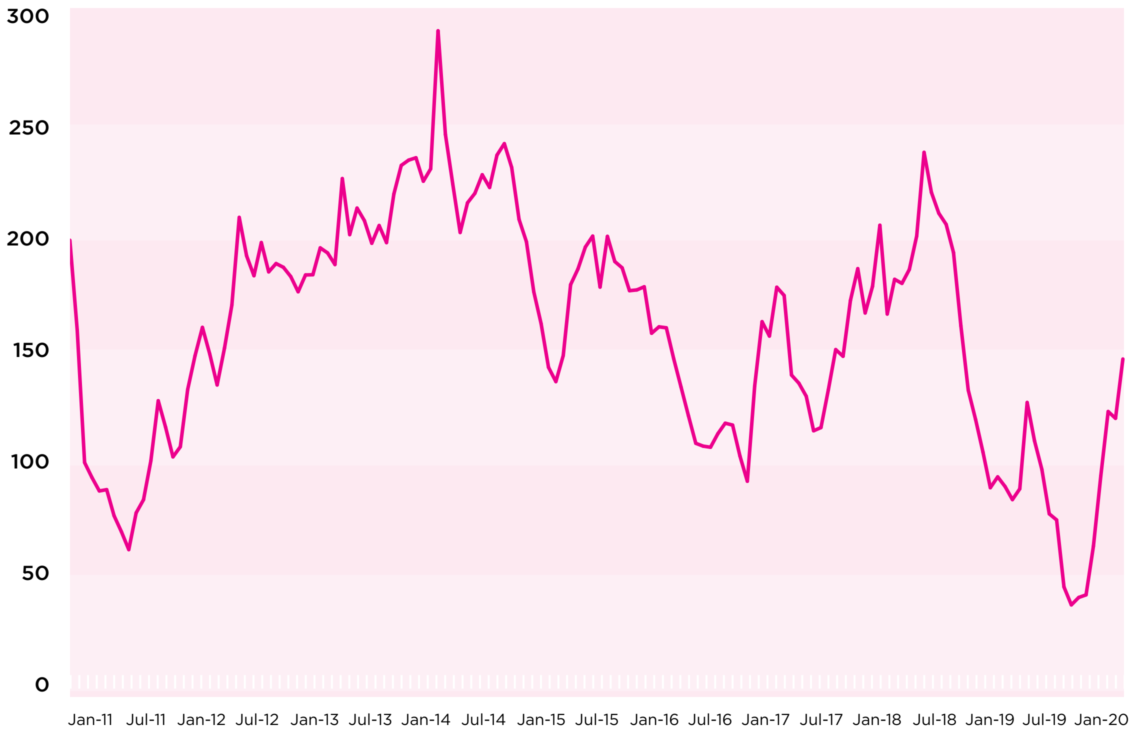
Natural Gas Index



%	
22	1 Mth
54	3 Mth
32	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, averaged 45.3p/th in December, a gain of 22% in euro terms on the previous month and 32% above the comparable period last year.

A colder December resulted in an increase in LDZ demand in the UK and Europe. Local Distribution Zone ('LDZ') demand is the crucial component of gas demand in the UK and Ireland. This is residential, commercial and industrial gas demand which tends to rise and fall in line with temperatures.

On the supply side, December proved a difficult month as strong Asian LNG prices tempted LNG cargoes away from Europe. Asian demand pushed higher in recent weeks as colder weather and disruptions to some key LNG facilities, particularly in Qatar and Australia, pushed Asian prices aggressively higher. LNG cargoes which had been coming to Europe were instead dispatched to Asia.

Europe's key gas markets, UK, Belgium, France, Netherlands, Italy and Spain, saw a significant drop in imports which were 43% lower year on year.

The bullish momentum on the prompt carried through to the curve which was further supported by strength in oil and carbon. The front month January contract traded 12p/th higher to settle at 55.8p/th, a gain of over 28%, while the first quarter contact registered similar gains to settle at 54.4p/th.

Further out the curve, it was a similar story with the Summer 21 contract finishing the month 7.7p/th higher at 42.3p/th, a gain of 22%. The Winter 21 contract climbed 16% to close at 49.9p/th, while contracts beyond the front two seasons averaged gains of around 5%.

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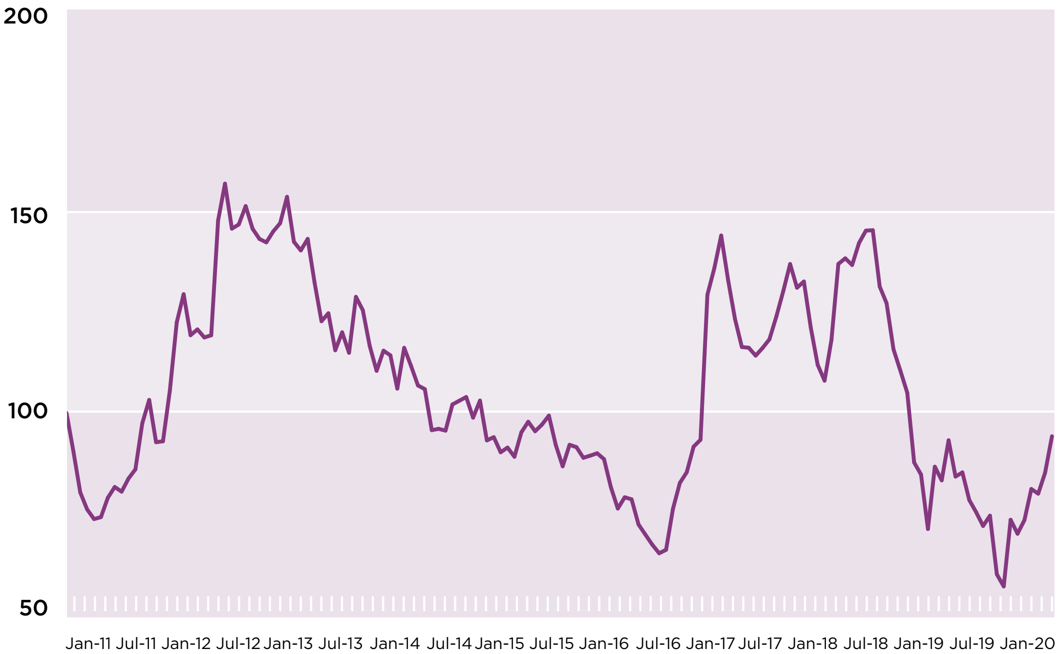
Coal Index



%	
10	1 Mth
16	3 Mth
20	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices closed the month at $69 a tonne, a gain of 10% in euro terms and a fresh 20 month high. Coal prices were supported by several factors in December. The colder temperatures in Asia and Europe obviously helped boost demand, while increasing gas prices increased coal's competitiveness in power generation.

China's decision to ban imports from Australia, the world's largest exporter of coking coal used to make steel and the second largest of thermal coal used to generate power, also helped support prices. The curbs on Australian imports, as a result of increasing tensions between Beijing and Canberra, have left many Chinese regions short of coal supplies resulting in power cuts and factory closures. This supply gap has helped boost the price of coal cargoes from elsewhere.

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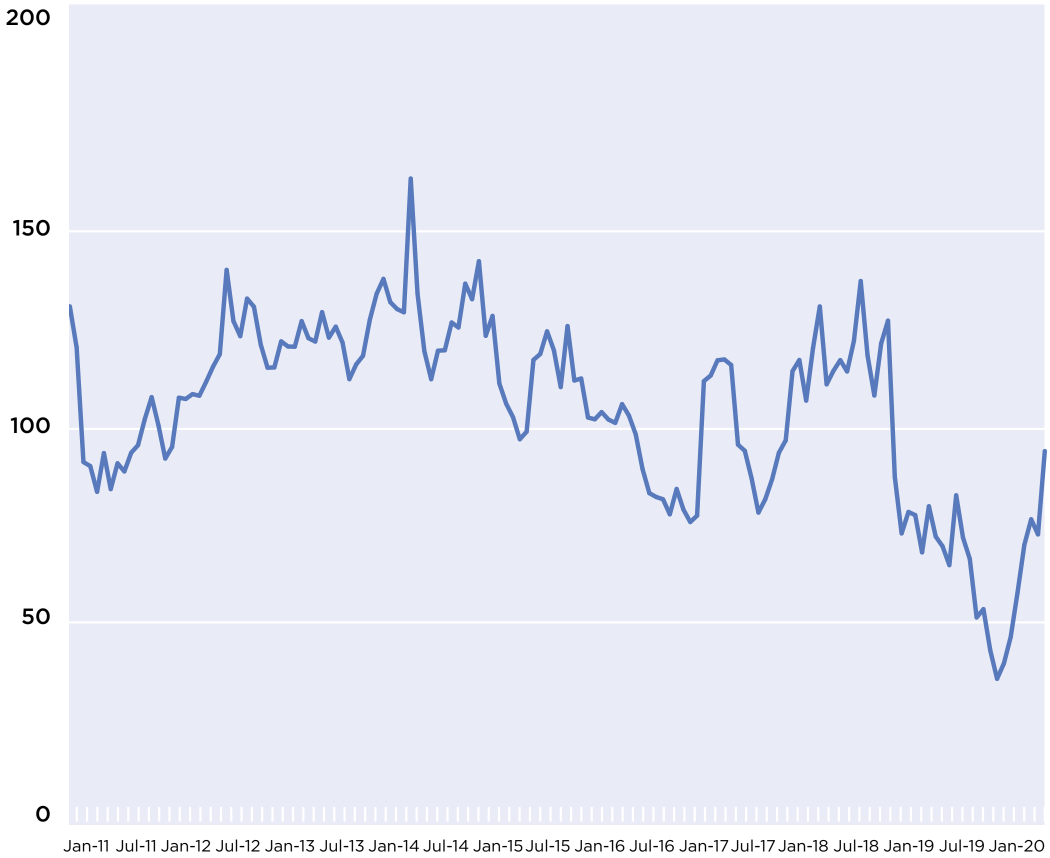
Electricity Index



%	
28	1 Mth
33	3 Mth
29	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price gained 28% this month moving from €45.83/MWh in November to €58.83/MWh in December.

Higher gas prices and outages at key CCGT plants were the primary drivers behind the increase. Increased demand (+4%) and higher carbon prices also pushed prices higher despite increased wind output (+12%).

The reduced availability of key CCGT plants meant more expensive plants were required to fill the demand which was further accentuated by the higher gas prices.

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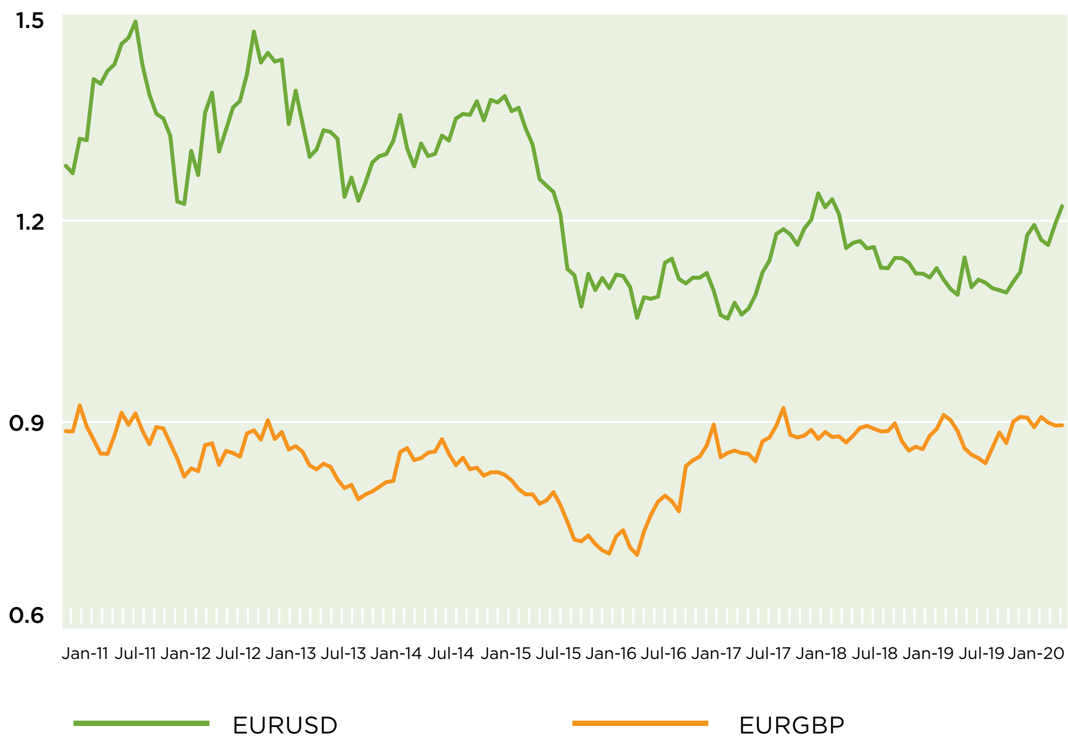
FX Rates



EURUSD %

2	1 Mth
4	3 Mth
9	12 Mth

EURGBP %

0	1 Mth
-1	3 Mth
6	12 Mth

FX Rates

Britain and the European Union finally put pen to paper on an exit deal on Christmas Eve ending years of deal/no deal speculation in currency markets. There's no doubt that the British exit from the European Union is a negative for both economies, certainly in the near term, but at least the chaos of a no deal Brexit was avoided.

Over the month, the euro continued to climb strongly versus the dollar gaining 2% to $1.22, while it closed the month marginally higher versus the pound at £0.90.

The dollar remains under pressure as increasing investor confidence sees a rotation out of the dollar which is viewed as a safe haven during times of turbulence in financial markets. The improving economic outlook as vaccines are rolled out has seen a shift away from the greenback, while the Federal Reserve's loose monetary policy has added to the bearish momentum.

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