

# **Bord Gáis Energy Index**

Understanding energy

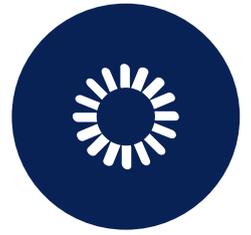
January 2019

BGE/EI/UE/0119

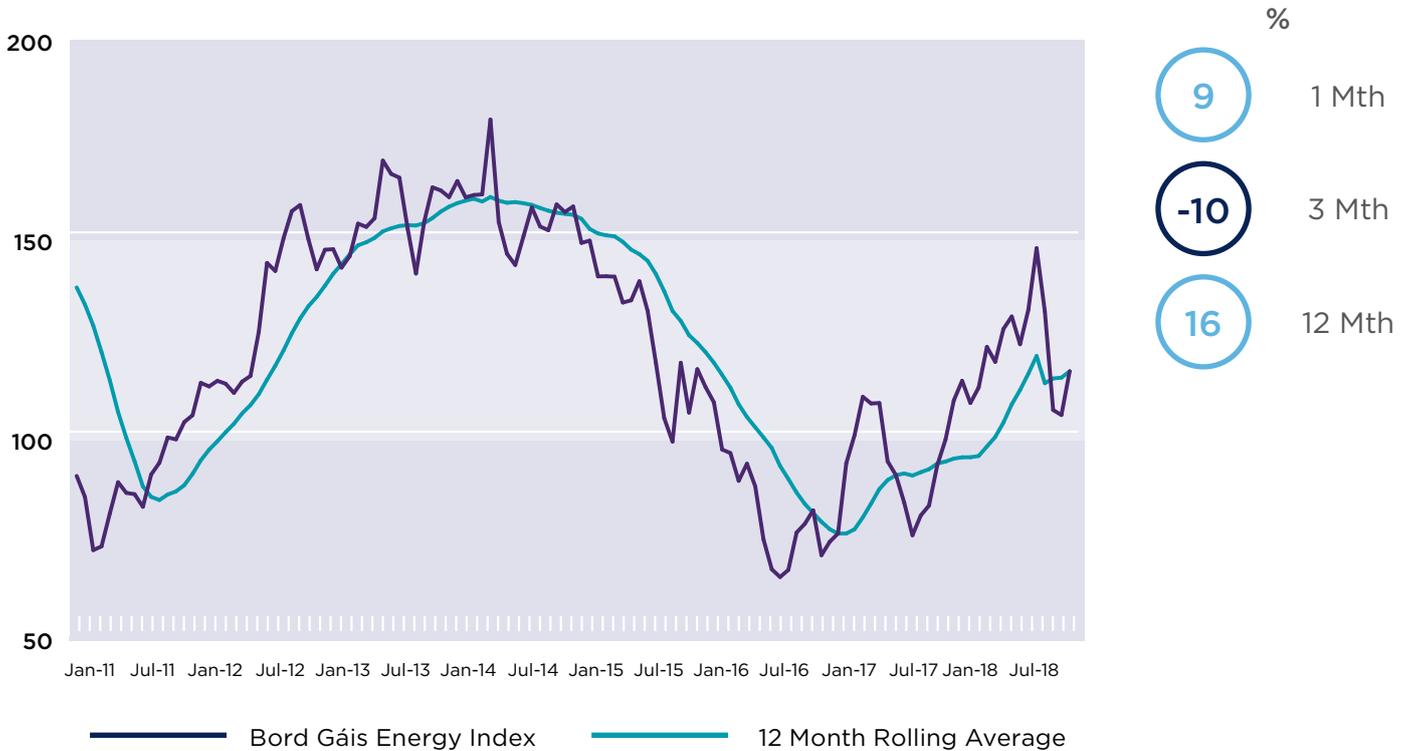


# Bord Gáis Energy Index

January 2019



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



## Summary

**In January, the Bord Gáis Energy Index increased 9% and is now over 16% above the comparable period last year.**

Oil prices had the greatest impact this month increasing over 15% on the month as production cuts and sanctions on Venezuela helped support prices.

It was a mixed performance for the other components of the Index as gas and coal prices traded lower, while electricity prices gained almost 5%. Robust UK indigenous gas production coupled with strong Norwegian flows, strong LNG deliveries and elevated storage levels meant the UK system balanced comfortably throughout January. However, gas prices still remain 16% above the comparable period last year.

**In January, the Bord Gáis Energy Index stood at 114.**

# Bord Gáis Energy Index

January 2019



## Oil Index



Index adjusted for currency movements.

Data Source: ICE

## Oil

Oil prices clawed back recent losses in January as production cuts and sanctions on Venezuela helped support prices. The benchmark Brent contract closed the month at \$61.89 a barrel, an \$8 increase on December's close. In euro terms, the oil price increased by over 15% on the month.

The spiralling political and economic crisis in Venezuela supported prices as the US imposed sanctions on the state-owned oil company Petroleos De Venezueal ('PDVSA'). The US administration hope that sanctions will squeeze dollar revenues and put pressure on President Nicolás Maduro who the US no longer recognise as Venezuela's president.

The sanctions will block around half a million barrels of crude making its way into the US market, increasing the pressure on the Venezuelan economy and oil industry. Venezuela, which has the world's largest proven oil reserves, has seen crude production plummet from almost 2.5 million barrels in 2015 to 1.2 million barrels today as it finds itself in the grips of an economic collapse.

The agreement between OPEC and other key non-OPEC producers to reduce production also helped bolster oil prices. Saudi Arabia and Russia are leading an initiative to cut 1.2 million barrels of oil production from January 1. The deal's credibility was enhanced when Saudi Arabia, OPEC's de facto leader, implemented production cuts of around 500,000 barrels. In addition, comments from the influential Saudi energy minister, Khalid al Falih, vowing to stabilise the oil market helped reassure the market.

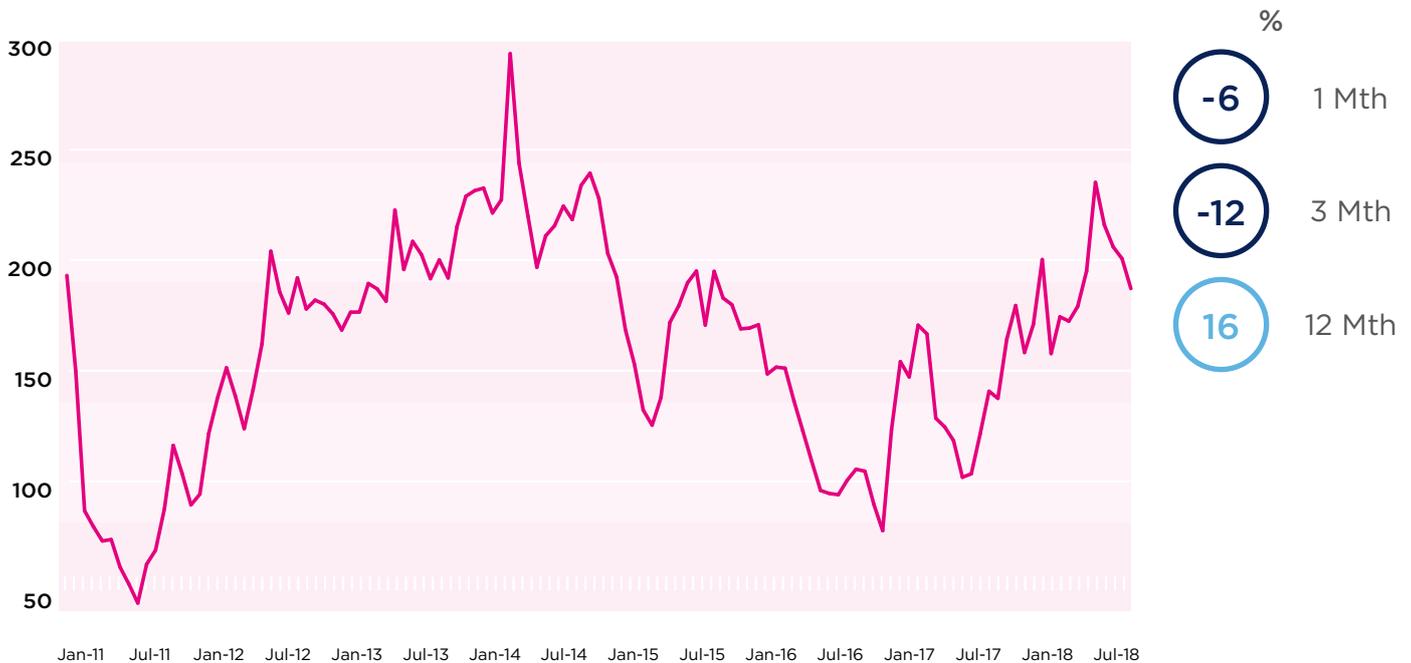
As we move into February, market watchers will be closely monitoring compliance with production limits for any signs of discord. In addition, global growth indicators, the level of US shale production and developments with Iranian and Venezuelan sanctions all have the potential to move oil prices materially.

# Bord Gáis Energy Index

January 2019



## Natural Gas Index



Index adjusted for currency movements.

Data Source: Spectron Group

## Natural Gas

The day-ahead contract, the price for gas delivered tomorrow, averaged 58.2p/th in January, a drop of over 6% in euro terms on the previous month. However, despite recent weakness, gas prices remain over 16% above the comparable period last year.

Despite elevated demand in January, the UK system balanced without too much difficulty. UK demand over the month came in well above seasonal normal. Particularly in the final week of the month, as falling temperatures and low winds pushed demand to the dizzy levels last seen when Europe was hit by the Beast from the East cold snap. The difference this year was that the demand spike hit at a time of comfortable and stable supplies.

Robust flows from the UK's own indigenous fields coupled with strong Norwegian flows, strong LNG deliveries and elevated storage levels meant the UK system balanced comfortably throughout the month.

The sudden surge in LNG arrivals into Europe at the end of 2018 continued into 2019 as LNG arrivals into the UK and Europe exceeded the record volumes seen in December 18. LNG imports into the UK in January were almost 1.4bcm higher than the comparable period last year. LNG cargoes which normally head east in higher demand months headed to Europe as the spread between European gas prices and Asian prices all but disappeared making Europe the preferred destination for LNG cargoes.

Higher storage levels across the UK and Europe contributed to the bearish sentiment as LNG reduced the storage requirement resulting in lower withdrawals from storage this winter.

Further out the curve, the strong supply and storage landscape weighed on prices. The front month, February 19 contract, experienced the sharpest decline dropping 7p to settle at 54.06p/th. The front Summer 19 and Winter 19 contracts fell 4.3p and 1.6p to settle at 49.05p/th and 60.10p/th respectively.

# Bord Gáis Energy Index

January 2019



## Coal Index



Index adjusted for currency movements.

Data Source: ICE

## Coal

Coal prices settled at \$79 a tonne in January, a drop of 9% compared to the previous month and 4% lower than the comparable period last year.

The price fell in the early part of the month, before a brief rally mid-month saw the price hit \$86, before the price fell away towards month end settling at its lows for the month at \$79.

Mild weather and high inventory levels continued to weigh on coal demand in China, the largest market for coal. High inventory levels also weighed on sentiment and even though some import restrictions were lifted in January the upside in import demand was offset by milder temperatures and wet weather. Rainfall levels are important in China due to the impact that heavy rainfall has on hydro power generation.

European coal demand was strong in January as cooler weather and low wind speeds increased demand and reduced wind power generation respectively. Colder weather across central Europe saw coal consumption increase through the month but much of the power shortfall was met by higher gas generation rather than coal as gas remains the cheaper input fuel. Stock levels dropped during the month but overall levels remain healthy and the improved forward weather outlook and lower gas prices mean that coal prices remained under pressure in January.

Some important news towards the end of the month gave an indication for the long-term prospects for coal in Europe. The German coal commission recommended closure of 7GW of coal/lignite generation by 2022. That is more than Ireland's entire power capability today. The closures are in addition to 5.5GW of coal fired generation already agreed for 2022. That will bring Germany's coal fired capacity to 30GW by 2022 and plans are to reduce it to 17GW by 2030. That will open the way for renewables and gas fired plant to replace the lost capacity.

# Bord Gáis Energy Index

January 2019



## Electricity Index



Data Source: SEMO

## Electricity

The average Day-Ahead price increased from €75.49/MWh in December to €79.05/MWh in January, an increase of 4.7% month-on-month. This month's ISEM day ahead price is 56% above the comparable SEM SMP price, excluding capacity, for January 2018. 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. January saw higher electricity prices despite a fall in gas prices during the month.

In January, the clean spark increased to €23.15/MWh from €20.66/MWh in December.

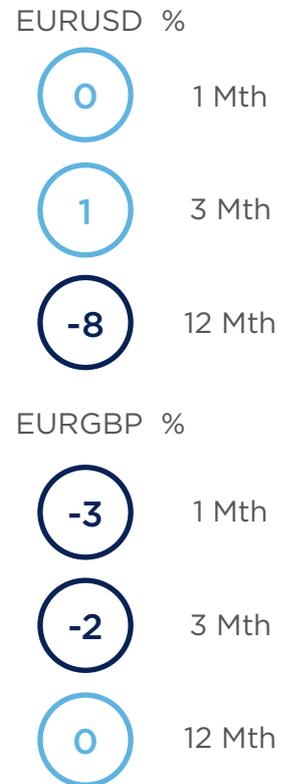
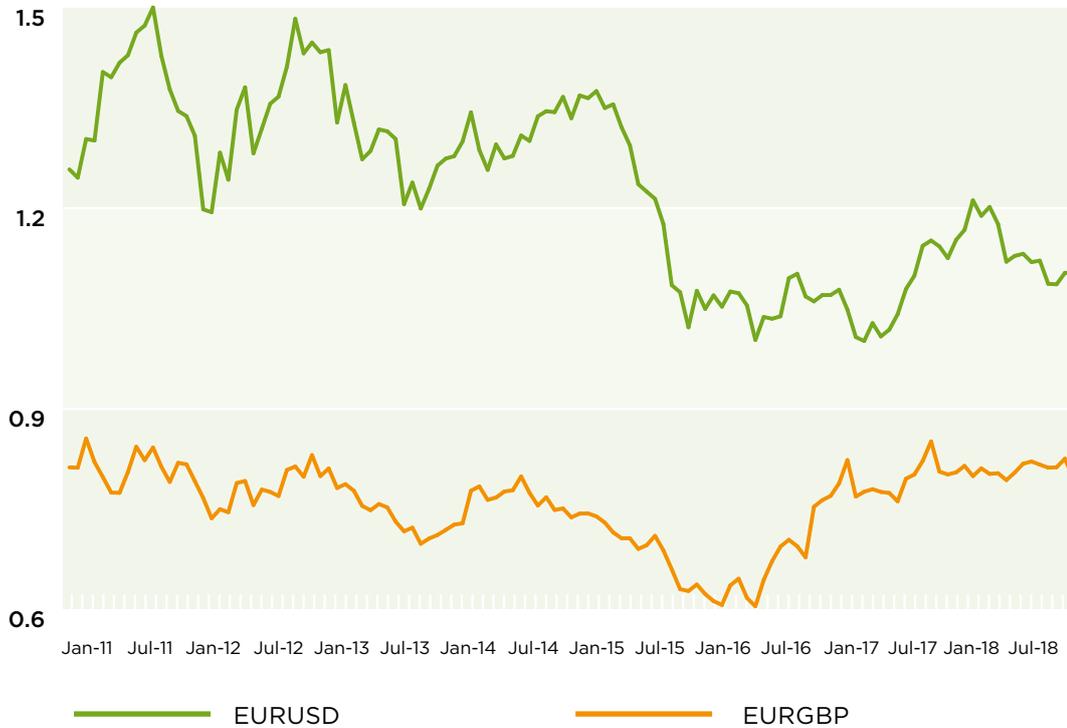
Wind output was down to 1033MW versus 1697MW the previous month, a reduction of 39%.

# Bord Gáis Energy Index

January 2019



## FX Rates



## FX Rates

The euro was flat versus the dollar in January settling at \$1.145, while it weakened 2.88% against the pound closing the month at .8726.

The big news in currency markets was the Federal Reserve’s softening stance at its January meeting. The Fed Chair Jay Powell struck a dovish tone on the back of muted economic and inflation data easing market concerns that 2019 would see accelerated tightening of interest rates.

Trade tensions between the US and China continue to hang over markets, impacting growth across the global economy. An easing of tensions would be a welcome relief for markets but a resolution appears far from certain.

In Europe concerns around slowing growth persist with weak PMI (Purchasing Managers Index) numbers pointing to reduced confidence. The ECB highlighted risks to growth at its most recent meeting and downgraded its inflation forecast to 0.9%.

In the UK, Brexit remains the only story that matters. Parliament rejected Theresa May’s deal in historic numbers in mid-January leaving the UK government scrambling for a plan B. A series of votes were held to try to establish a stance that could command the support of the house. A positive for sterling was a vote which showed a majority of the house was against a no-deal scenario. Theresa May must now return to the EU looking for further concessions, particularly on the Irish backstop, in the hope that she can get her deal passed. In the meantime, the March 29 deadline looms large!

# Bord Gáis Energy Index

January 2019



**For more information please contact:**

**Bord Gáis Energy** [Pressoffice@bordgais.ie](mailto:Pressoffice@bordgais.ie)  
**Alan Tyrrell 086 850 8673 or Naomi Steen 086 701 5226**

---

The contents of this report are provided solely as an information guide. The report is presented to you “as is” and may or may not be correct, current, accurate or complete. While every effort is made in preparing material for publication no responsibility is accepted by or on behalf of Bord Gáis Energy Limited, the SEMO, ICE Futures Europe, the Sustainable Energy Authority of Ireland or Spectron Group Limited (together, the “Parties”) for any errors, omissions or misleading statements within this report. No representation or warranty, express or implied, is made or liability accepted by any of the Parties or any of their respective directors, employees or agents in relation to the accuracy or completeness of the information contained in this report. Each of the Parties and their respective directors, employees or agents does not and will not accept any liability in relation to the information contained in this report. Bord Gáis Energy Limited reserves the right at any time to revise, amend, alter or delete the information provided in this report.