# Bord Gáis Energy Index
## Understanding energy

August 2019

BGE/EI/UE/0819

Bord Gáis Energy

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## August 2019

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


| % | |
|---|---|
| -7 | 1 Mth |
| -6 | 3 Mth |
| -24 | 12 Mth |

## Summary

**The Bord Gáis Energy Index was down 7%** in August with all components of the index trading lower as the outlook for global economic growth weakens amid escalating trade tensions.

Oil, the largest component of the index, fell 6% as trade tensions between the world's two largest economies continues to escalate. Gas prices fell 4% on continued benign demand and robust supplies. Among the other components of the index, electricity fell 9% on increased wind generation, while coal prices dropped 4% due to lower demand.

**In August, the Bord Gáis Energy Index stood at 91, a two-year low.**

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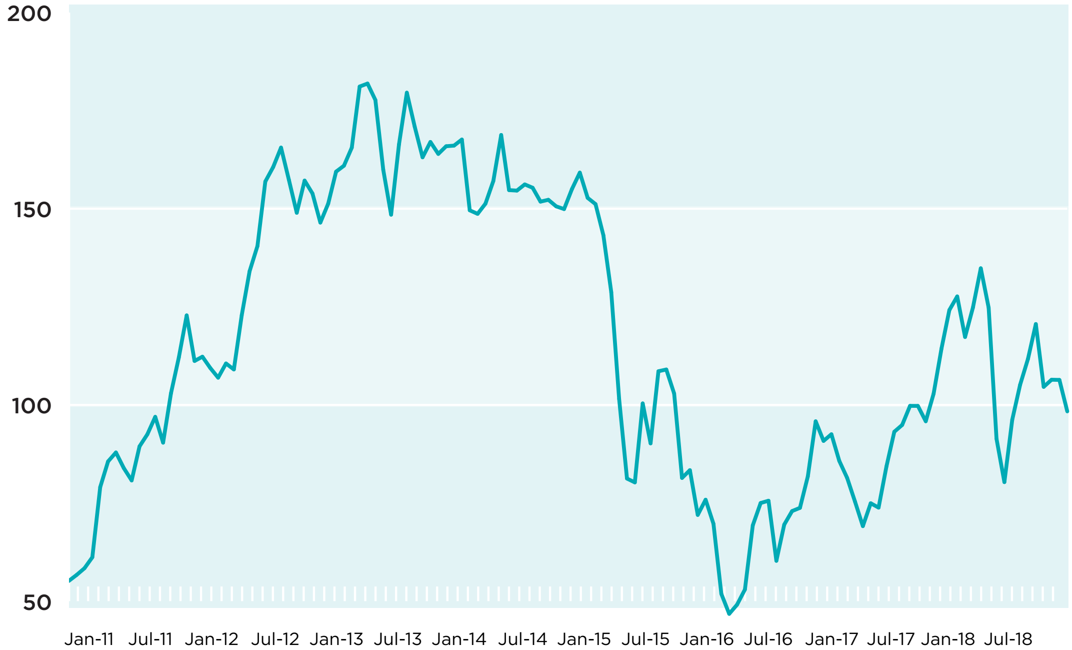
August 2019

## Oil Index




| % | |
|---|---|
| -6 | 1 Mth |
| -5 | 3 Mth |
| -18 | 12 Mth |

Index adjusted for currency movements.

Data Source: ICE

## Oil

Oil prices dropped over 6% in August as an escalation in trade tensions between the US and China weighed on prices. Prices fell to seven-month lows of $56 a barrel in the first week of August before recovering in the second half of the month. The trade war between the US and China has had a negative impact on global economic growth which in turn weighs on lower energy prices as energy demand is closely linked to economic growth.

Brent crude prices fell from $64 to $56 a barrel early in August as US and Chinese trade relations deteriorated further. US President Trump announced a further 10% tariff on $300 billion of Chinese goods, following previous announcements he made throughout 2019. This coincided with a breakdown in talks between the US and China and oil prices fell as a result.

Prices recovered later in the month on reports that Trump would delay the imposition of the tariffs, but prices remained volatile as China announced retaliatory measures of its own. Beijing said that it would impose additional levies of between 5-10% on $75 billion of US imports from September. China and the US are due to meet for trade negotiations in September, with the oil industry hoping for a resolution which would push up prices.

Oil prices closed the month just over $60 a barrel after a large draw in weekly US inventory levels lent support to prices.

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## Natural Gas Index


| % | |
|---|---|
| -4 | 1 Mth |
| -14 | 3 Mth |
| -55 | 12 Mth |

Index adjusted for currency movements.

Data Source: Spectron Group

## Natural Gas

Bearish sentiment remained to the fore across European gas markets in August. The NBP Day ahead contract, the price of gas for next day delivery, traded 2.4p lower over the month settling at 27.4p/th a drop of over 4% in euro terms from the previous month.

Prices continued to drop across UK and European gas hubs despite the start of heavy summer maintenance at several key Norwegian facilities. Meanwhile gas supplies were robust for much of the month notwithstanding weak demand with warm weather and high winds across the UK contributed to this subdued demand.

Further out the curve, the front month September contract was unchanged at 30p/th despite further Norwegian maintenance due that month. The Winter 19 contract fell 3.7p to settle at 46.3p/th while the Summer 20 contract fell a similar amount to close at 42.6p/th. Both contracts ended the month at a two-year low.

The market remains confident that high storage levels, growing LNG capacity and robust Russian and Norwegian supplies will ensure that gas markets remain well supplied for the coming winter. Most market participants expect LNG capacity to continue to expand and LNG imports for next winter to build on last year's historic volumes. Asia is the key market for LNG accounting for over 60% of global capacity. However, the weakening global outlook, particularly in China, is likely to dampen Asian gas demand.

The key risks to this consensus remain a cold winter, failure to extend the Russia and Ukraine transit agreement which is due to expire at the end of 2019 and the potential for a demand shock elsewhere to draw LNG away from Europe.

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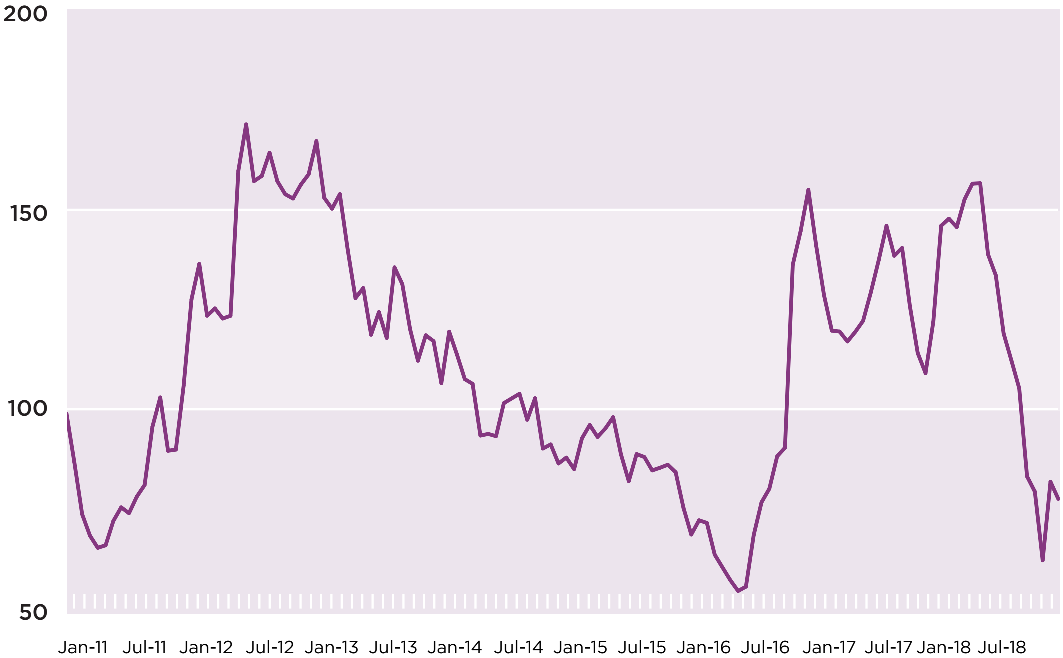
## Coal Index




| % | |
|---|---|
| -4 | 1 Mth |
| -2 | 3 Mth |
| -41 | 12 Mth |

Index adjusted for currency movements.

Data Source: ICE

## Coal

Coal prices settled at $56 a tonne in August, a fall of nearly 4% compared to the previous month. July saw the first increase in coal prices in 2019 but the trend of falling prices returned in August.

Coal took bearish direction from above normal hydro power generation in China, due to higher than normal rainfall, which had the impact of reducing coal fired generation. Coal prices also came under pressure due to low gas prices across Europe. Low gas prices make it less profitable to burn coal to generate power in Europe so demand for coal falls. Another factor pressuring prices was strong renewable generation in Germany, with wind speeds above normal.

The longer-term fall in coal can be attributed to slower growth in power demand in China, the world's largest coal consumer. Chinese power consumption in the manufacturing industry grew by 3% in first 6 months of this year compared to 7.6% relative to the same period in 2018, per the National Bureau of Statistics.

The market is waiting for direction in September, when Japanese utilities and Australian producers will negotiate new supply contracts for high-quality thermal coal. These negotiations are then used to set a benchmark for deals across Asia.

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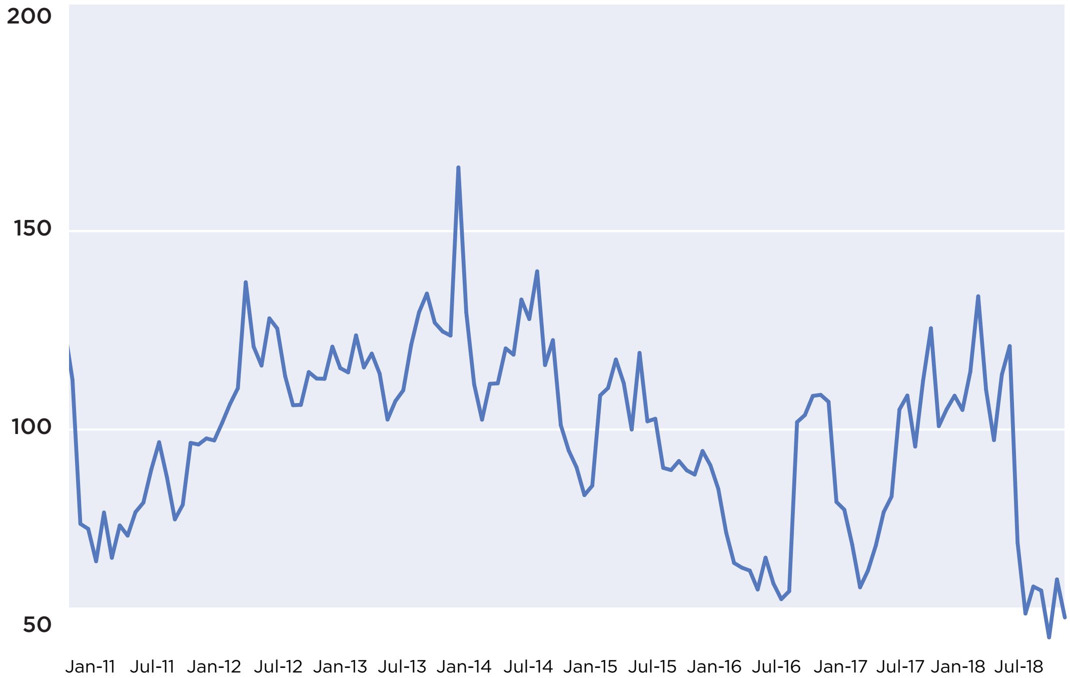
## Electricity Index




Data Source: SEMO

| % | |
|---|---|
| -9 | 1 Mth |
| -7 | 3 Mth |
| -28 | 12 Mth |

## Electricity

The average Day-Ahead price went from €50.2/MWh in July to €45.6/MWh in August, a reduction of 9% over the month due to an increase in wind generation.

Wind output was up 57% to 1273MW versus 811MW the previous month.  The average portion of demand met by wind in August was 33% which compares to 21% in July. Higher levels of wind generation also tend to drive prices lower.

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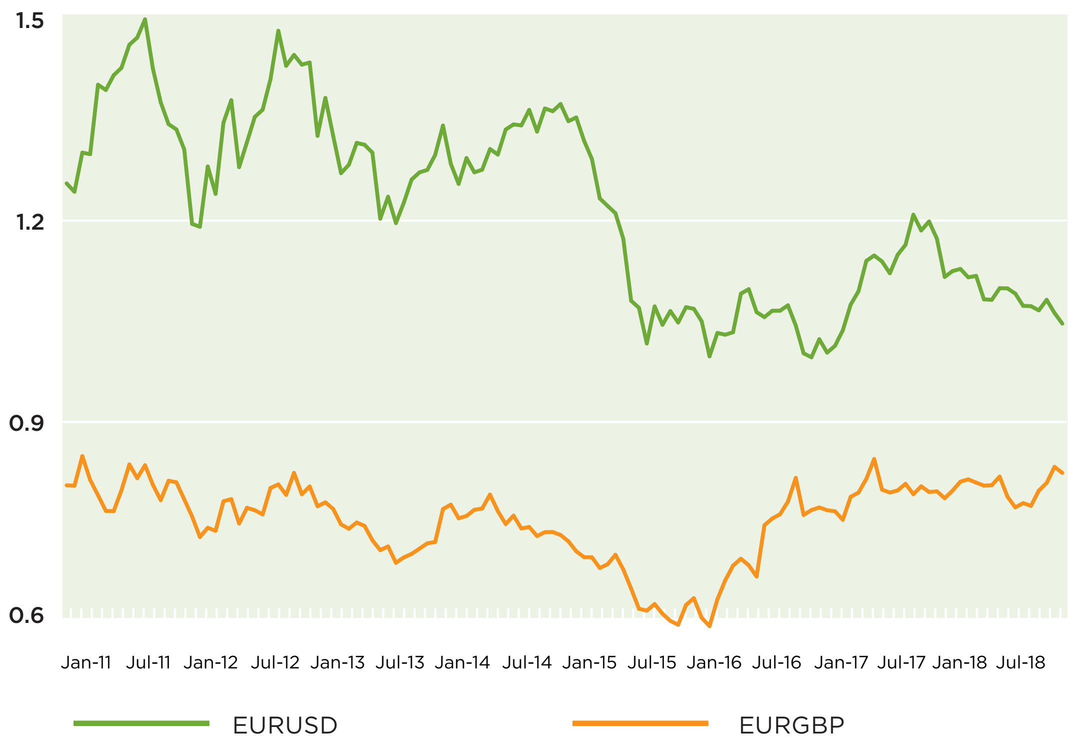
## FX Rates




| EURUSD % | |
|---|---|
| -1 | 1 Mth |
| -2 | 3 Mth |
| -5 | 12 Mth |

| EURGBP % | |
|---|---|
| -1 | 1 Mth |
| 2 | 3 Mth |
| 1 | 12 Mth |

## FX Rates

The Euro fell versus the Dollar and sterling in August as the month was punctuated with weak economic data and escalating political and trade risks. The Euro settled at $1.09 versus the Dollar, a loss of 1.3% and £0.90 against the pound, a loss of 0.9%.

The drop in the euro comes amid a gloomy economic outlook for the global economy. Sentiment took a further blow in early August with the imposition, by the US administration, of a further $300bn of tariffs on Chinese imports. The Chinese predictably retaliated, imposing further tariffs on US goods. The escalating trade war continues to damage economic confidence across the globe as economic growth in the world's two largest economies deteriorates.

In Europe, economic numbers in August provided further evidence of a slowdown in the economy as Germany, the economic powerhouse of the region, contracted 0.1% in the second quarter. In addition, Italian political uncertainty was back to the fore as cracks appeared in Italy's coalition government.

In the UK, we saw significant volatility in Sterling as the UK Prime Minister Boris Johnson committed to leave the European Union with or without a deal on October 31st. We appear to be engaged in a high stakes game of chicken with both parties to the negotiations, refusing to budge. In recent days the long-anticipated Tory rebellion has at last materialised as parliament attempts to wrestle control of the Brexit process away from the government. At the moment, it looks like we will be back to the polls in the coming weeks in a final attempt to break the Brexit logjam in the house of commons.

## For more information please contact: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