Bord Gáis Energy Index
Understanding energy

October 2020

BGE/EI/UE/1020

Bord Gáis Energy

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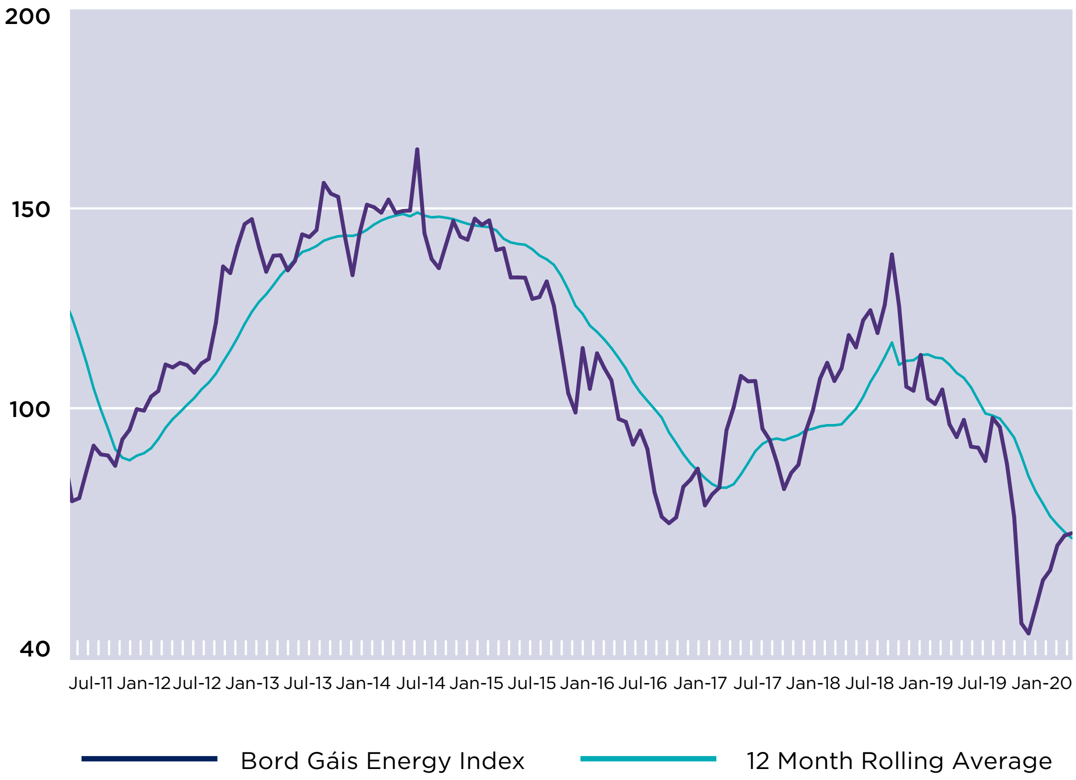
October 2020

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



%	
1	1 Mth
16	3 Mth
-21	12 Mth

Summary

The Bord Gáis Energy Index gained 1% in October 2020.

October was the sixth consecutive month of gains in the index and particularly impressive given oil, the largest component of the index, was down sharply over the month. The increase in the index was driven largely by a 30% increase in the day-ahead gas price as a result of higher demand due to colder weather.

Bullish gas prices were central to gains in power which climbed 9%, while oil lost ground for the second consecutive month, falling 8%, as escalating coronavirus infections and lockdowns dampen oil demand. Coal prices dropped 2% in October as increasing coal competitiveness was offset by lockdowns and reduced energy demand.

In October, the Bord Gáis Energy Index closed at 69.

Bord Gáis Energy Index

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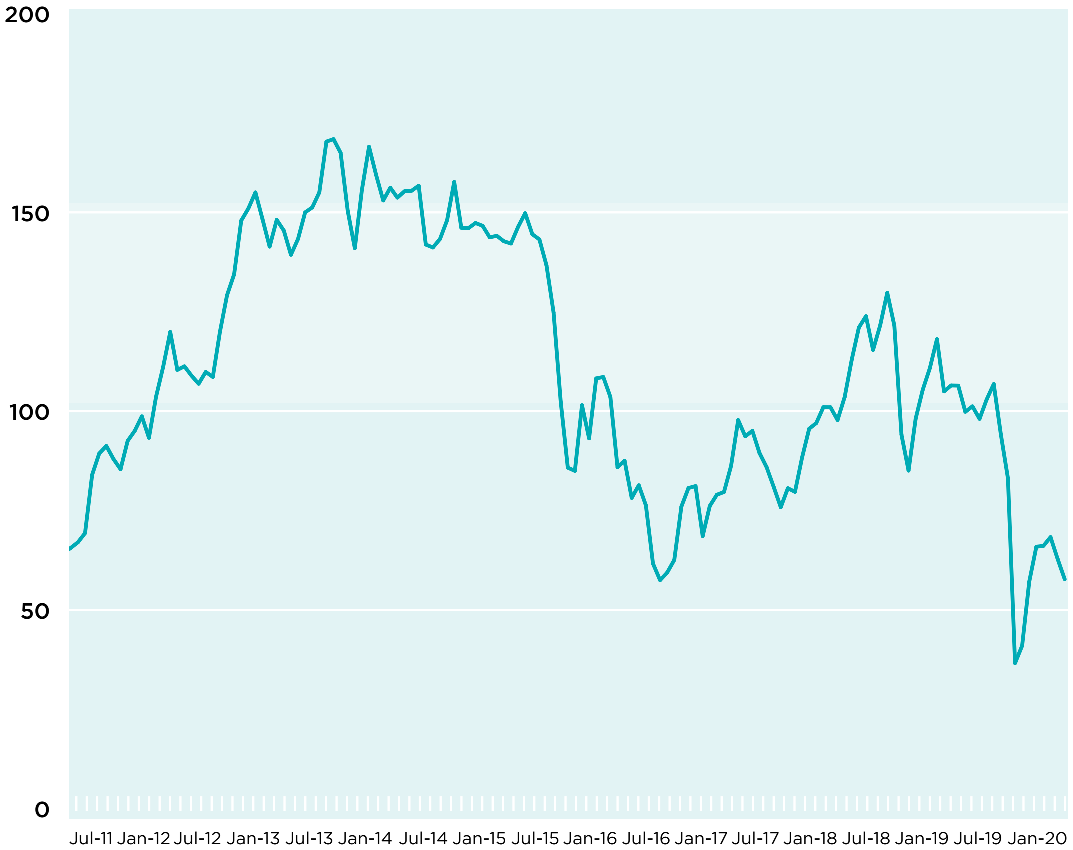
Oil Index



%	
-8	1 Mth
-12	3 Mth
-40	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Oil

Oil prices retreated in October as renewed lockdowns and restrictions to prevent the spread of the coronavirus weighed on sentiment. The Brent crude benchmark fell $3.5 to settle at $37.46 a barrel, a drop of 8% in euro terms.

Oil prices collapsed in the second quarter this year as coronavirus restrictions decimated oil demand. Production restraint by OPEC+, an alliance between OPEC and Russia, and recovering oil demand due to the lifting of restrictions saw oil prices double by the end of August.

The resurgence in coronavirus infections across the globe in recent weeks, has seen the return of lockdowns in many regions. The total number of infections globally now exceeds 45 million with new daily infections running at over half a million.

With no end to the current pandemic in sight, renewed lockdowns will exacerbate an already dire economic recession resulting in a deeper hit to oil demand. A further blow to oil prices was news that Libyan production is expected to rise following a truce between warring factions.

The prospect of increasing Libyan production in the face of anaemic demand heightens the prospect of further oversupply and all eyes are starting to turn toward OPEC+ for signs of additional support. Let’s hope they don’t disappoint!

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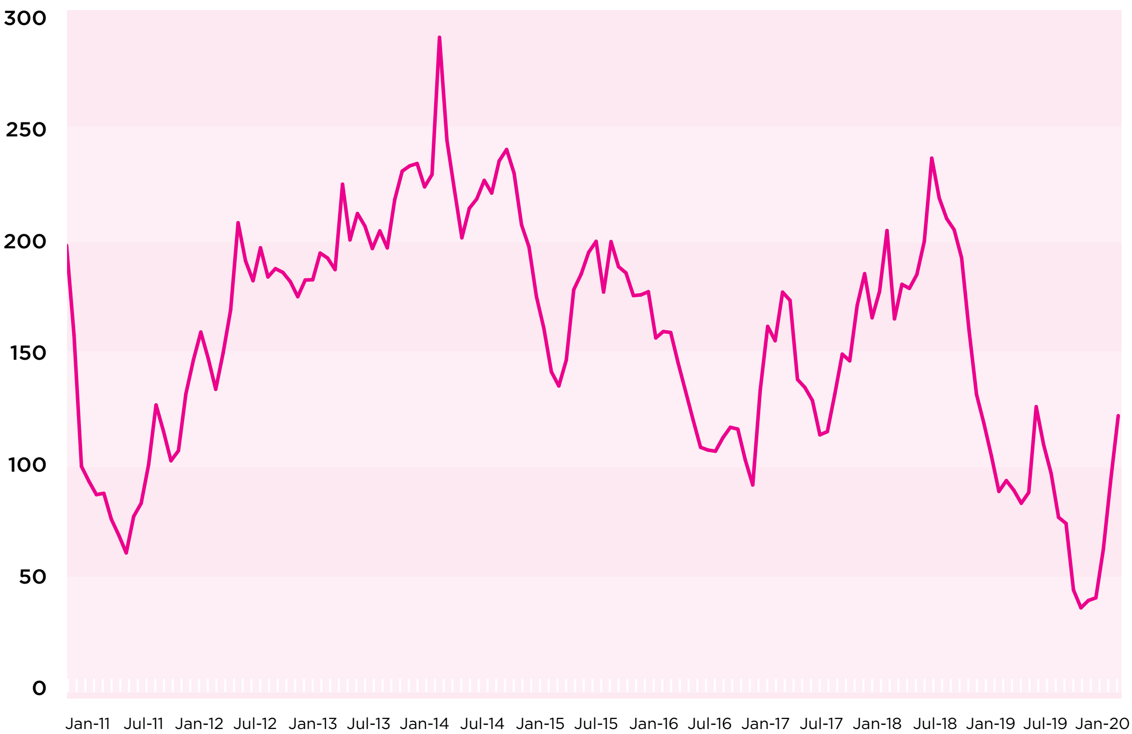
Natural Gas Index



%	
30	1 Mth
187	3 Mth
42	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 38.35p/th in October, a gain of 30% in euro terms on the previous month. Lower October temperatures pushed demand higher while supply flows, particularly from LNG and Norway, remained below previous levels.

Gas supply into Europe continued to disappoint in October as ongoing Norwegian maintenance and outages impacted Norwegian flows. We also failed to see a significant pick up in LNG into Europe due to increased Asian demand and continued delays to some key US LNG export facilities following recent hurricane damage. For the fifth successive month, LNG imports across Europe's main hubs are down on the comparable period in 2019. LNG deliveries into Europe in October 2020 are over 30% below the levels seen in October 2019.

The prompt strength helped support the front month November contract, which traded 4p/th higher to finish the month at 40.9p/th, a gain of 10%. The first quarter contact also climbed 0.4p to settle at 41.1p/th.

Beyond the remaining winter contracts, however, it was a different story as lower oil and carbon prices weighed on contracts. Oil and carbon prices fell 8% and 12% respectively as the resurgence in coronavirus infections added to the gloomy economic and energy demand outlook. The Summer 21 contract closed the month down 0.5p at 33.3p/th, a drop of 1.5%, while the declines further out curve were even more pronounced with Winter 21 retreating 4% and seasonal contracts beyond Winter 21 dropping on average 6%.

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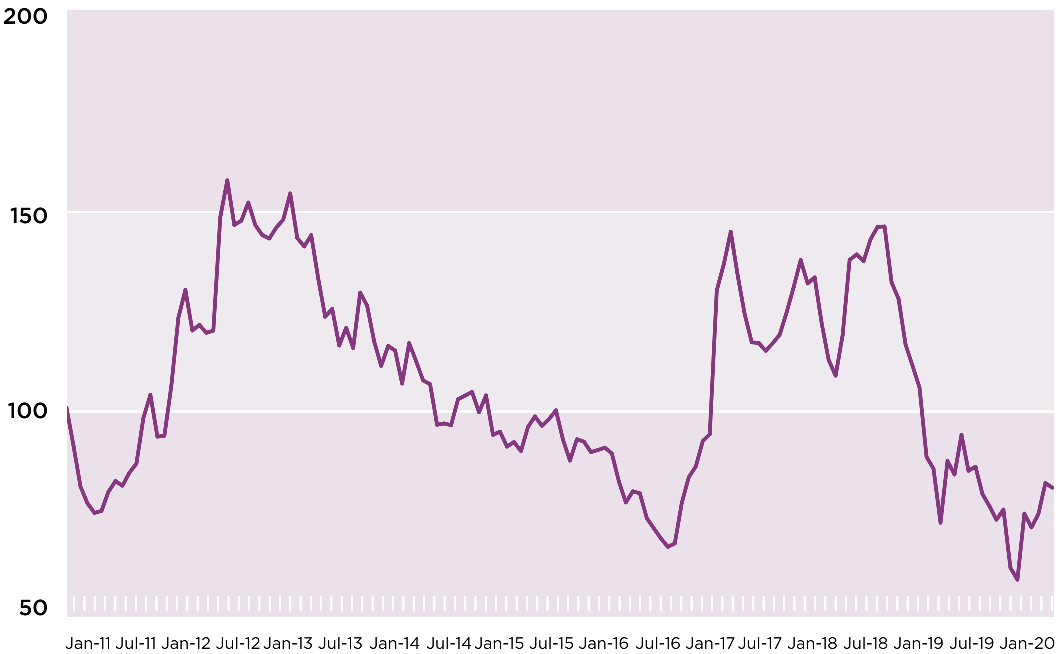
Coal Index



%	
-1	1 Mth
14	3 Mth
-5	12 Mth

Index adjusted for currency movements.

Data Source: ICE

Coal

Coal traded marginally lower over the month, settling at $56.05 a tonne, a drop of 1% in euro terms as support from stronger gas prices and lower carbon prices was neutralised by lower energy demand as a result of a deteriorating economic picture across the globe.

Coal competes against gas in power generation and a higher gas price improves coal's relative competitiveness. This competitive position was further enhanced in Europe, as carbon prices, coal emits twice as much carbon as coal, fell sharply. The European EUAs fell over 12% in October as reduced economic activity due to coronavirus restrictions weighed on the cost of burning carbon.

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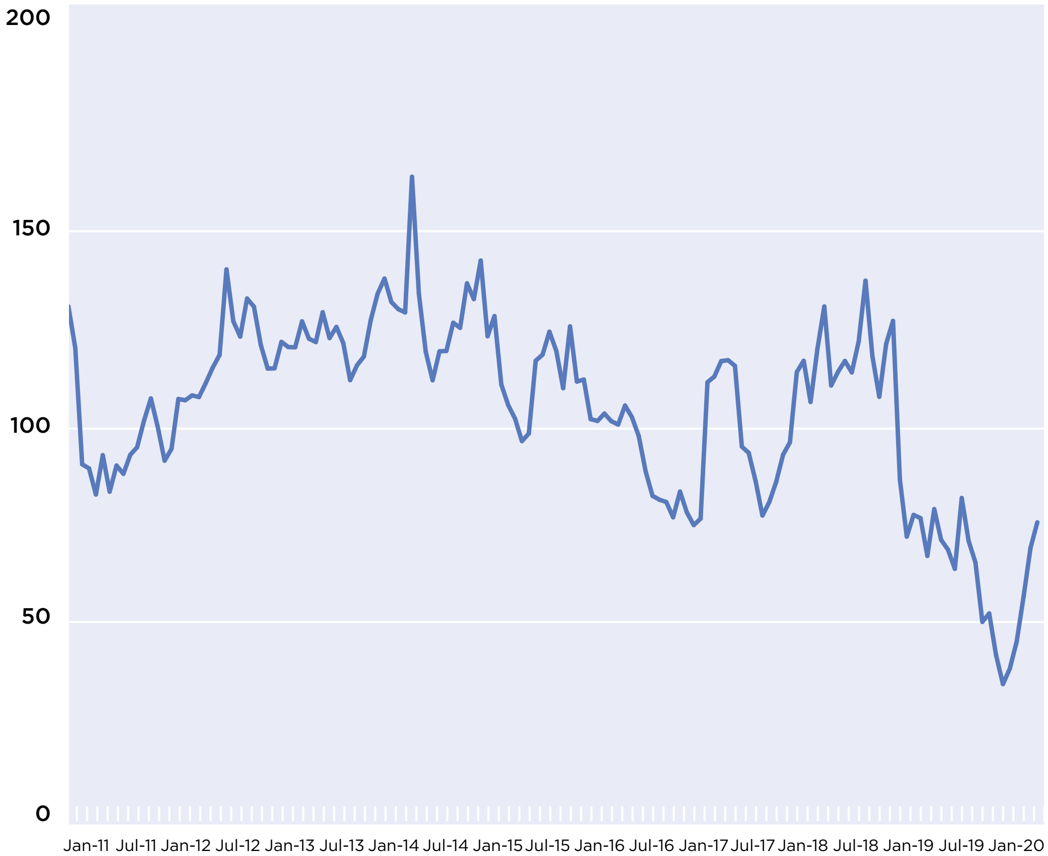
Electricity Index



%	
9	1 Mth
61	3 Mth
17	12 Mth

Data Source: SEMO

Electricity

The average Day-Ahead power price gained 9% in October averaging €48.27/MWh from €44.30/MWh in September.

Once again, higher gas prices and increasing demand (+5%) were the primary drivers behind the increase in day-ahead prices.

Increased wind output, up 44% from an average hourly output of 1269MW in September to 1825MW in October, as well as lower carbon prices were insufficient to offset the higher gas prices and increased demand.

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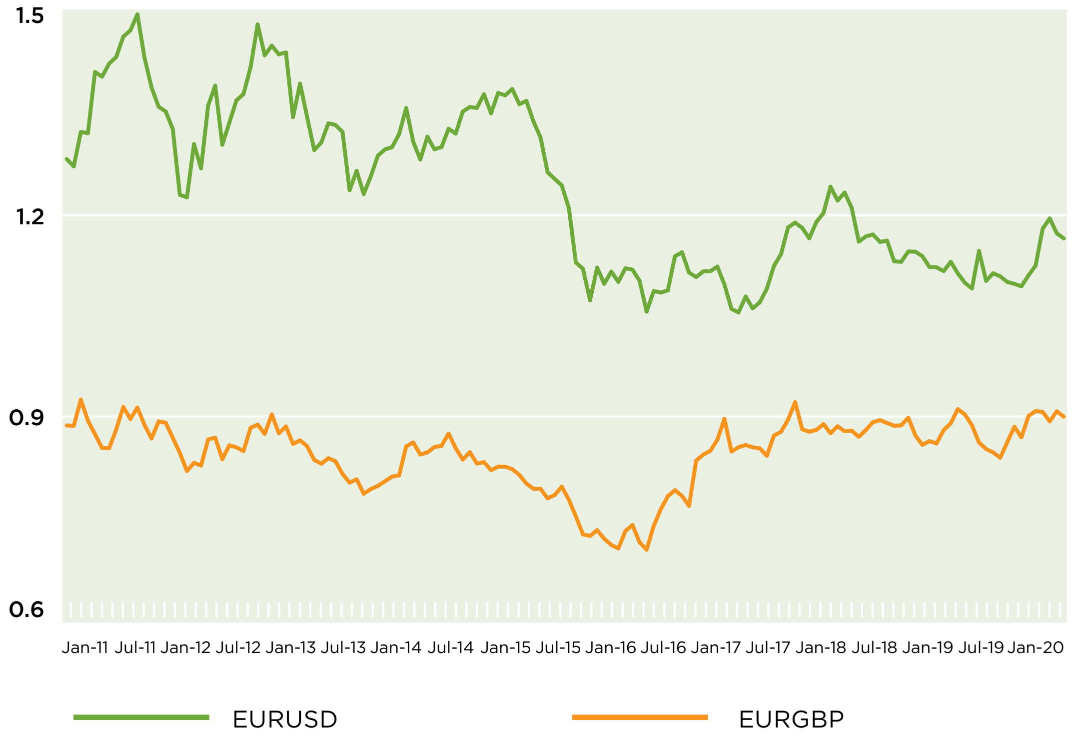
FX Rates



EURUSD %	
-1	1 Mth
-1	3 Mth
4	12 Mth

EURGBP %	
-1	1 Mth
0	3 Mth
4	12 Mth

FX Rates

The euro fell 1% against the dollar and the pound in October settling at $1.16 and £0.90 respectively.

The dollar managed to climb against a basket of currencies in the back half of October despite the failure of congress to agree a stimulus package. It appears as equity markets and commodities drop in the face of renewed lockdowns and political uncertainty; investors sought the safety of the US dollar.

In the UK, the Brexit drama continues to rumble on as the exit date approaches. In the middle of October, Prime Minister Boris Johnson appeared to call a halt to negotiations insisting the EU change its fundamental stance on a trade deal. Thankfully, a breakdown in talks was averted by some conciliatory statements from chief EU negotiator Michel Barnier and a week later Downing Street indicated it was prepared to enter “intensive talks”. Sterling rallied as markets welcomed yet another potential breakthrough!

Euro zone economic output was down 4%, year on year, in the third quarter, an improvement on the 15% annual contraction in the previous quarter. However, as we see the introduction of lockdowns across Europe, the potential for a deeper economic contraction in the fourth quarter seems likely.

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