Bord Gáis Energy Index
Understanding energy

Bord Gáis Energy

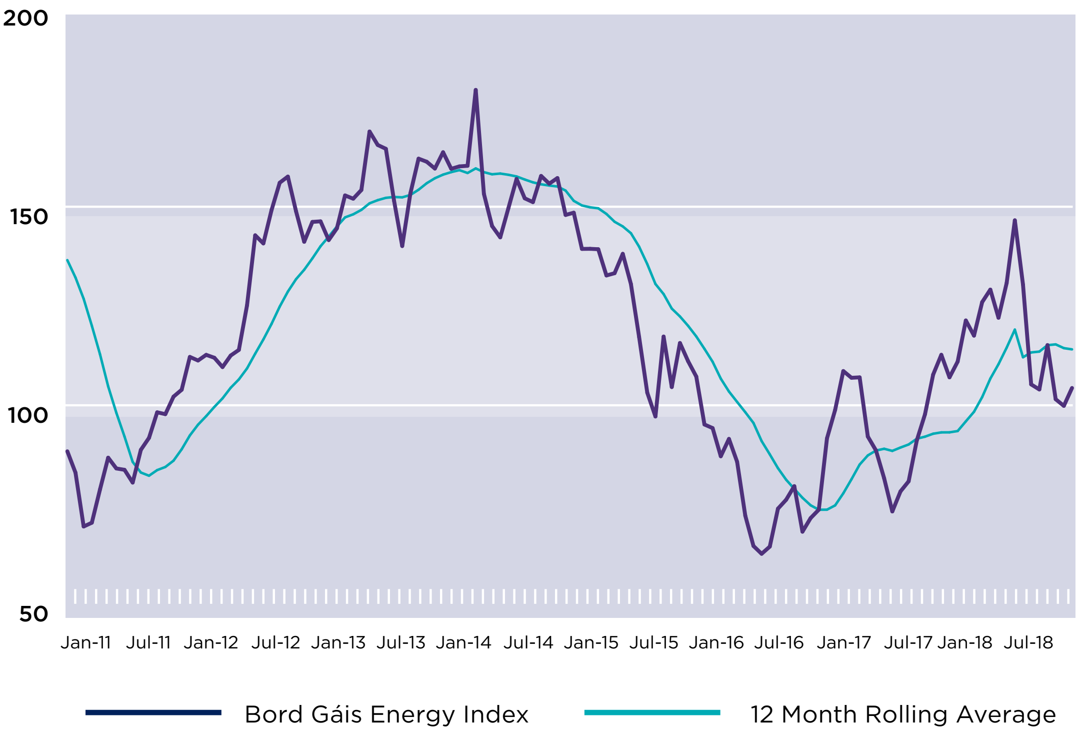
April 2019

BGE/EI/UE/0419

Bord Gáis Energy Index

April 2019

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



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

Summary

The Bord Gáis Energy Index gained 4% in April and is now 3% below the comparable period last year.

Oil, the largest component of the Index, had another strong month gaining 6% in euro terms as continued production restraint, a rebound in Chinese economic indicators and a hardening of US sanctions on Iran supported prices.

Among the other components, prices were softer over the month. The spot gas market fell a further 10% as LNG tankers continue to arrive in record numbers into Europe due to weak Asian demand. Electricity prices were marginally lower in April while coal prices fell 16% on high stock levels, stronger carbon prices and weaker Asian demand.

In April, the Bord Gáis Energy Index stood at 105.

Bord Gáis Energy Index

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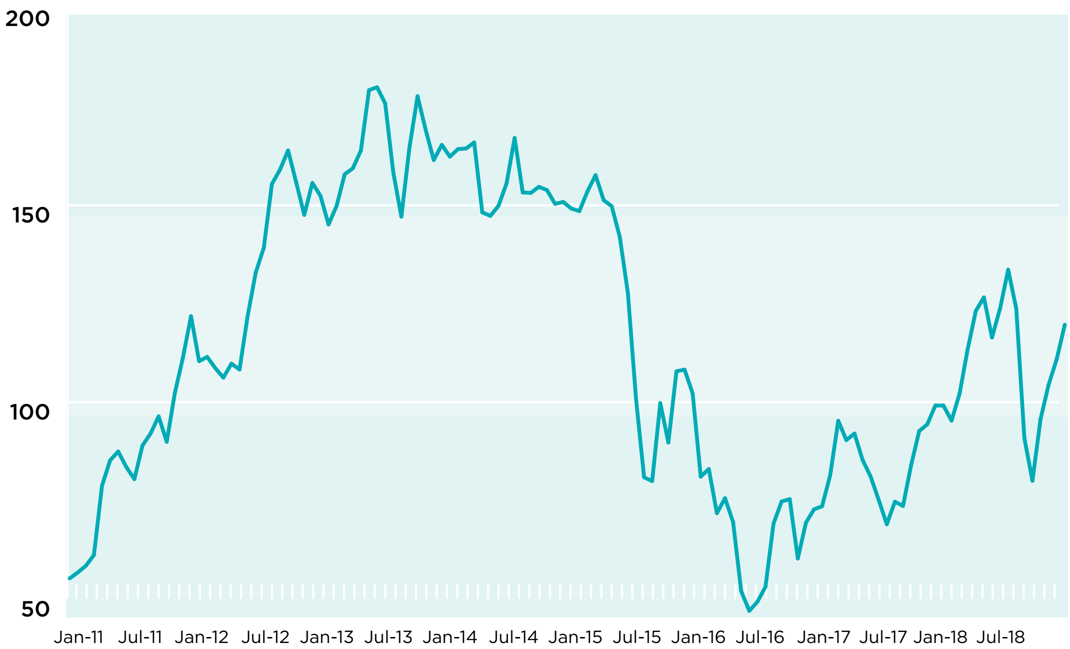
Oil Index



%	
6	1 Mth
20	3 Mth
4	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

April was another bullish month for prices as the Brent crude benchmark broke through the previous highs. Crude opened the month at $69 a barrel before hitting a fresh 2019 high of $74.57. The benchmark Brent contract closed the month at $72.80, over 6% above the previous month close and over 4% higher than the comparable period last year.

The first week of April set a bullish tone for oil prices, breaking through $70, taking its lead from OPECs production cuts and output drops from sanction-hit Venezuela and Iran. Oil was also supported by data showing a rebound in US and Chinese manufacturing and signs of trade talk progress between Washington and Beijing.

Oil prices found continued support as OPEC and other key producers continued to curb production in an effort to balance the market, following an oversupplied market in 2018. Saudi Arabia, OPECs largest producer, has cut output from 11 million barrels a day to 9.8 million barrels a day, a drop of 1.2 million barrels. The reduction in supply is well above its OPEC + production target of 10.3 million barrels. This supply restraint coupled with a drop in Venezuela's output of nearly 500,000 barrels a day from February, are all supporting oil prices.

The current US administration has been a vocal critic of high oil prices due to the impact it has on economic growth and US gasoline prices. President Trump has repeatedly complained to as rising fuel prices will hit US consumers, particularly heading into the driving season. The Trump administration could draw some of the blame in a high oil price environment.

Towards the end of April prices hit a high of $74 a barrel for the first time in six months, driven primarily by the US decision to eliminate the sanction waivers that had allowed big economic powers to continue to import crude from Iran, despite the sanctions imposed in November.

Iran's exports were about 2.5 million barrels a day before the US decided to reimpose anti-Iran economic sanctions in an effort to increase pressure on Tehran. Since the sanctions Iranian exports have dropped to about 1.1 million barrels a day. The US has stated it wants to drive Iran's oil exports to zero. The main buyers of Iranian oil include, India, China, South Korea, Japan and Turkey. China has already indicated its opposition to the US implementation of unilateral sanctions, so it is unlikely Iranian exports will drop to zero, but it is likely that they will drop below 1 million barrels a day.

Oil prices closed the month at $72.80 a barrel as robust US inventory and production numbers offset some of the impact of Iran sanctions, Venezuelan economic and political chaos and Libyan supply risks.

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Natural Gas Index

%	
-10	1 Mth
-38	3 Mth
-28	12 Mth

Index adjusted for currency movements.

Data Source: Spectron Group

Natural Gas

The day-ahead contract, the price for gas delivered tomorrow, averaged 35.6p/th in April, a drop of 10% in euro terms on the previous month.

Falls on the NBP were steeper than those on other Continental hubs as the IUK interconnector, which enables the UK to export gas to the Continent, was unavailable between April 21-30.

Lower LDZ demand added further impetus to the bearish tone as LDZ demand was on average 5mcm below seasonal norm for the time of year.

Norwegian flows to the UK adjusted lower during Interconnector maintenance, a further indication that the operator may take a more proactive approach to optimising production based on price signals. The UK received 1.8bcm from the Norwegian Continental Shelf in April, versus 2.6bcm in April 2018.

The key driver of prompt and near curve weakness has been a continuing surge in LNG deliveries. LNG regasification levels hit fresh multi-year highs in April. A total of 2.1bcm of LNG was delivered to the UK system, a year-on-year increase of 270% as weak Asian demand and pricing sees surplus cargoes find their way to Europe.

Further out the curve it was a mixed month, contracts for the remainder of this summer continued to lose value in the face of strong supply outlook, while seasonal contracts beyond this summer made significant gains. The front month, May 19 fell just over .5p to settle at 34.07p/th, while the third quarter contract fell .6p to settle at 36.76p/th. The Winter 19 contract gained 4.3p/th to settle at 55.28p/th, while the Summer 20 contract traded 2.65p higher finishing the month at 45.5p/th.

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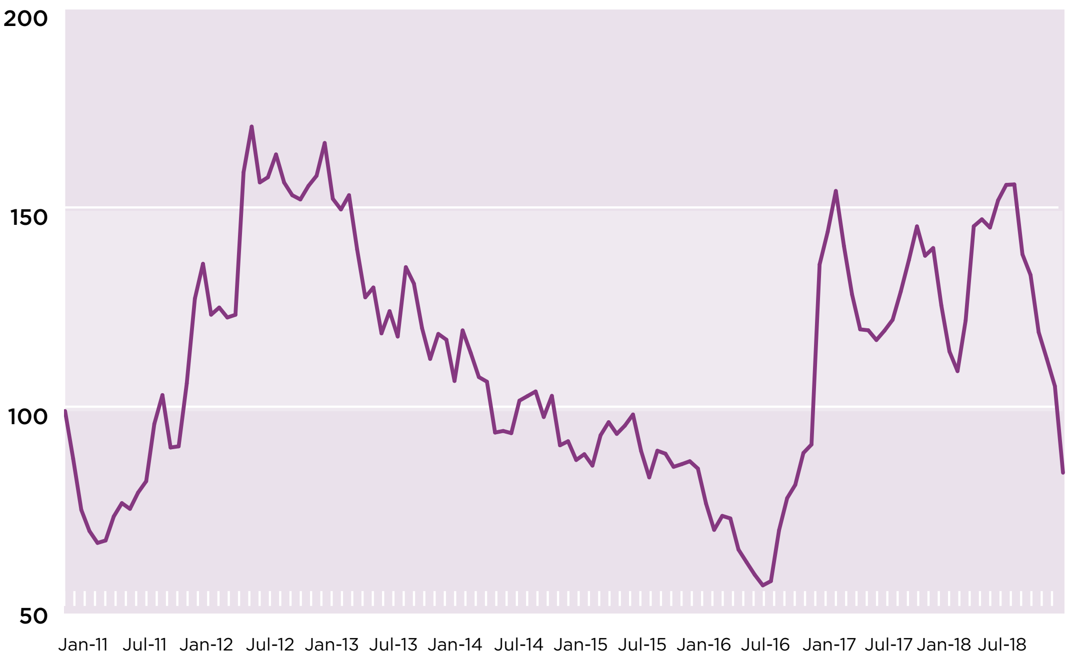
Coal Index



%	
-16	1 Mth
-24	3 Mth
-25	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $59 a tonne in April, a drop of over 16% compared to the previous month and 25% lower than the comparable period last year.

Coal prices hit a fresh multi-year low at the start of April, hitting levels not seen since August 2016, opening at $58.75 a tonne. The main driver was high stocks levels which were at peak levels in most key markets.

Coal prices fell to $54.80 in early April as coal demand in Europe dropped off significantly while demand from Asia remained weak.

China's restrictions on Australian coal imports continued to weigh on coal prices, with the government capping coal imports this year at 2018 levels, in a bid to support domestic producers. Shipments from Australia have slowed sharply because of lengthy checks at customs. China barely allowed any coal imports in December last year, delaying custom clearances in an effort to meet a 2018 import quota restricting shipments to 2017 levels. However, utilities have a preference for imported coal as it has advantages on price, quality and accessibility, especially for those located in coastal regions. India is seeing rapid growth in coal imports and is expected to overtake China as the world's largest importer by 2020. Its' coal imports are forecast to grow to 64 million tonnes in 2019 from 60 million last year.

Germany continues with its plan to phase out coal-fired generation, with Germany's coal commission recommending the closure of 4 GW of hard coal and 3GW of lignite capacity by 2023. The shutdowns are in addition to planned closures of coal and lignite capacity from 42.5GW to 30GW by 2023. Germany is set to phase out coal fired power generation by 2038.

Towards the end of April, coal prices hovered around the $59 a tonne region, similar levels to where it opened the month. The demand for coal fired generation was also heavily influenced by the rally in carbon prices in April, which hit a high of €27.50 a tonne, making gas fired generation relatively cheaper than coal fired generation, given that coal is more carbon intensive than gas. The market is also monitoring the potential of any lifting of the Chinese import restrictions on Australian coal, this would be a bullish indicator for coal prices.

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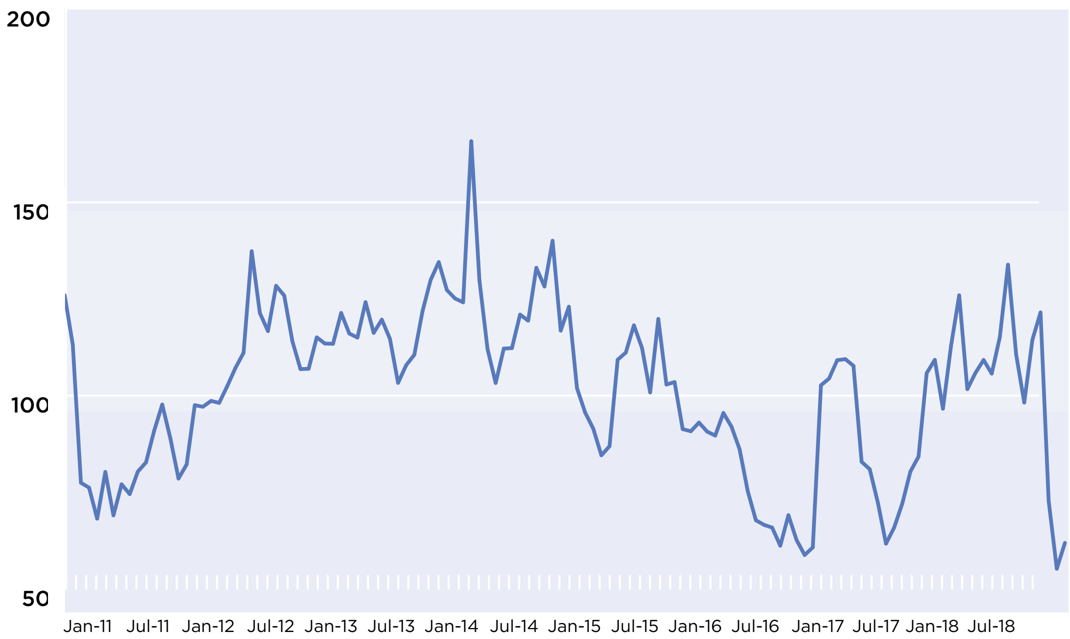
Electricity Index



%	
0	1 Mth
-37	3 Mth
-11	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead price in April was €49.41/MWh, a marginal reduction over the month. 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.

In April, the clean spark increased to €11.08/MWh from €7.98/MWh in March.

Wind output was down 17% to 1360MW versus 1639MW the previous month. The average portion of demand met by wind in April was 32%.

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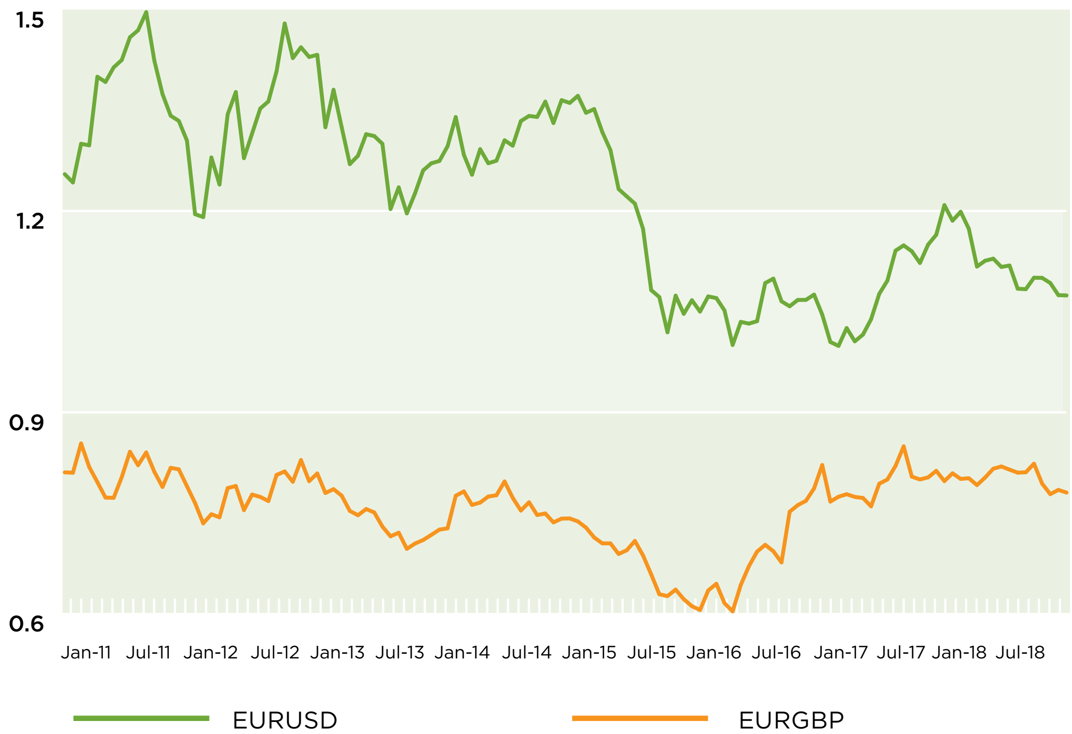
FX Rates



EURUSD %

0	1 Mth
-2	3 Mth
-7	12 Mth

EURGBP %

0	1 Mth
-1	3 Mth
-2	12 Mth

FX Rates

The euro traded marginally weaker versus the dollar and the pound in April, settling at $1.1217 versus the greenback, a fall of .04%, and at 0.86 versus the pound, a fall of .4%.

The US economy continues to perform well as illustrated by robust first quarter growth numbers. The Federal Reserve, however, is likely to maintain its dovish stance amid expectations of softer growth going forward. US and Chinese representatives continue talks in an attempt to avert a damaging trade war between the world's two major economies. The escalating trade tensions between both parties has added to global growth concerns for much of the past year.

The European Central Bank (ECB) left interest rates unchanged at its April meeting on the back of muted economic activity. The ECB expects rates to remain at current levels through to the end of 2019,

As the UK political establishment remains gripped by Brexit deadlock, the European Union granted the UK a flexible extension. The March 29 deadline has now been extended until October 31 removing the threat of a no deal exit until then. Should the house of Commons reach an acceptable compromise, which facilitates the passage of the withdrawal agreement, the UK can exit before the October deadline.

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