Bord Gáis Energy Index
Understanding energy

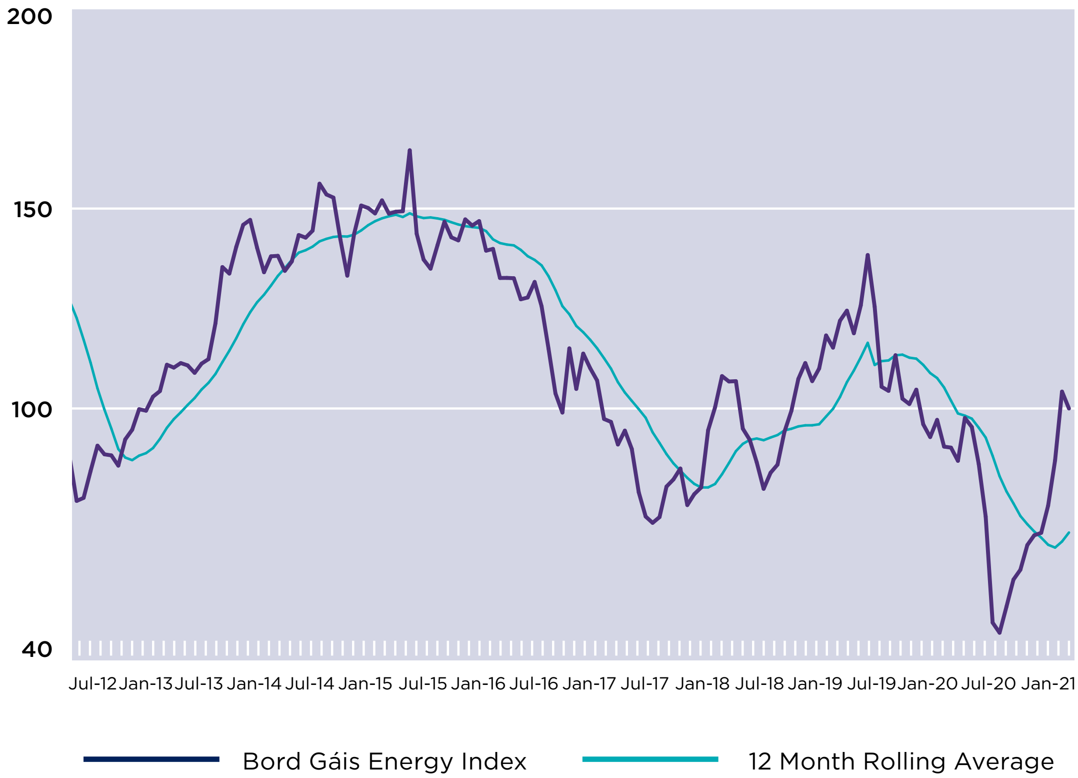
February 2021

BGE/EI/UE/0221

Bord Gáis Energy Index

February 2021

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



%

- -4 — 1 Mth
- 32 — 3 Mth
- 37 — 12 Mth

Summary

The Bord Gáis Energy Index fell 4% in February 2021.

The index closed the month lower despite strong gains in oil, the largest component of the index. Oil prices climbed 19% in February as vaccine optimism, disruptions to US production and continued supply restraint supported prices.

The positive impact from oil, however, was insufficient to negate falls in the remaining components of the index. The day-ahead gas price fell 20% as a combination of warmer weather, increased LNG deliveries and an improving storage outlook weighed on prices. The weaker gas price and higher winds also pushed power prices 27% lower, while coal prices fell 2% on milder weather.

In February, the Bord Gáis Energy Index closed at exactly 100.

Bord Gáis Energy Index

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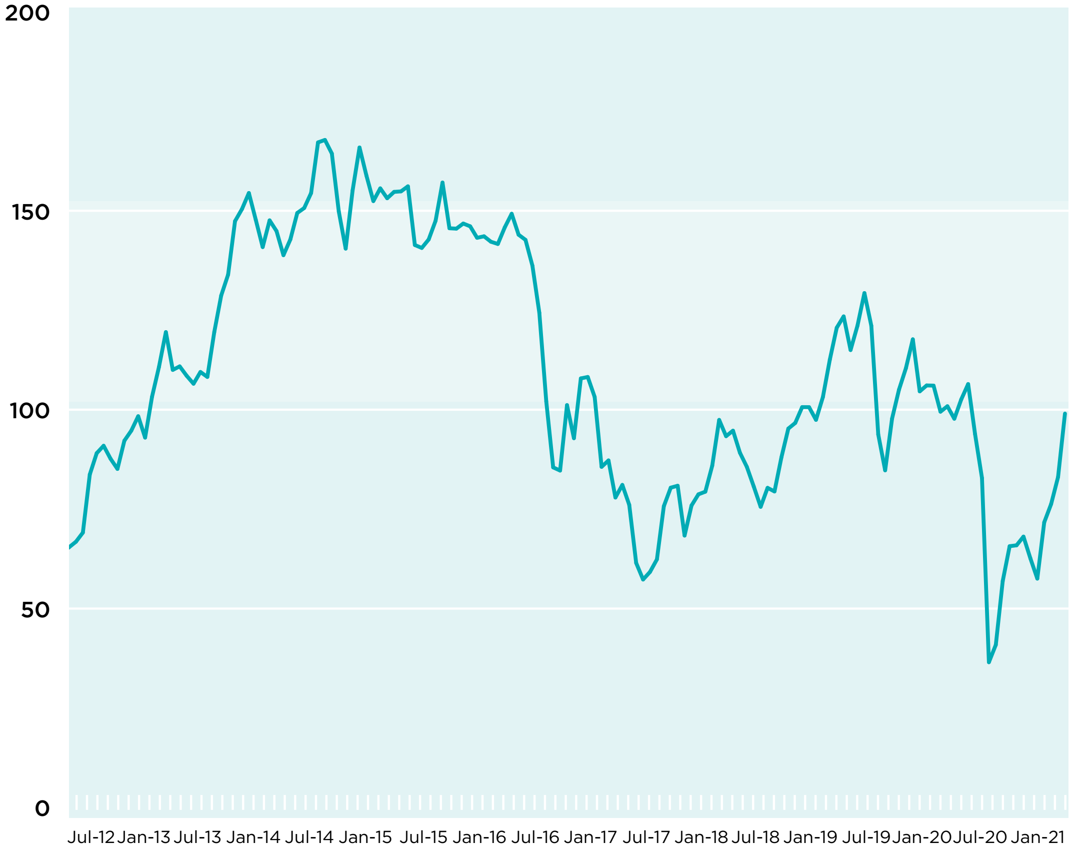
Oil Index



%	
19	1 Mth
38	3 Mth
19	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

It was a strong month for oil prices with the Brent crude oil benchmark climbing over $10 a barrel to settle at $66.1 a barrel, a gain of 19% in euro terms.

The rollout of coronavirus vaccines continues to fuel hope that we will see a return to some sort of normality in 2021, particularly in countries such as the UK and the United States which have seen accelerated vaccine delivery in recent weeks. The United States is now administering more than 1.5m vaccine doses per day. The easing of restrictions and lockdowns, which should follow the vaccination programme, will be positive for oil demand, particularly in oil reliant sectors such as travel and leisure.

This demand recovery rally was given added impetus from two supply side events which added to the bullish momentum. Texas, a key US oil production region, was hit by freezing temperatures which hit its oil facilities and disrupted production.

In addition, OPEC+, which combines OPEC with other key producers such as Russia, agreed to maintain existing production cuts helping to support prices. This continued production restraint, despite oil trading at pre-pandemic levels, is a testament to the discipline of all parties to the current agreement. It also highlights the groups reluctance to add supply in anticipation of increased demand. The key producers want to see this increased demand materialise before they start to release the handbrake!

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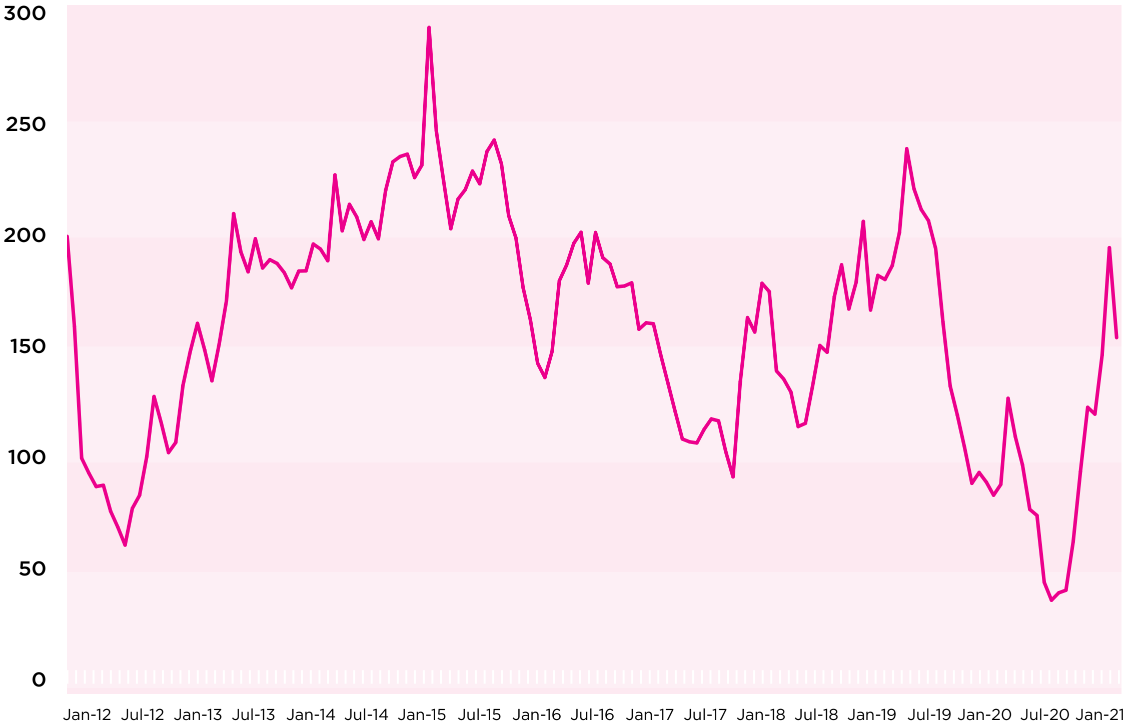
Natural Gas Index



%	
-20	1 Mth
28	3 Mth
96	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 46.1p/th in February, a fall of 20% on the previous month but still almost double the levels seen in the comparable period in 2020. A combination of warmer weather, increased LNG deliveries and an improved storage outlook were key to the fall in prices.

Asian LNG prices, which had spiked over the previous two months retreated, as Asian demand continued to soften. This reduced Asian premium saw increasing volumes of LNG returning to European shores. LNG send out in the UK totalled almost 2bcm in February, a drop of 15% on the previous year but crucially an impressive 100% increase on the comparable figure for January.

In addition to increased LNG, warmer temperatures, particularly in the second half of the month, helped reassure markets that Europe could balance comfortably easing the potential call on storage over the remaining winter months.

On the curve, the easing storage requirement and the return of LNG weighed on the front month and season contract, while further out the curve, higher oil and carbon supported prices.

The front month March contract dropped 13p to finish the month at 40.3p/th, while the Summer 21 contract settled 2.7p/th lower at 40p/th, a drop of 6%. However, seasonal contracts beyond the front season finishing the month an average of 1.2p/th higher.

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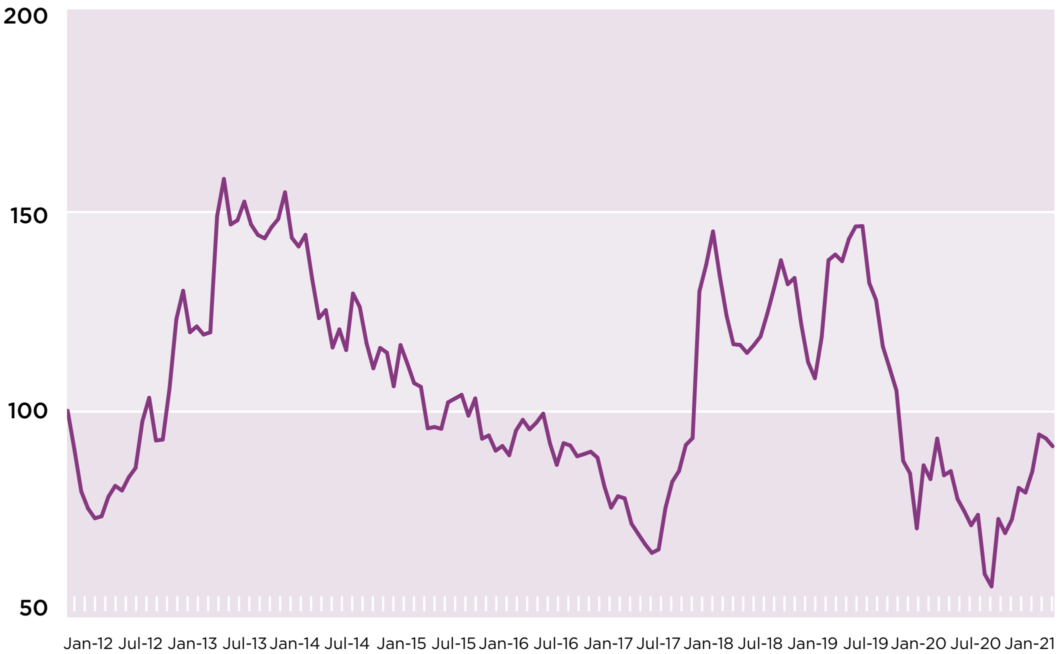
Coal Index



%	
-2	1 Mth
7	3 Mth
26	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices closed the month at $66.2 a tonne, a loss of 2% in euro terms on January's settlement. China, the world's largest consumer of coal, experienced a spike in demand in recent months due to colder temperatures across Asia. However, milder temperatures in February saw coal demand retreat from these elevated levels.

In addition, a weakening gas price globally reduced coal's competitiveness in power generation where it competes with gas for access to the power grid.

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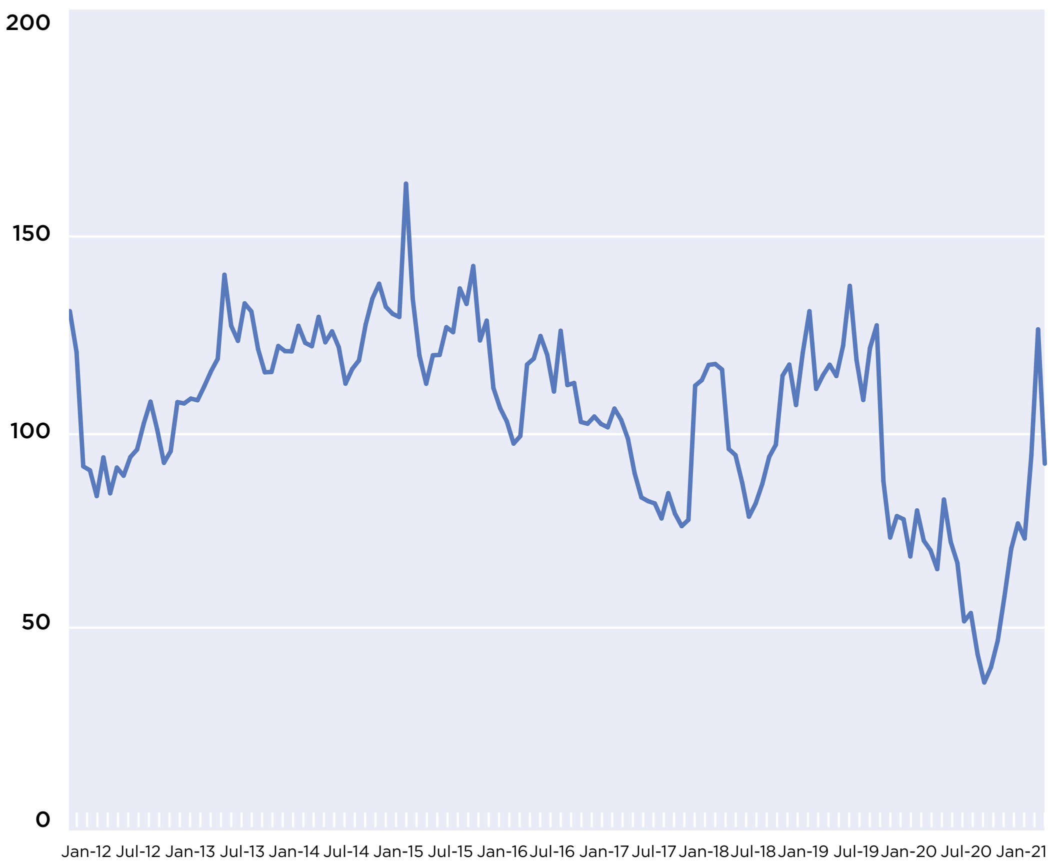
Electricity Index



%	
-27	1 Mth
25	3 Mth
74	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price fell 27% this month moving from €78.38/MWh in January to €57.56/MWh in February.

Higher levels of wind (+62%) and lower gas prices were the main drivers behind the reduction in power prices. In addition, reduced volatility as a result of Brexit induced changes to interconnector scheduling also helped lower prices.

Demand was relatively static month on month and although carbon prices increased (+14%) the downward pressure from the other contributors more than offset this.

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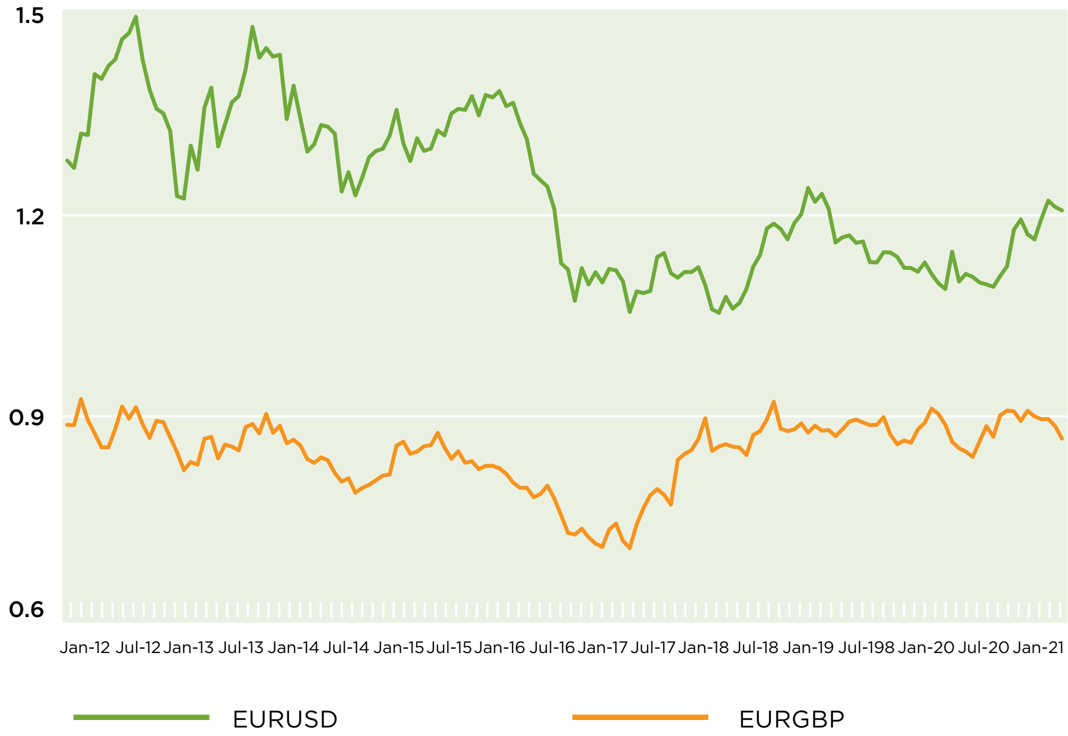
FX Rates



EURUSD %

0	1 Mth
1	3 Mth
10	12 Mth

EURGBP %

-2	1 Mth
-3	3 Mth
0	12 Mth

FX Rates

The euro lost value against both the pound and the dollar this month. The single currency fell 0.4% versus the dollar and 2% versus the pound closing the month at $1.21 and £0.866 respectively.

The dollar and pound have been supported by expectations of improving economic data. The impressive rollout of vaccines in the UK and US suggest that increased economic activity may be coming into sight, the dollar was further supported by a significant stimulus package which is expected to pass in Congress. Meanwhile the European Union vaccine rollout continues to underwhelm.

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