Bord Gáis Energy Index
Understanding energy

September 2020

BGE/EI/UE/0920

Bord Gáis Energy

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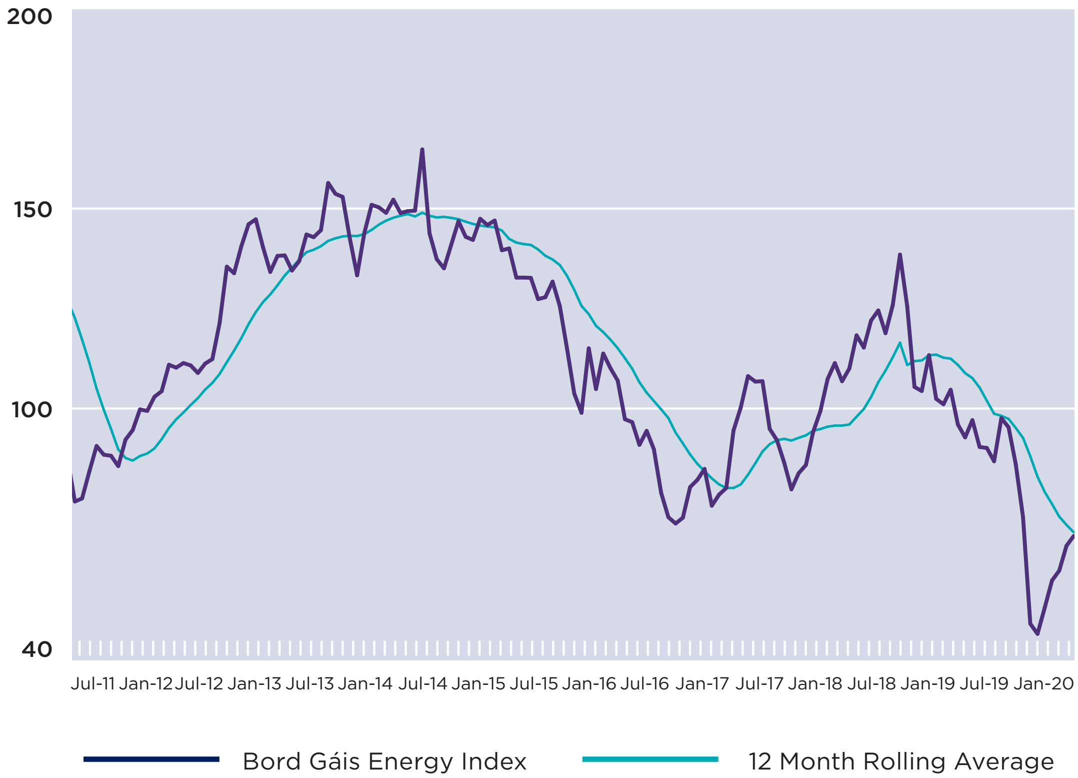
September 2020

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



%	
4	1 Mth
20	3 Mth
-25	12 Mth

Summary

The Bord Gáis Energy Index gained 4% in September 2020.

September saw a fifth straight month of gains for the index as markets continued to recover from the lows seen in April at the height of coronavirus lockdowns. Natural gas was again the strongest performer gaining 47% due to restrained supply into the European market as temperatures dropped and demand increased.

Oil, the largest component of the index, was the only component that lost ground over the month falling $4 a barrel (8%) as escalating coronavirus infections across the globe heightened demand concerns.

Electricity prices gained 20% driven by increasing gas prices, while coal prices gained 10% as increased coal cost competitiveness, also as result of higher gas prices, supported coal demand.

In September, the Bord Gáis Energy Index closed at 68.

Bord Gáis Energy Index

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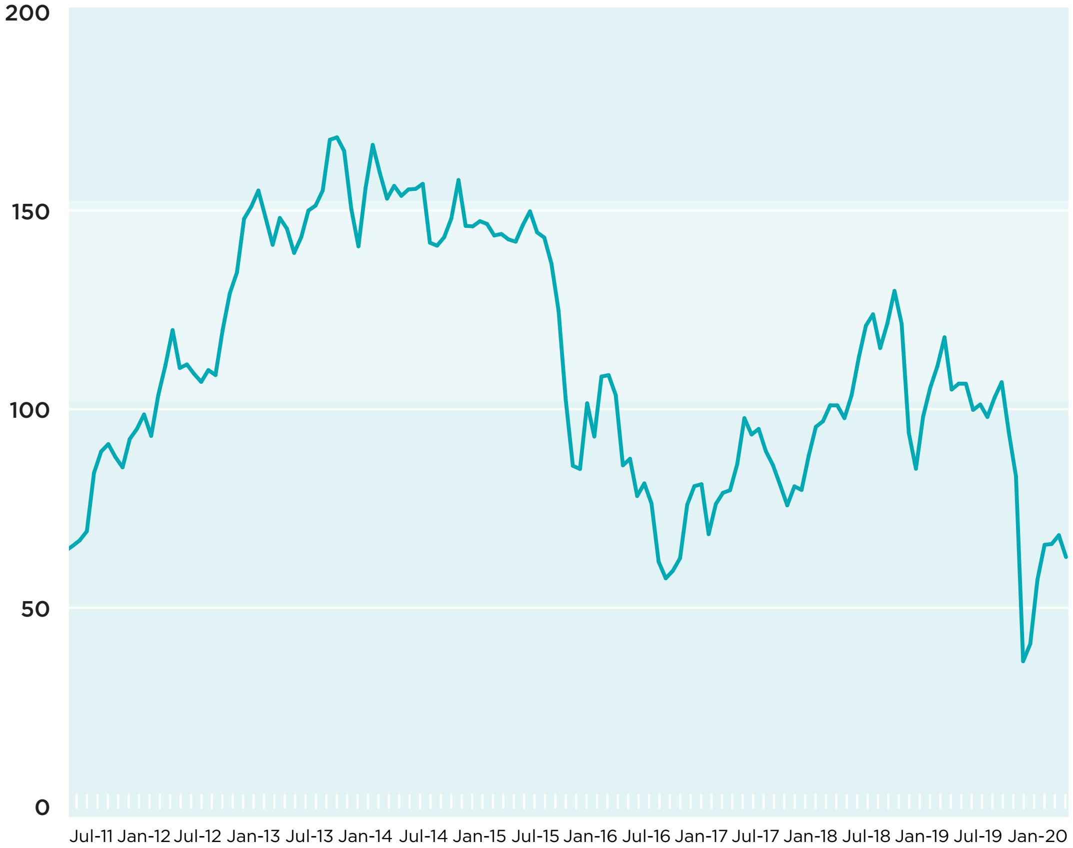
Oil Index



%	
-8	1 Mth
-5	3 Mth
-37	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The recent recovery in oil prices, which has rallied over the past five months, was halted in September as the Brent crude benchmark fell $4 to settle at $40.95 a barrel, a drop of 8% in euro terms.

Oil prices crashed to decade lows in April as lockdowns and restrictions implemented to combat the spread of the coronavirus decimated oil demand. At the height of the lockdowns oil demand fell by around 25 million barrels a day. This was a level of demand destruction unprecedented in oil markets. In the last financial crisis, we saw oil demand drop by about 2 million barrels.

In response, we saw OPEC+, a coalition of OPEC and other key producers including Russia, restrict oil production by over 10 million barrels a day. This production restraint, coupled with lower US production, saw oil prices recover as restrictions were lifted and oil demand recovered in recent months.

However, in recent weeks escalating coronavirus infections across the globe have heightened concerns that we may see renewed restrictions as we enter the colder winter months. September saw the world breach the grim milestone of a million fatalities with confirmed cases now approaching 34 million.

We wrote last month that the path to recovery in oil demand looks far from certain as we head into the colder months with the pandemic far from controlled. The evidence over the past four weeks increases the probability of renewed lockdowns and increased economic disruption over the coming months, which could put oil demand and prices under renewed pressure.

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Natural Gas Index

%	
47	1 Mth
127	3 Mth
9	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 29.75p/th in September, a gain of 47% in euro terms. Reduced supply and seasonally higher demand led to tighter market conditions in the UK and Europe.

Gas supplies to Europe continued to be restrained over September as Norwegian maintenance peaked towards the end of the month and Russia continued to divert gas flows. In addition, the anticipated return of US LNG to European shores has been delayed as Asian demand picked up and exports from US LNG facilities continued to be disrupted following recent hurricane damage. The Cameron LNG terminal in Louisiana remains offline with reports suggesting it may be out through October.

The strength in the prompt coupled with concerns about US LNG helped support the front month October contract, which traded 5.3p/th higher to finish the month at 34.3p/th, a gain of 18%.

The Winter 20 contract also traded higher as traders and end users closed positions ahead of delivery. The front season expired at 39.7p/th a drop of 1.5p (4%). Further out the curve, contracts beyond the front season traded lower possibly taking direction from lower oil and carbon prices. The Summer 21 contract fell 0.4p to 33.8p/th, a drop of 1% while seasons beyond Summer 21 fell around 3% on average over the month.

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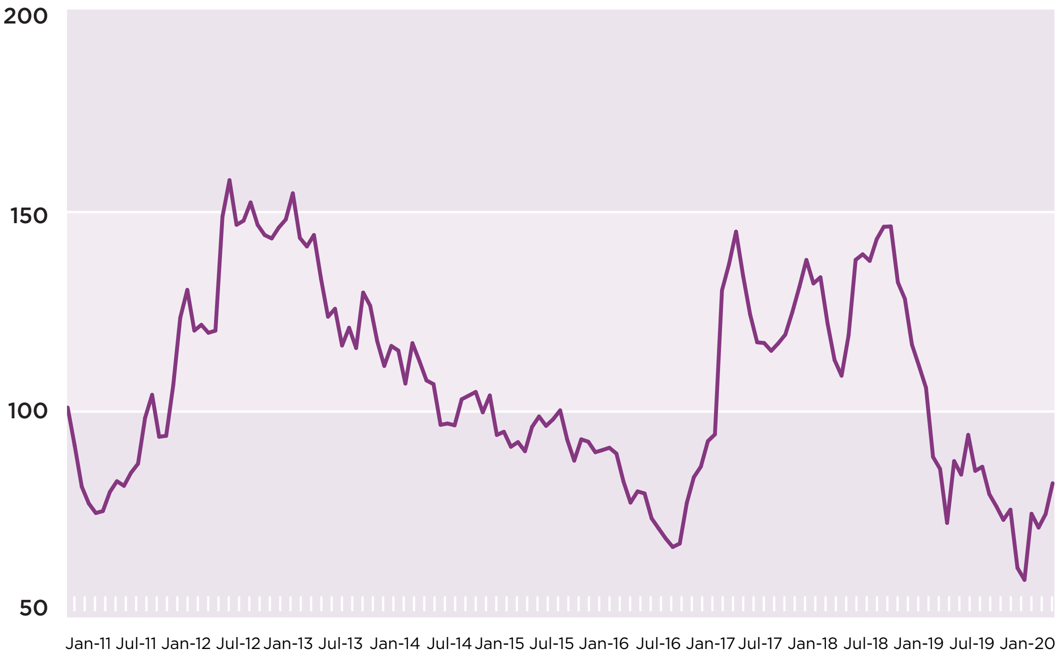
Coal Index



%	
10	1 Mth
10	3 Mth
-13	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices performed strongly again this month, settling at $57.2 a tonne, a gain of 10% in euro terms.

Coal appears to have garnered support from the continued recovery in gas prices which has increased the competitiveness of coal for power generation.

The path of coal prices over the coming months will be dependent on the global economy and the impact coronavirus will have on demand, particularly in key markets such as China and India. However, over the coming years the drive to clean energy, stricter environmental requirements and greater carbon pricing will undoubtedly continue to reduce coal demand.

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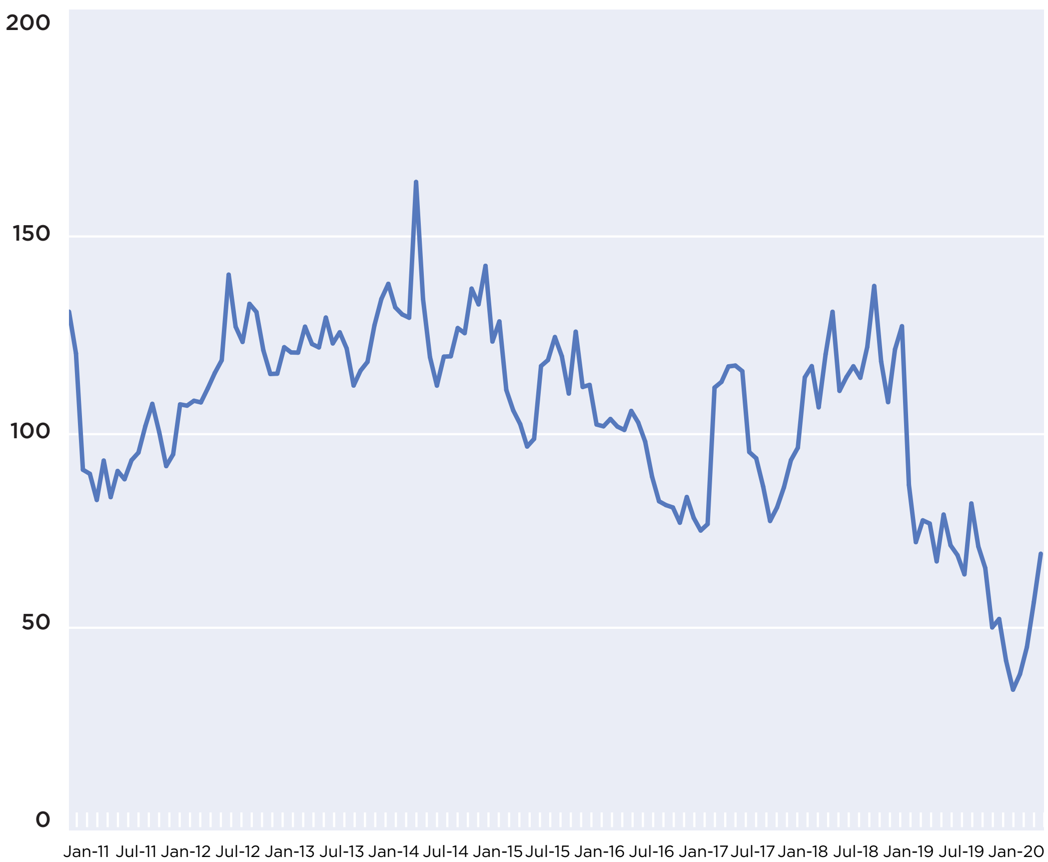
Electricity Index



%	
20	1 Mth
71	3 Mth
1	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price gained 20% in September averaging €44.30/MWh from €36.92/MWh in August.

The continued increase in gas prices was the primary driver behind the gains, while higher demand (+4%) and higher average carbon prices also contributed to the rise.

Wind output was up 31% from an average hourly output of 967MW in August to 1269MW in September. Higher wind would ordinarily serve to reduce power prices, but the increase wasn't enough to offset the impact of higher gas prices.

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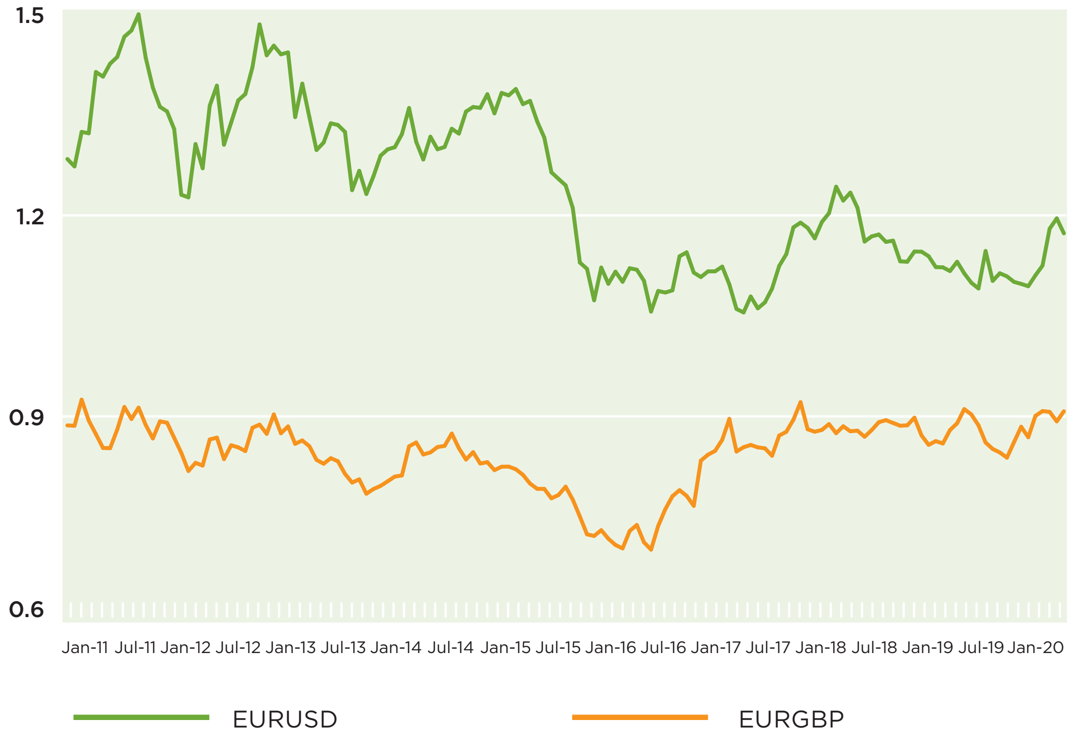
FX Rates



EURUSD %	
-2	1 Mth
4	3 Mth
8	12 Mth

EURGBP %	
2	1 Mth
0	3 Mth
2	12 Mth

FX Rates

The euro gave back some recent gains against the dollar falling 2% to $1.172 over the month, while continued Brexit uncertainty helped the euro climb 1.7% versus the pound to close the month at 0.908.

The US Dollar broke a four-month losing streak in September on signs of improvement in the economy. The Federal reserve left interest rates untouched at its September meeting and noted that it expects the U.S. economic recovery from the coronavirus crisis to accelerate with unemployment falling faster than the central bank had previously expected.

In the UK, rising coronavirus cases and tighter lockdowns weighed on the economic expectations and heightened the risk of negative interest rates. Of course, the big cloud overhanging sterling is the ongoing Brexit uncertainty. We are fast approaching the end game in negotiations on the future trading relationship between a departing UK and the EU. An agreement should be positive for sterling as rhetoric between the two sides turned increasingly negative over recent weeks.

Economic data in the EU was somewhat encouraging over the month largely driven by strength in Germany.

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For more information please contact:

Bord Gáis Energy **Pressoffice@bordgais.ie**
Alan Tyrrell 086 850 8673 or Naomi Steen 086 701 5226