Bord Gáis Energy Index
Understanding energy

June 2020

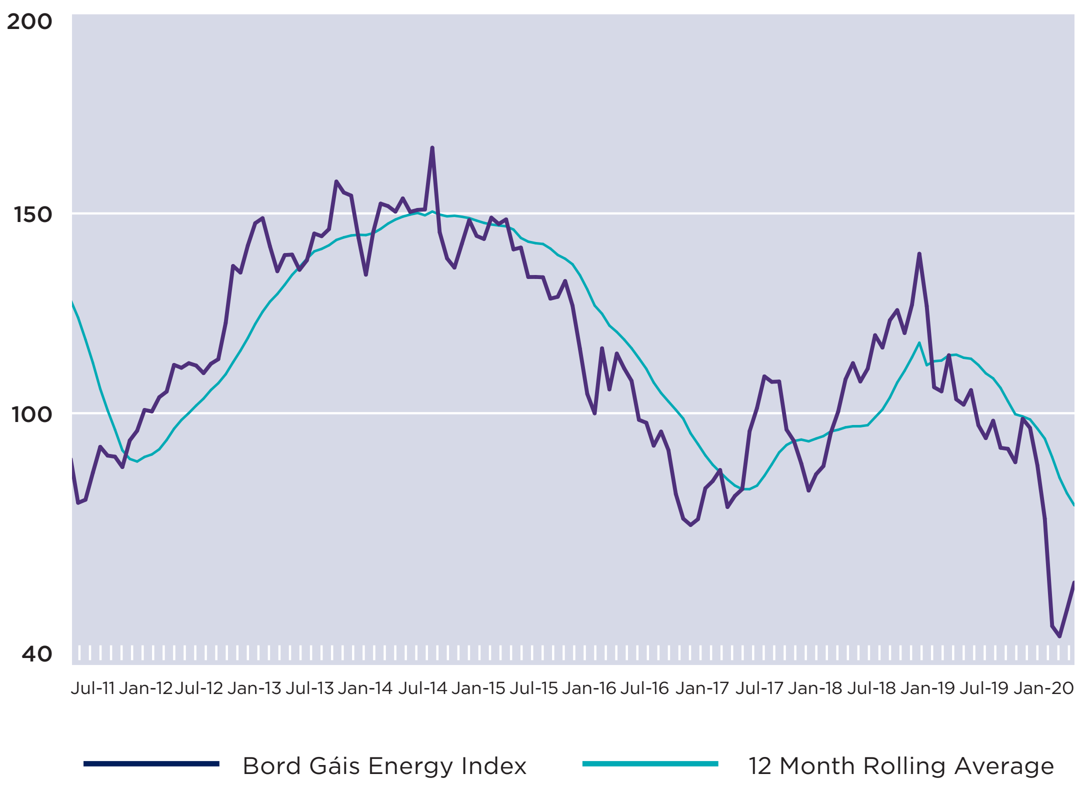
BGE/EI/UE/0620

Bord Gáis Energy

Bord Gáis Energy Index

June 2020

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



%	
14	1 Mth
24	3 Mth
-39	12 Mth

Summary

The Bord Gáis Energy Index was up 14% in June 2020.

It was another month of recovery for the oil market, with Brent gaining 15% as lockdown restrictions eased and supply constraints, coupled with falling US production, helped tighten the market.

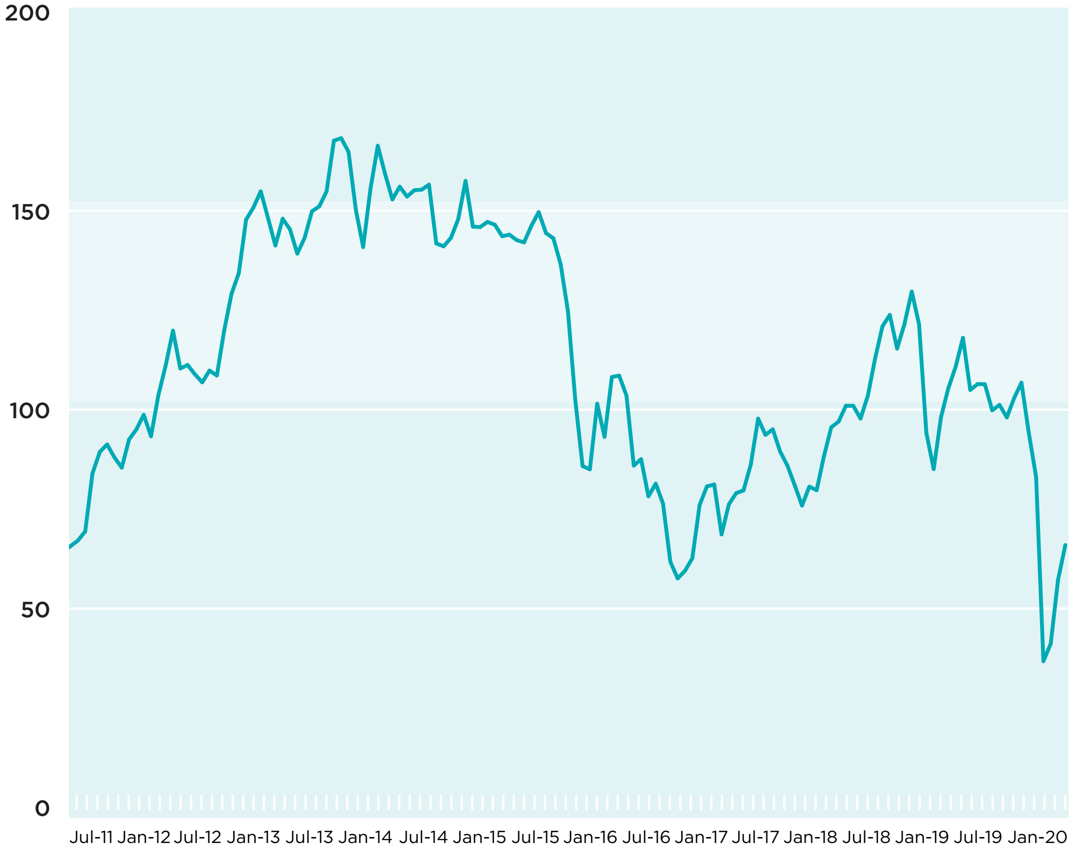
This recovery theme was replicated throughout the Index as easing lockdowns and a reduction in LNG flows into Europe helped lift day-ahead gas prices by 9%. Electricity prices gained 10% on recovering demand and increasing gas prices, while coal gained an impressive 28% on recovering energy demand in Asia. The Energy Index has gained for the second month in a row but is still 40% lower on a year to date basis.

In June, the Bord Gáis Energy Index closed at 57.

Bord Gáis Energy Index

June 2020

Oil Index



%	
15	1 Mth
77	3 Mth
-38	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

It was another month of recovery in the oil market as the Brent crude benchmark put on another $5.82 a barrel, settling at $41.15 a barrel, a gain of 15% in euro terms and an even more impressive 77% higher over the past three months.

The continued easing of lockdown restrictions helped support a recovery in oil demand as economic activity resumed in key sectors. The increased volumes of traffic on the roads was noticeable with many businesses re-opening as economies attempted to climb back to normality, albeit a new normality! However, caution is advised as any resurgence in infection rates could see this easing rolled back, as we have seen in the US and the UK in early July.

A further support for oil prices came from reduced supply due to OPEC+ production restraint, which has taken around 10 million barrels out of the market, and from falling US shale production. The significant drop in oil prices in recent months has put considerable pressure on cash hungry US producers, resulting in a US production drop of over 2 million barrels in the past 3 months.

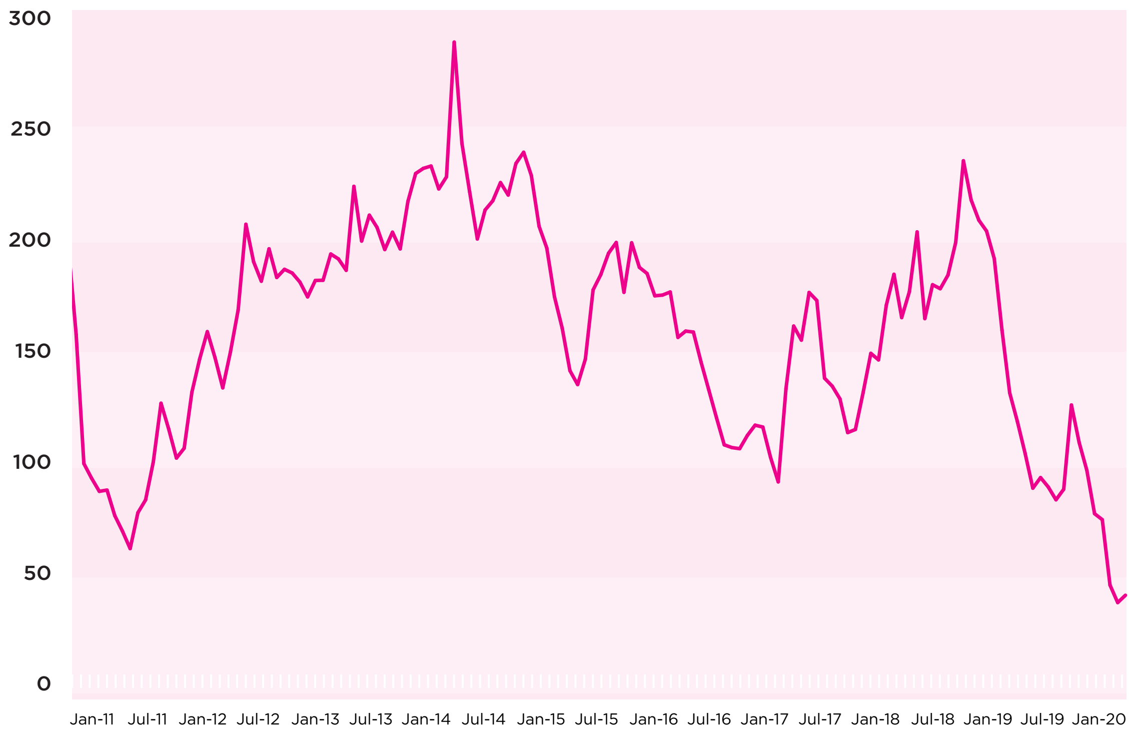
The market received a stark illustration of the pressure on US shale producers in the last week of June when Chesapeake Energy, a pioneer of the US shale revolution, filed for bankruptcy protection. This is the largest oil producer to seek bankruptcy in recent years and sent shockwaves through the market.

While the recovery in oil prices has been impressive, caution remains the watchword as any softening in demand recovery or increase in supply could see a pullback.

Bord Gáis Energy Index

June 2020

Natural Gas Index



%	
9	1 Mth
-45	3 Mth
-56	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 13.1p/th in June, an increase of 9% on the month in euro terms.

In June, we witnessed the first monthly increase in the day-ahead average gas price since November 2019. Prompt prices across Europe have been under pressure through 2019 and into 2020 as mild weather and robust supplies, particularly historically high volumes of LNG, ensured gas markets were able to balance comfortably. This trend was exacerbated in March when restrictions to combat the spread of Covid-19 hit already tepid demand across Europe, but European gas demand continued to recover from lockdown levels as restrictions were eased and European economies attempted to get back to some sort of normality.

Gas prices received a further boost as we saw the first material supply adjustment with a drop in LNG cargoes arriving into the UK and Europe. European hub prices have fallen to a level which incentivised US LNG cancellations. In effect, hub prices screamed ‘stop’ as gas systems struggled to absorb the historic volumes of LNG arriving into European shores. Reports currently suggest an additional 45 US LNG cargo cancellations for July.

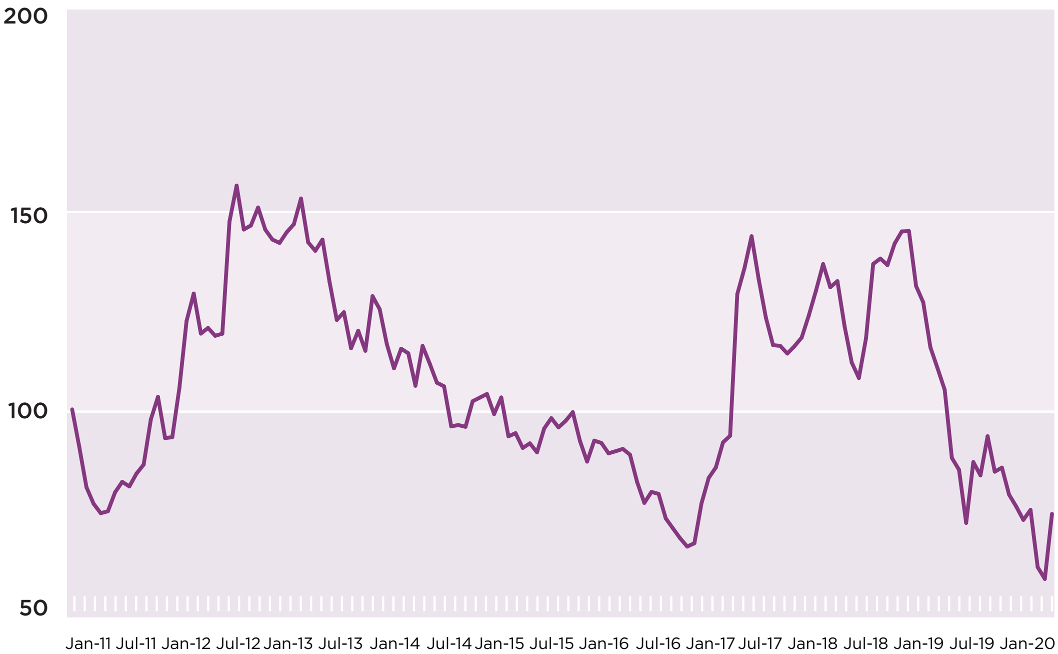
The recovery on the prompt reverberated through the curve with contracts for the remaining summer months gaining on falling LNG supplies. The front month July contract traded 6.3p/th higher at 15.9p, a gain of 65%, while the Q3 20 contract gained over 40% to close at 16.7p/th.

Further out the curve, the bullish sentiment on the near curve and higher oil and carbon prices helped lift seasonal contracts. The Winter 20 contract gained 2.7p (9%) to settle at 33.4p/th, while seasonal contracts beyond the front season also gained.

Bord Gáis Energy Index

June 2020

Coal Index



%	
28	1 Mth
-1	3 Mth
3	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices had an impressive June climbing over $11.30 to close the month at $49.85 a tonne, a gain of 28% in euro terms.

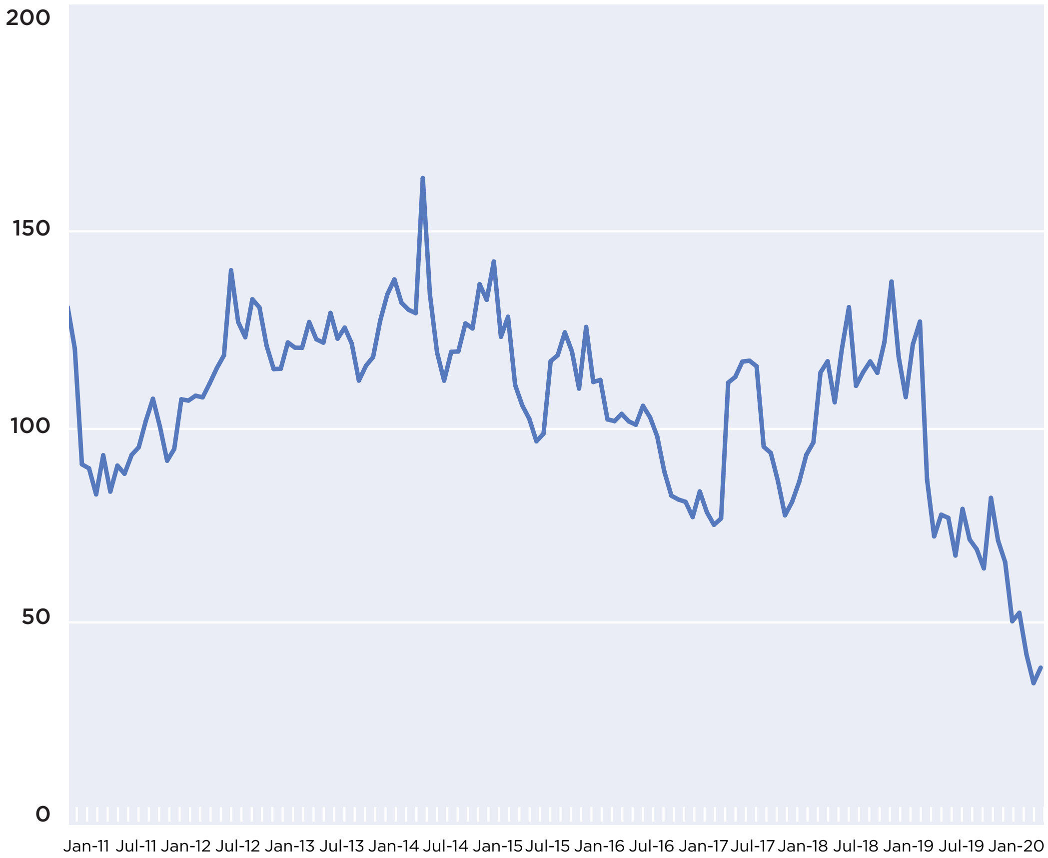
Coal prices seem to have bottomed out in May and have since recorded very solid gains, despite strong competition from low priced gas and renewables, in the power generation sector. Last month's gains reflect the broader recovery that we have seen in energy markets, due to the lifting of restrictions from Covid-19 and stronger economic data in key coal markets like China.

There were also reports that the oversupply seen in coal markets in recent months was reduced due to lower levels of seaborne coal supply into Europe. Higher freight rates were also cited as a contributing factor to higher coal prices in recent weeks.

Bord Gáis Energy Index

June 2020

Electricity Index



%	
10	1 Mth
-24	3 Mth
-40	12 Mth

Data Source: SEMO

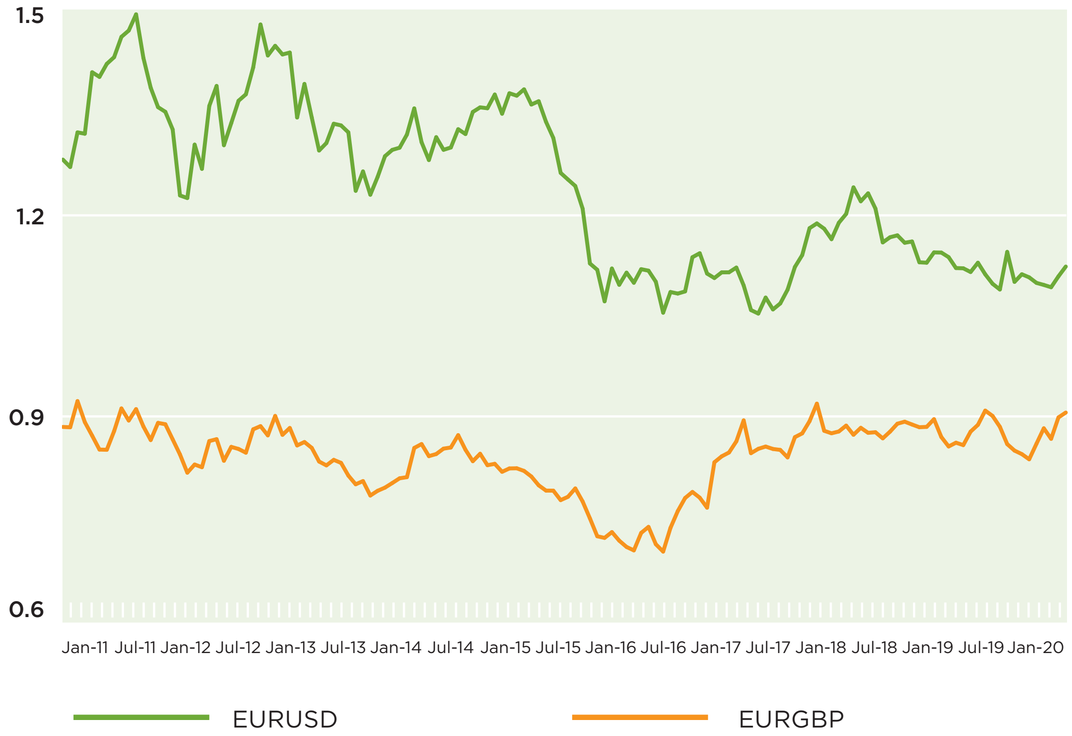
Electricity

The average day-ahead price was 10% higher in June climbing to €25.94/MWh. The key factors pushing prices higher were stronger gas prices (+11%) and carbon prices (+17%) coupled with increased demand (+3%).

Wind was relatively static month on month and filled 31% of outturn demand. The increased demand is probably a result of the further easing of Covid-19 restrictions in June.

Bord Gáis Energy Index
June 2020

FX Rates



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

EURGBP %	
1	1 Mth
3	3 Mth
2	12 Mth

FX Rates

The euro gained versus the pound and the dollar settling 0.8% higher versus the pound at £0.91 and 1.3% higher against the dollar at $1.12.

The euro traded to a 12-month high versus the dollar as markets began to recover and recent safe haven buying of the dollar started to dissipate. In addition, the European Commission's stimulus plan supported the euro while trade tensions, social tensions and resurgent infection numbers in the US weighed further on the dollar.

In the UK, Brexit uncertainty continues to weigh on the pound as we move closer to the end of the transition period at the end of the year and a trade deal appears as elusive as ever. A recent OECD report highlighted that the UK economy is likely to be among those affected hardest by Covid-19, predicting an economic contraction in 2020 of almost 12%.

Bord Gáis Energy Index

June 2020

For more information please contact:

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