Bord Gáis Energy Index
Understanding energy

May 2020

BGE/EI/UE/0520

Bord Gáis Energy

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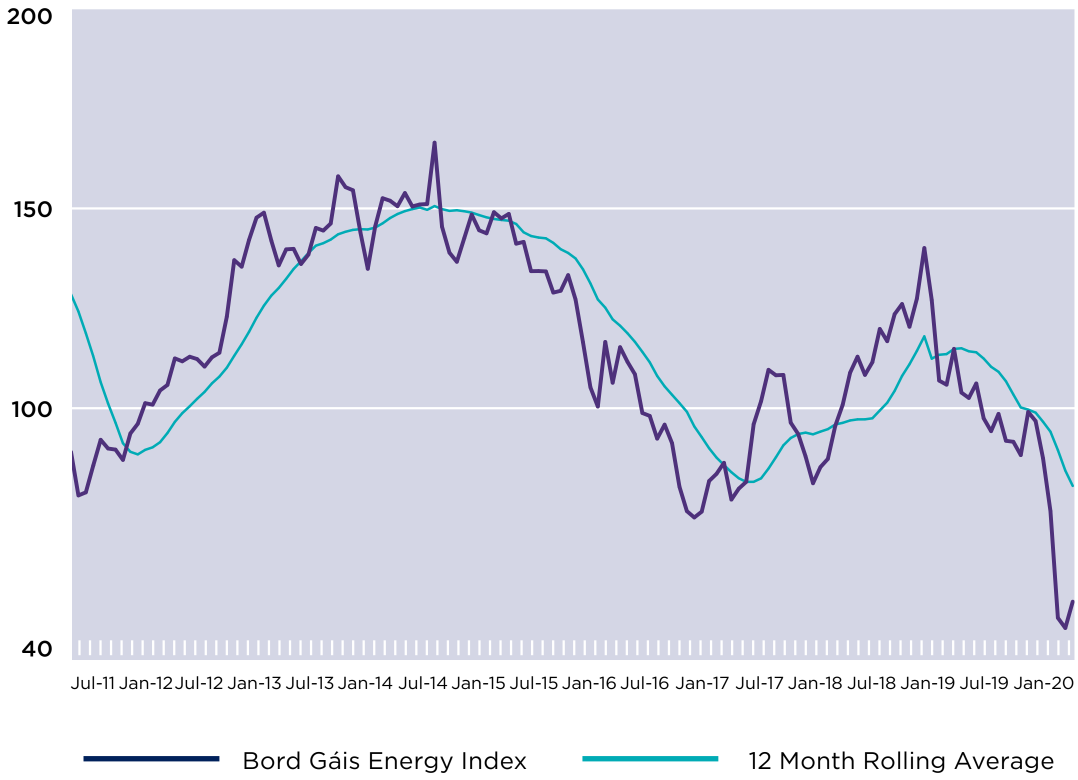
May 2020

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



%	
15	1 Mth
-31	3 Mth
-48	12 Mth

Summary

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

The strong recovery in oil was the key driver of gains in the May Index. Oil, the largest component of the Index, continued its impressive recovery gaining 38% as the easing of coronavirus restrictions helped lift demand. OPEC+ production cuts and growing pressure on US shale producers also led to a long overdue decline in production.

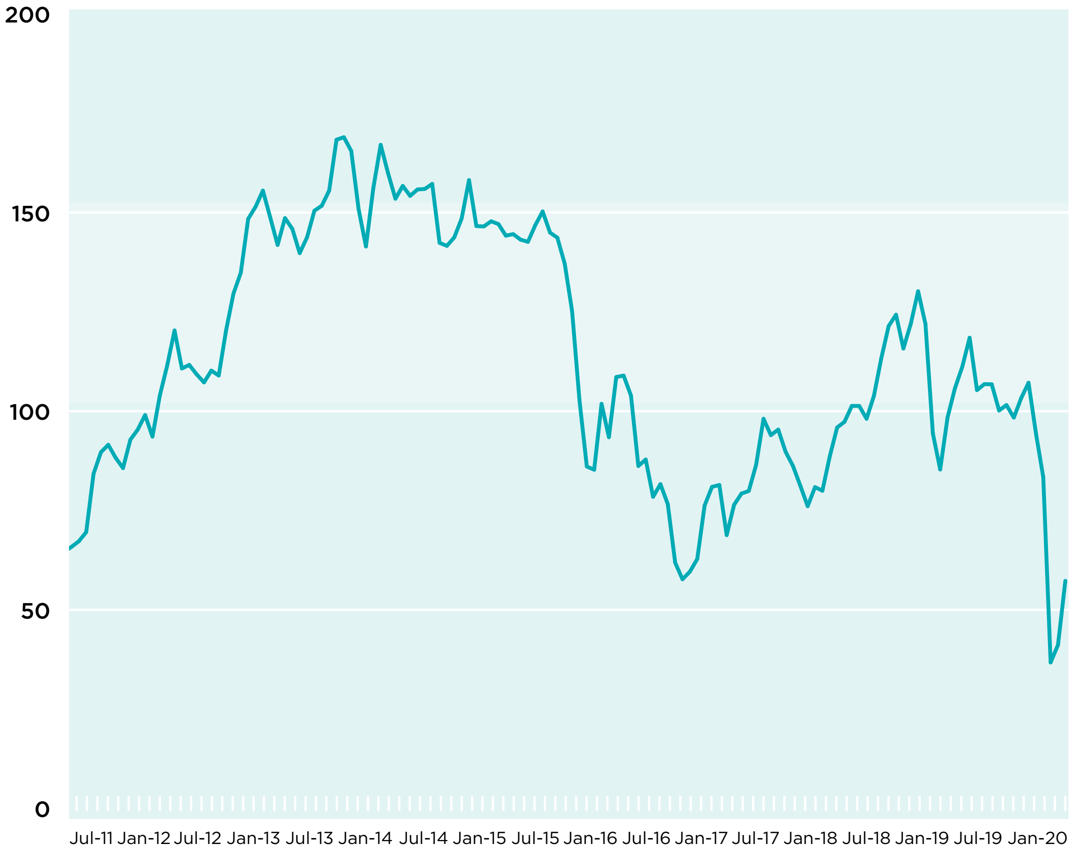
In a contrast to oil, the other components of the Index fell to fresh lows during May. Robust supplies and warmer temperatures pushed the day-ahead gas price 17% lower, although some prices further out the curve made modest gains. Electricity prices dropped 16% due to higher winds and lower gas prices. Coal was 5% lower over the month as gas and renewables were increasingly competitive in power generation.

In May, the Bord Gáis Energy Index closed at 50.

Bord Gáis Energy Index

May 2020

Oil Index



%	
38	1 Mth
-31	3 Mth
-45	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

The recovery in oil prices gained momentum over May with the Brent crude benchmark gaining 38% in euro terms to finish the month at $35.33 a barrel.

Oil traded under $20 in the middle of April as restrictions put in place to contain the spread of the coronavirus decimated oil hungry sectors such as travel and leisure. At the height of the lockdown, global oil production exceeded consumption by as much as 25-30 million barrels per day as flows into storage surged.

However, the easing of restrictions and lockdowns in key markets over the past number of weeks has seen a gradual resumption in economic activity, which has helped lift oil demand. At the same time, we finally witnessed oil production start to decline. OPEC+, led by key producers Saudi Arabia and Russia, delivered on an agreement to achieve production cuts of around 10 million barrels a day in May.

In addition, the slump in oil prices in recent months has put considerable pressure on cash hungry US shale oil producers. Production and rig count data in the US has experienced a significant fall in drilling activity in response to the lower prices.

The OPEC+ restraint agreement is in place for May and June and discussions on extending the output cuts are due to be held in early June. The outcome of these discussions and the pace of recovery in economic activity will determine the path of oil from here.

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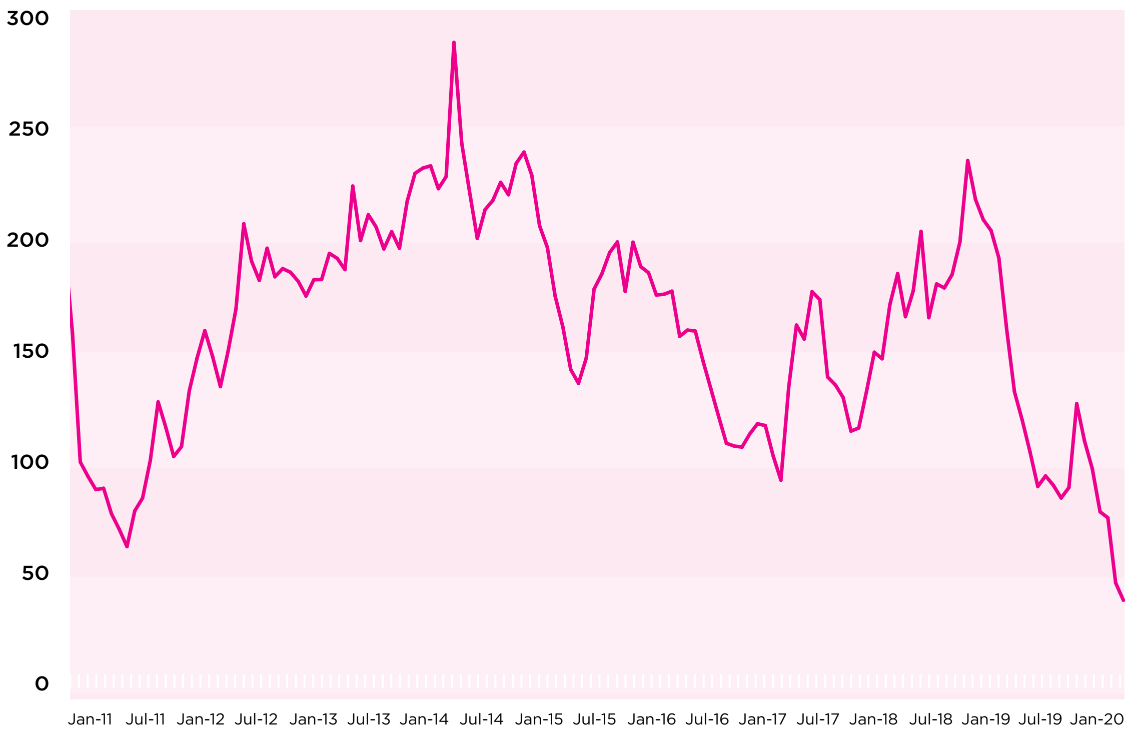
Natural Gas Index



%	
-17	1 Mth
-51	3 Mth
-65	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 12p/th in May, a decrease of 17% on the month in euro terms.

Prompt prices for gas continued to soften as we moved through spring into summer and temperatures started to rise. The gas market, already well supplied coming into 2020, took a further knock when lockdown restrictions were imposed in mid-March. While residential gas demand in many European countries increased, as millions worked from home, industrial and commercial demand dropped sharply resulting in an overall drop in demand. This combination of robust supplies and weaker demand has seen gas prices across the globe drop sharply.

The death toll from the virus continues to climb with latest estimates putting the total number of cases at 6.1m and fatalities at 365,000. Despite the growing numbers globally, in Europe we appear to be past the current peak and many European countries have eased restrictions in an attempt to restart battered economies.

Gas demand has begun to recover from lockdown levels in Europe, Asia and the US as restrictions are eased. In addition, reports indicate a number of US LNG cargoes have been cancelled for June. However, gas markets remain oversupplied. The outlook remains unclear and uncertainty persists with the danger of a second wave of infections a very real possibility.

The bearish sentiment on the prompt carried through to the near curve with contracts for the remaining summer months selling off sharply. The front month June contract traded 5.5p/th lower to settle at 8.3p/th, a drop of 40%, while the Q3 20 contract fell 30% to close at 11.8p/th.

Further out the curve, it was a mixed picture with the Winter 20 contract falling 3% to settle at 30.7p/th, while seasonal contracts beyond the front season traded around a penny higher supported by a continued recovery in oil.

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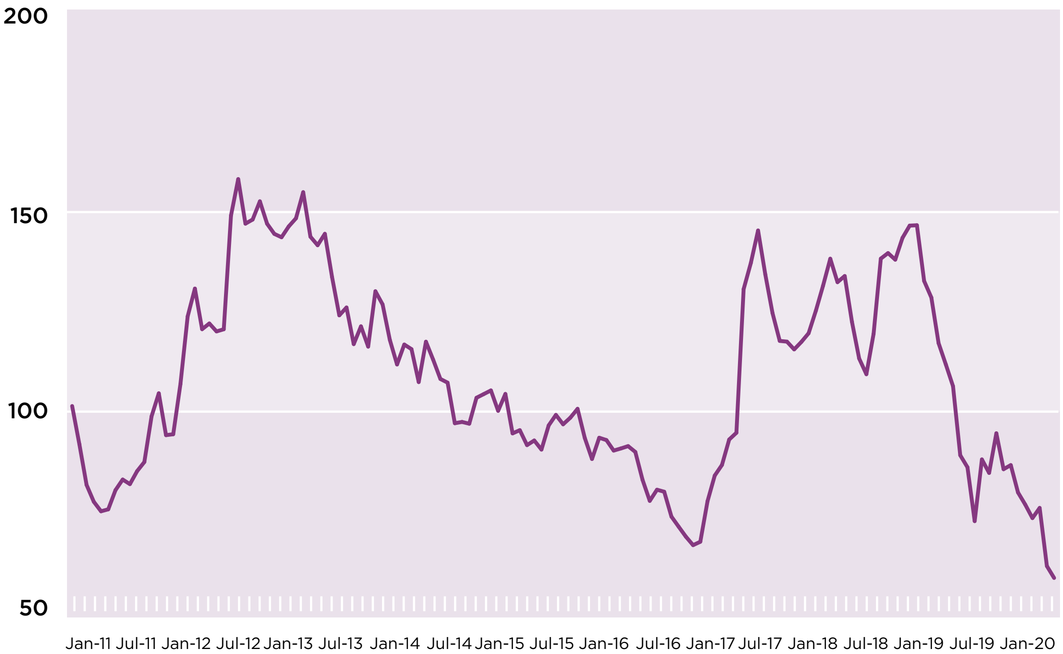
Coal Index



%	
-5	1 Mth
-20	3 Mth
-32	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices continued to drift lower in May amid continued weak fundamentals. Electricity consumption, while recovering, remains relatively weak and coal is losing ground in the battle for power generation in many markets as gas prices fall and renewables continue to grow.

The Energy Information Agency (EIA) recently reported that the US had consumed more renewables than coal for the first time ever. The inflection point reflects a steep drop in the use of coal as a source of electricity and illustrates the strong growth in wind and solar power. This trend is driven by both economic and environmental factors. US coal consumption fell 15% in 2019 compared with the year before, while renewable-energy consumption grew 1% according to the EIA.

Coal prices fell 5% in euro terms in May settling at $38.5 a tonne.

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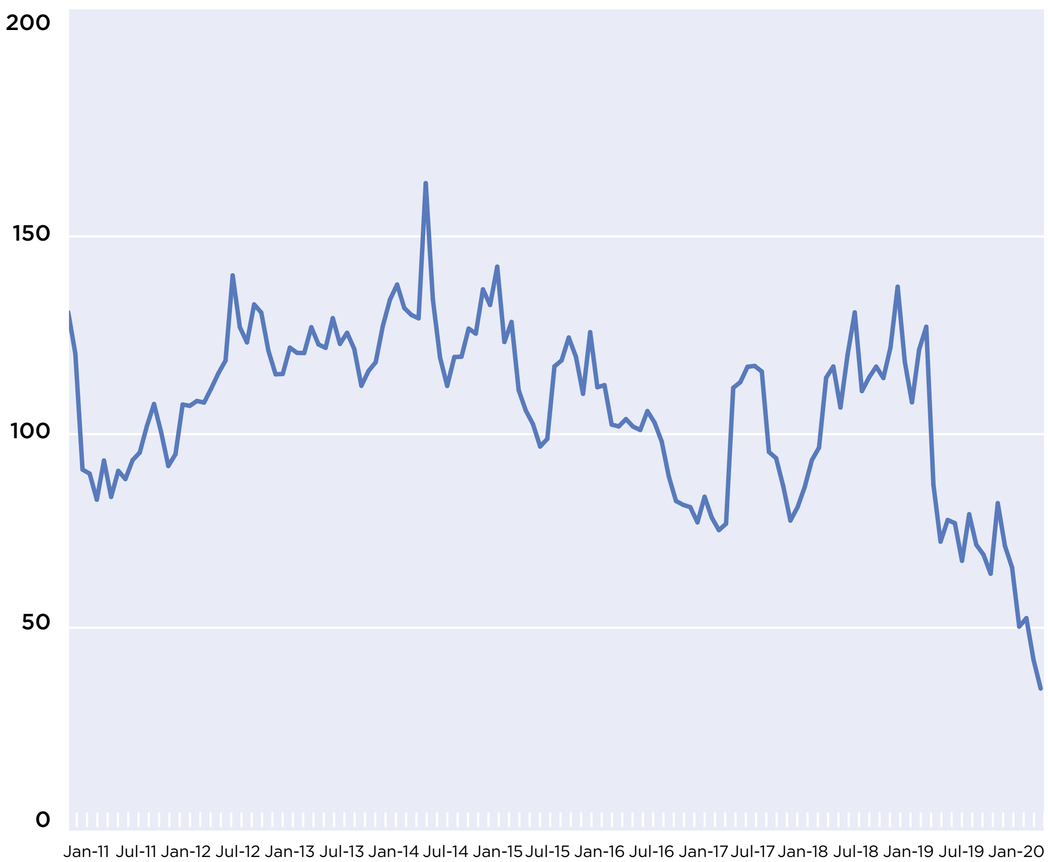
Electricity Index



%	
-16	1 Mth
-29	3 Mth
-52	12 Mth

Data Source: SEMO

Electricity

The average day-ahead price fell 16% going from €28/MWh in April to €23.6/MWh in May. The fall in electricity prices was due to a combination of lower natural gas prices and increased wind power generation in the Irish power market. Wind power generation increased by 25% in May from the previous month.

May saw the lowest average day-ahead power price since the beginning of I-SEM on May 23rd with prices turning negative (-€10/MWh) primarily driven by high wind and low demand. Wind filled 32% of outturn demand during the month.

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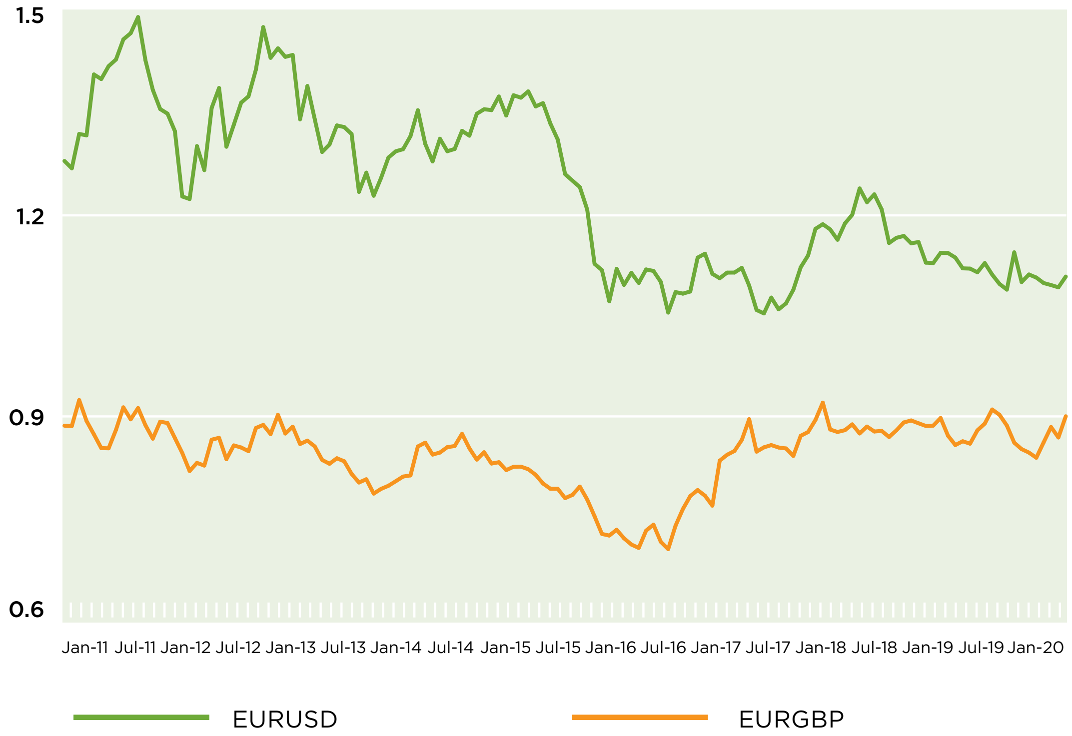
FX Rates



EURUSD %	
1	1 Mth
1	3 Mth
-1	12 Mth

EURGBP %	
4	1 Mth
5	3 Mth
2	12 Mth

FX Rates

The euro gained versus the pound and the dollar in May settling 3.6% higher versus the pound at £0.901 and 1.5% higher against the dollar at $1.11.

The euro was boosted by the European Commission's 750-billion-euro stimulus plan announced toward the end of the month, increasing hopes that the European economy could stage a strong recovery. In the meantime, tensions between the US and China began to escalate again as China tightened its control over Hong Kong.

In the UK, the pound fell to a two-month low against the euro on increased Brexit concerns and speculation that rates in the UK would go negative. This added to an already negative outlook as the UK economy remains gripped by the effects of coronavirus and bulging debt.

The deadline for a Brexit trade deal is the end of this year and talks thus far have not gone well. The EU's chief Brexit negotiator, Michel Barnier, called on Britain to be more realistic if it wants to clinch a deal. The negative sentiment wasn't helped by political and public pressure on Boris Johnson's key adviser Dominic Cummins following a flagrant breach of the lockdown restrictions.

For more information please contact:

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