Bord Gáis Energy Index

Understanding energy

June 2019

BGE/EI/UE/0619

Bord Gáis Energy

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June 2019

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

%	
-3	1 Mth
-8	3 Mth
-21	12 Mth

Summary

The Bord Gáis Energy Index fell 3% in June.

Oil, the largest component of the Index, gained 1% in the month as the outcome of trade talks between the US and China remains uncertain.

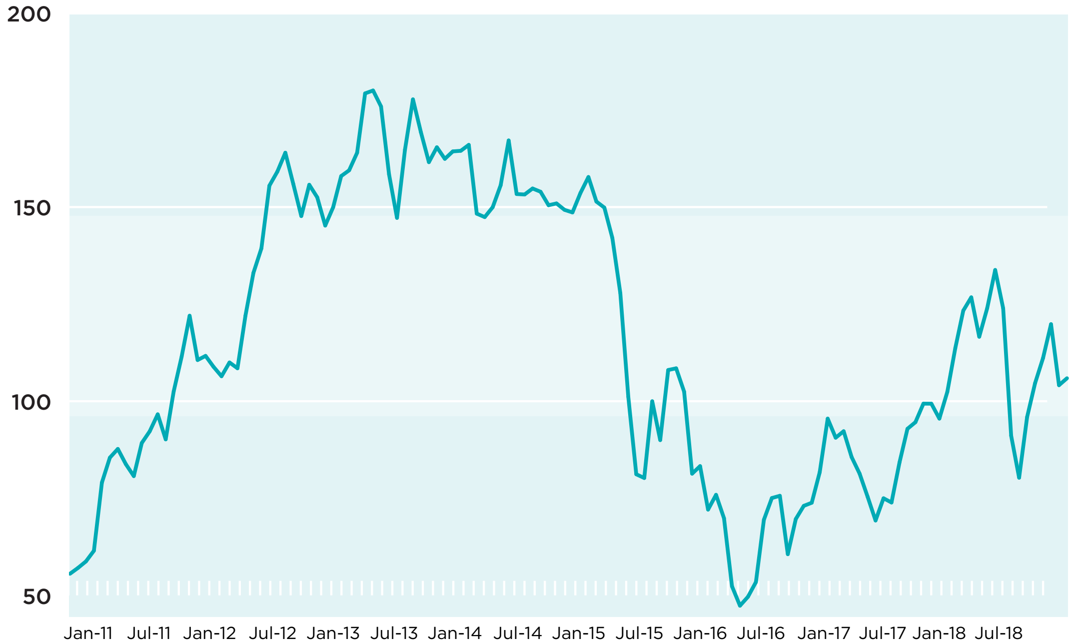
The other components of the Index traded lower, with gas prices falling 15% as the UK system remained comfortably supplied and storage levels in continental Europe are already over 70% full. Coal prices dropped 15% on weak demand in Europe and Asia, and electricity prices fell 11%.

In June, the Bord Gáis Energy Index stood at 93 (-3).

Bord Gáis Energy Index

June 2019

Oil Index



%	
1	1 Mth
-4	3 Mth
-14	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices gained slightly over the month having fallen over 10% in May. Brent crude prices fell at the beginning of the month dropping to $60 per barrel and traded between $60-$64 for much of the month. However, prices broke higher in the last week of June to close at $66.50. In euro terms oil prices rose 1.4% over the month.

Oil prices opened the month under pressure after US President Donald Trump announced a raft of tariffs on Mexican products, unless Mexico acted to contain levels of illegal immigration to the US. That news shook already weak markets pushing oil prices down to the $60 level. Prices remained low through the first half of the month as the Energy Information Administration (EIA) lowered demand growth forecasts and reported higher US inventory levels.

Oil market supply risk increased significantly in the second half of June as tensions in the Middle East rose. Reports that two tankers were attacked in the Gulf of Oman, a key supply route for global oil, pushed prices higher. The US and Saudi Arabia pointed the finger of blame at Iran for the attacks.

A week later oil prices rallied 5% when Iran reported that it shot down a US drone in Iranian airspace. The US denied it violated Iran's airspace and President Trump later declared he intervened at the last moment to halt a retaliatory air strike on Iranian defences. The escalating tensions pushed Brent prices back above the $66 level by month end, well above its $60 lows.

By month end the focus of the market had shifted once more to two major meetings. The G20 meeting in Japan, which led to a break-through in the US China trade dispute and the OPEC plus Russia meeting where production cuts, that were put in place last year, were extended to the end of 2019.

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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 27.8p/th in June, a drop of almost 15% in euro terms. Gas prices are seasonal as gas demand increases in the colder winter months and falls in the warmer summer months. However, even allowing for seasonal weakness, the price movement in the past number of months has been significant.

The key drivers that have driven day-ahead prices in recent months remain in place, with high European gas storage levels and high gas imports via Liquified Natural Gas (LNG) both continuing to weigh on the index price. European gas storage was struggling to fill this time last year after a very cold end to the winter left stocks depleted. The mild weather during winter meant stock levels were very healthy entering the summer period, reducing storage demand and weighing on gas prices over the summer period.

Gas supply via LNG tankers is the other key driver of prices this summer. Despite a drop in tanker arrivals to Europe over the month, there was still sufficient supply to pressure prices. LNG imports and falling prices have put pressure on the traditional pipeline suppliers to Europe, namely Russia and Norway. However, so far this summer pipeline gas has continued to flow, suggesting increased competition between LNG and pipeline gas.

While the Energy Index tracks the movement in day ahead gas prices, it should be highlighted that seasonal prices remain well supported. The winter price, covering the period from October 2019 to March 2020, fell 4% in June but seasonal prices beyond that were unchanged as higher oil and carbon prices supported forward gas prices, despite short-term weakness in prices.

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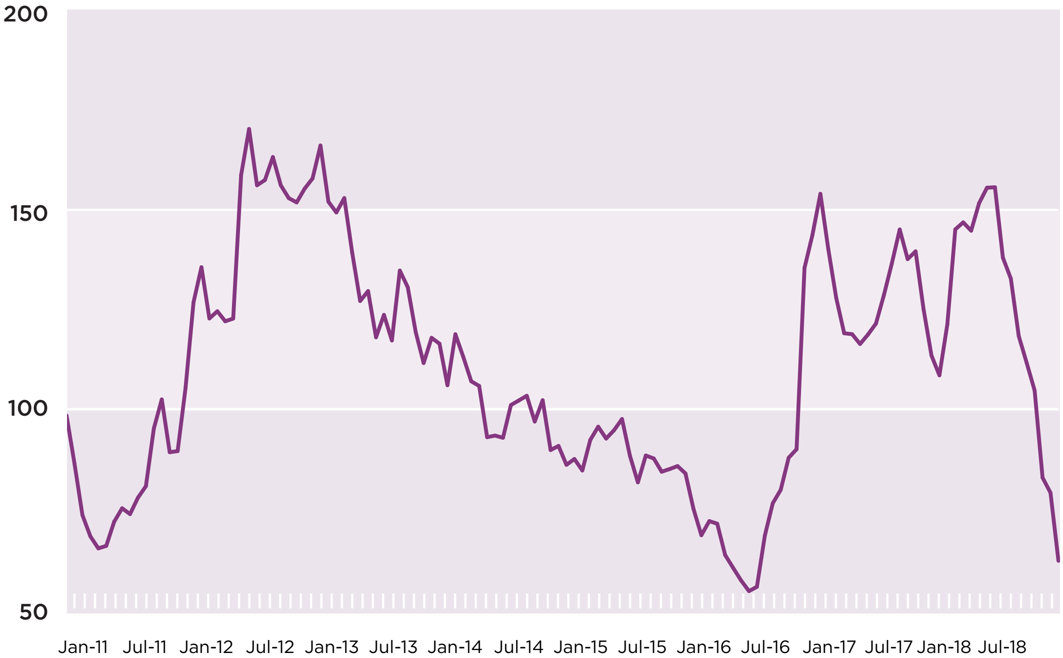
Coal Index



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

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal prices settled at $49 a tonne in June, the lowest level in over 3 years, equivalent to a drop of over 15% compared to the previous month and 48% lower than the comparable period last year.

Coal prices had a bearish start to June as high European stock levels, weak demand from buyers and falling gas prices drove prices to fresh lows. Coal fired power generation in the UK dropped significantly with gas, wind and solar taking a larger share of the generation mix.

At the G20 meeting held in Osaka, Japan's references to "global warming" and "decarbonisation" were omitted from a G20 communique, in a bid to please the US amid tense trade talks and concerns over North Korea. During June, the UK and France were added to the list of countries committed to cutting emissions to close to net zero greenhouse gas emissions by 2050. By contrast, the United States are looking to overhaul rules for power plant emissions to try to help the coal industry.

This represents a complete reversal of the policy under the Obama administration, which promoted the Clean Power Plan that was designed to push the US electricity industry away from coal and towards renewable energy and gas. Coal's share of the US electricity generation has dropped from 48% in 2008 to 24% this year. Mr Trump said he would put American coal miners "back to work" and investment would be required to enable mining companies to sell more coal.

Coal was pushed lower towards the end of the month, breaking under $49 a tonne as gas prices fell further. This has resulted in utility companies switching from coal to gas, forcing coal suppliers to Europe to seek alternative markets. China's efforts to restrict imports of Australian coal continued in June, which is a further bearish factor for coal prices.

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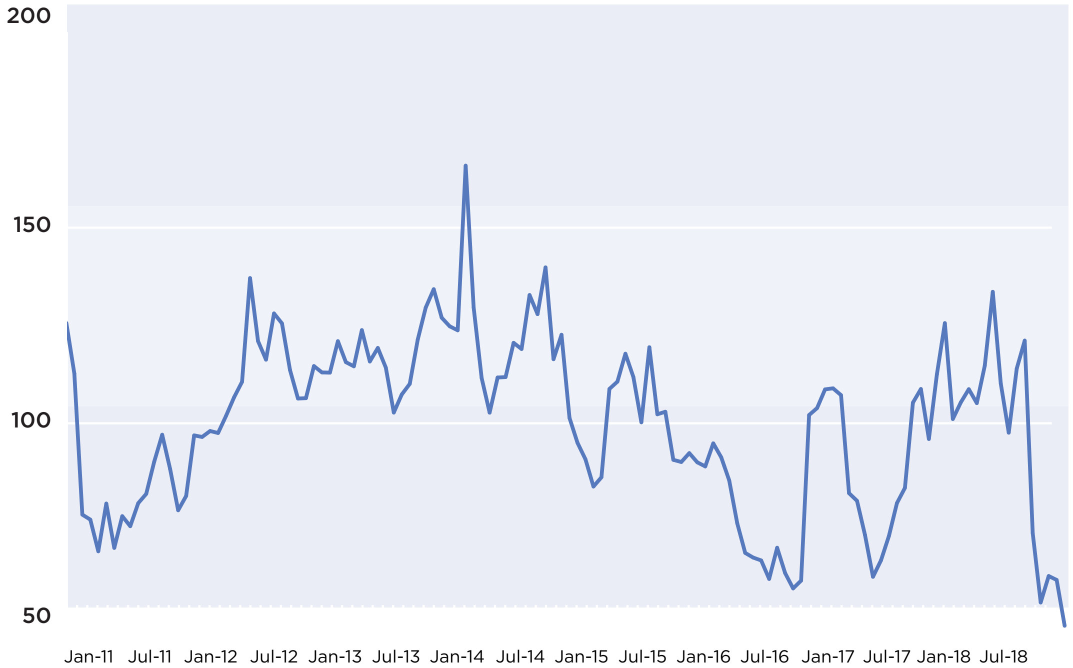
Electricity Index



Data Source: SEMO

%	
-12	1 Mth
-12	3 Mth
-28	12 Mth

Electricity

The average day-ahead price went from €48.92/MWh in May to €43.15/MWh in June, a reduction of 12% over the month. Wind output was up 15% to 1001MW versus 873MW the previous month. The average portion of demand met by wind in May was 25.9%.

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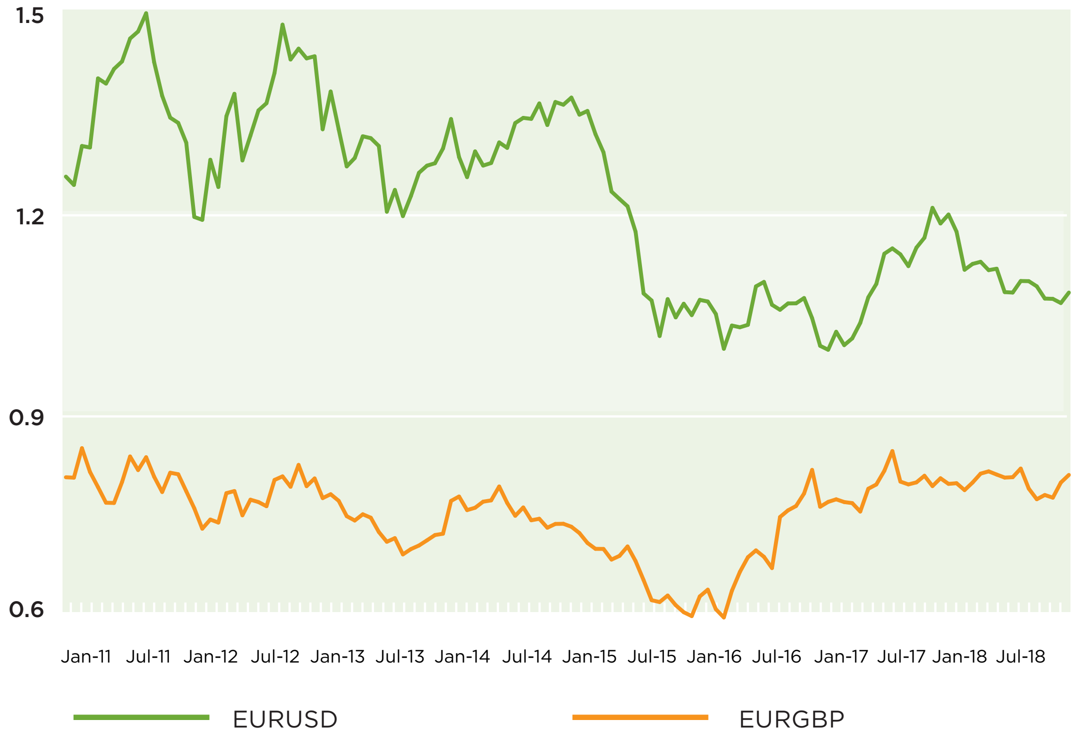
FX Rates



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

EURGBP %	
1	1 Mth
4	3 Mth
1	12 Mth

FX Rates

The Euro gained versus both the Dollar and Sterling settling at $1.136 versus the greenback, a gain of 1.8% and £0.895 against the pound, a gain of 1.2%.

A key driver of Dollar weakness was the change in the stance of the US Federal Reserve. After its mid-month meeting, the Fed held interest rates unchanged but signalled a shift in its view of future interest rates expectations. Rising "uncertainties" with respect to the economic outlook, due to slower growth, and continued trade tensions means that the next move in interest rates could well be a cut. This shift in stance gave stock markets a boost but weighed on the Dollar.

Brexit loomed large again in June as the battle for the Conservative Party leadership gathered pace. Theresa May formally resigned as party leader in June, kicking off a leadership battle which has come down to a head to head between Boris Johnson and Jeremy Hunt. Both candidates have outlined their vision for Brexit, with Johnson taking a more hard-line approach and he remains favourite to win the contest, increasing the chances of a disorderly Brexit. The growing potential for an economically damaging no-deal Brexit continued to weigh on Sterling over the month.

While the Euro gained versus the Dollar and Sterling during June, the broader eurozone economy remains vulnerable. Towards the end of the month, the ifo business survey of German business leaders hit a five-year low. Economic growth in Germany remains low with little growth expected in the coming quarters. Italy and Spain also remain weak and Brexit could continue to weigh on growth across European Union economies for the remainder of this year.

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