# Bord Gáis Energy Index
Understanding energy

August 2020

BGE/EI/UE/0820

Bord Gáis Energy

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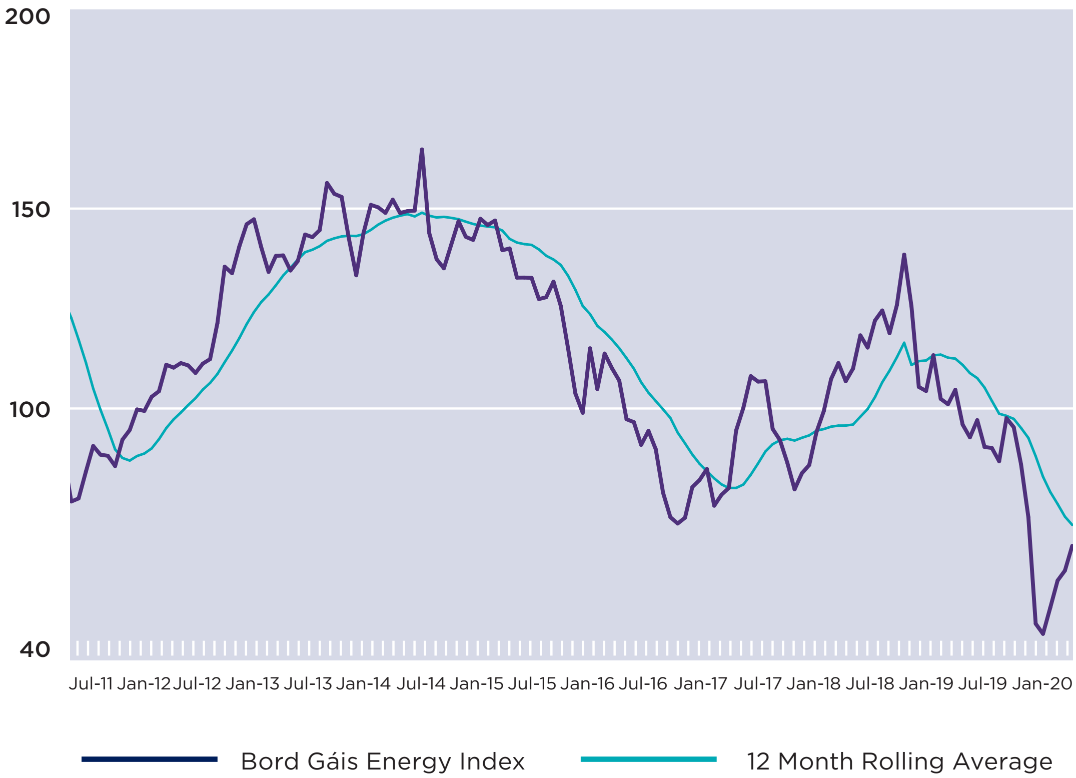
## August 2020

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




| % | |
|---|---|
| 10 | 1 Mth |
| 31 | 3 Mth |
| -28 | 12 Mth |

## Summary

**The Bord Gais Energy Index gained 10% in August 2020.**

The recovery in energy markets gathered momentum in August as all components of the Index registered gains. Natural gas was the standout performer on the month with an impressive 50% gain in prompt prices as tightening supply, US hurricanes and French nuclear concerns saw sentiment shift dramatically bullish.

The next strong performer was power with electricity prices gaining 23%. This was driven by lower wind and stronger gas prices. Among the other components, oil prices gained 3% as a weakening dollar, demand recovery and supply restraint supported prices. Coal completed the clean sweep gaining 5% on dollar weakness and higher gas prices.

**In August, the Bord Gáis Energy Index closed at 66.**

# Bord Gáis Energy Index

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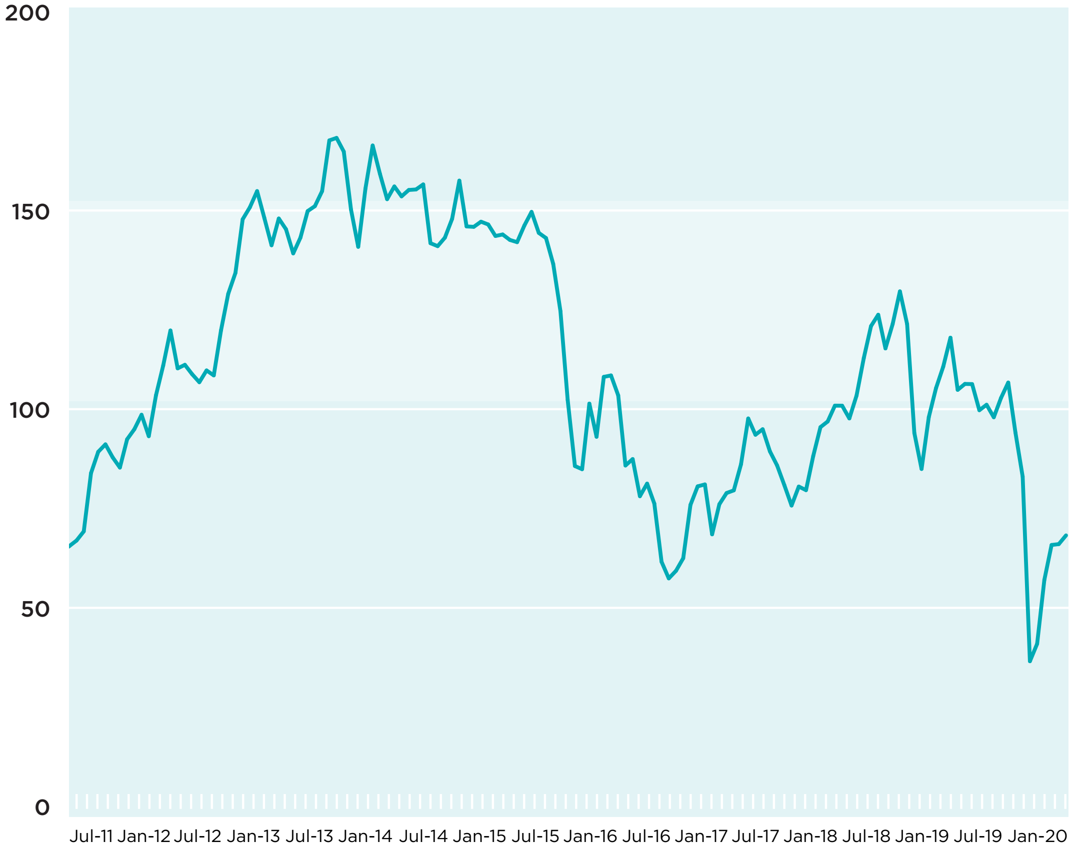
## Oil Index




| % | |
|---|---|
| 3 | 1 Mth |
| 19 | 3 Mth |
| -31 | 12 Mth |

Index adjusted for currency movements.

Data Source: ICE

## Oil

The oil price tracked higher for the fifth consecutive month as a weakening dollar, demand recovery and supply restraint continued to offer support. Brent, the crude oil benchmark gained $2 a barrel to settle at $45.28 a barrel, a gain of 3% in euro terms.

Oil prices were supported by the continued drop in the US dollar which reduces the price of oil for non-dollar denominated buyers. However, for now the oil market appears caught between an uncertain demand picture that is capping gains and an OPEC+ production restraint agreement that is helping support the price.

The International Energy Agency has recently cut its 2020 oil demand forecast, warning that reduced travel would lower global oil demand this year by around 8 million barrels per day. On the supply side, OPEC+ has responded to the demand hit by restricting production by over 10 million barrels, while lower oil prices have also seen a drop in US production.

We have reached the 25 million milestone for confirmed cases of coronavirus with the death toll reaching over 842,000 at the end of August. The continued recovery in oil demand looks far from certain as we head into the colder months with the pandemic far from controlled. The potential for renewed lockdowns and economic disruption over the coming winter remains a real possibility, while the rollout of an effective vaccine still looks a way off.

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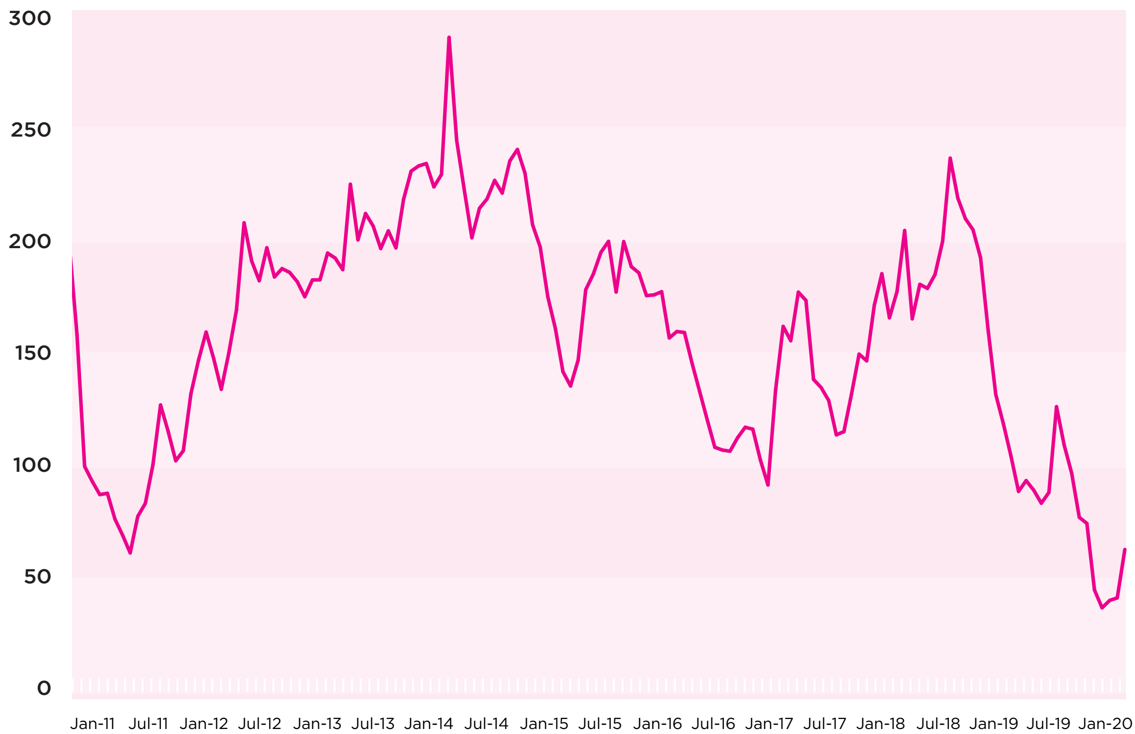
## Natural Gas Index




%

50 1 Mth

67 3 Mth

-31 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 19.9p/th in August, a gain of almost 50% in euro terms as a barrage of bullish stories pushed prices sharply higher.

Gas prices, driven lower for much of the past year due to oversupply, rebounded in recent weeks as supply tightened, carbon rallied, EDF announced additional French nuclear outages and Hurricane Laura threatened to disrupt LNG facilities in Louisiana and Texas.

The recent low-price environment had resulted in the cancellation of around 45 US LNG cargoes for August. A drop in Russian flows early in the month, coupled with increased Norwegian maintenance, helped tighten the market and put upward pressure on the near curve.

The recovery in the prompt reverberated through the curve with contracts across the curve registering impressive gains. The front month September contract traded 9p/th higher to finish the month at 24p/th, a gain of 55%, while the Q3 20 contract gained 30% to close at 35p/th. Further out the curve, the Winter 20 contract gained 7p (22%) to settle at 38p/th, while the Summer 20 contract put on 6.5p/th to settle at 34.3p/th.

The key from here will be the demand and supply response to this higher priced environment. We should see the return of LNG into Europe in the coming months as prices are back at a significant premium to US gas prices. In addition, Russian flows should recover and Norwegian maintenance will come to an end as we move through September. Two key factors to watch carefully over the coming weeks are Henry hub prices in the US and any changes to the European Union Emissions Targets.

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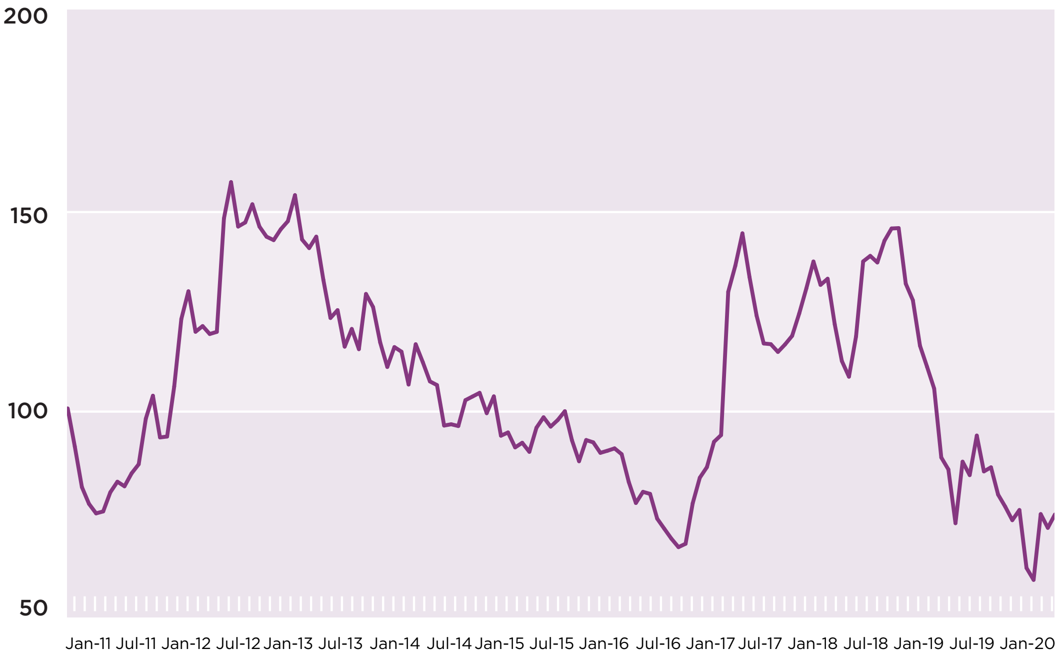
## Coal Index




| % | |
|---|---|
| 5 | 1 Mth |
| 28 | 3 Mth |
| -12 | 12 Mth |

Index adjusted for currency movements.

Data Source: ICE

## Coal

Coal prices  performed strongly over the month, settling at $52.9 a tonne, a gain of 5% in euro terms.

Coal appears to have garnered support from the steep rise in gas prices, increasing the relative competitiveness of coal in the power generation mix. It also found support from a weakening dollar and from a continuing recovery in economic activity particularly in India, the world's second largest coal importer.

Closer to home, reports that the EU are considering increasing the emissions reduction target for 2030 from 40% to 55% helped lift carbon prices. Such an increase would almost certainly result in a tighter carbon market and higher carbon prices which would put added downward pressure on coal demand in Europe.

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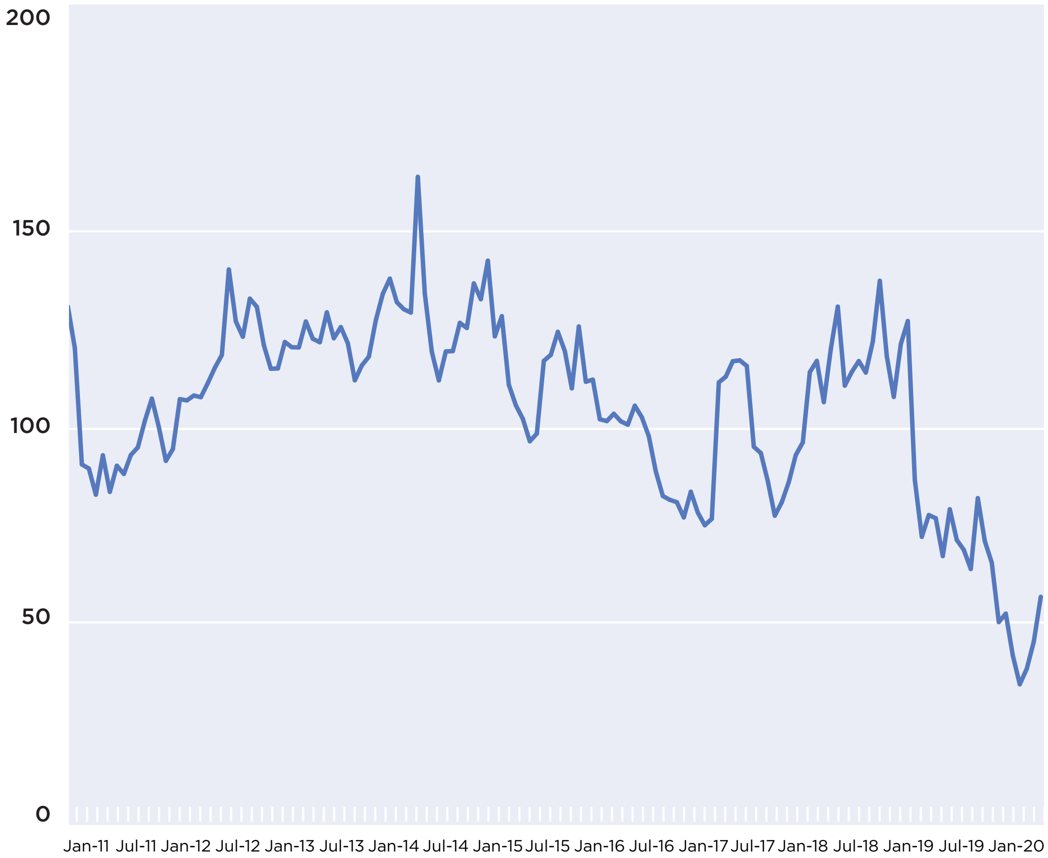
## Electricity Index




| % | |
|---|---|
| 23 | 1 Mth |
| 57 | 3 Mth |
| -19 | 12 Mth |

Data Source: SEMO

## Electricity

In August the average Day-Ahead electricity price gained 23% averaging €36.9/MWh. The significant increase over the July average of €30.1/MWh was the result of increasing gas prices and a reduction in wind generation of 19% from the previous month.

Despite demand remaining relatively static month on month, lower wind increased the call on gas turbines driven by higher priced gas over the month pushing electricity prices strongly higher.

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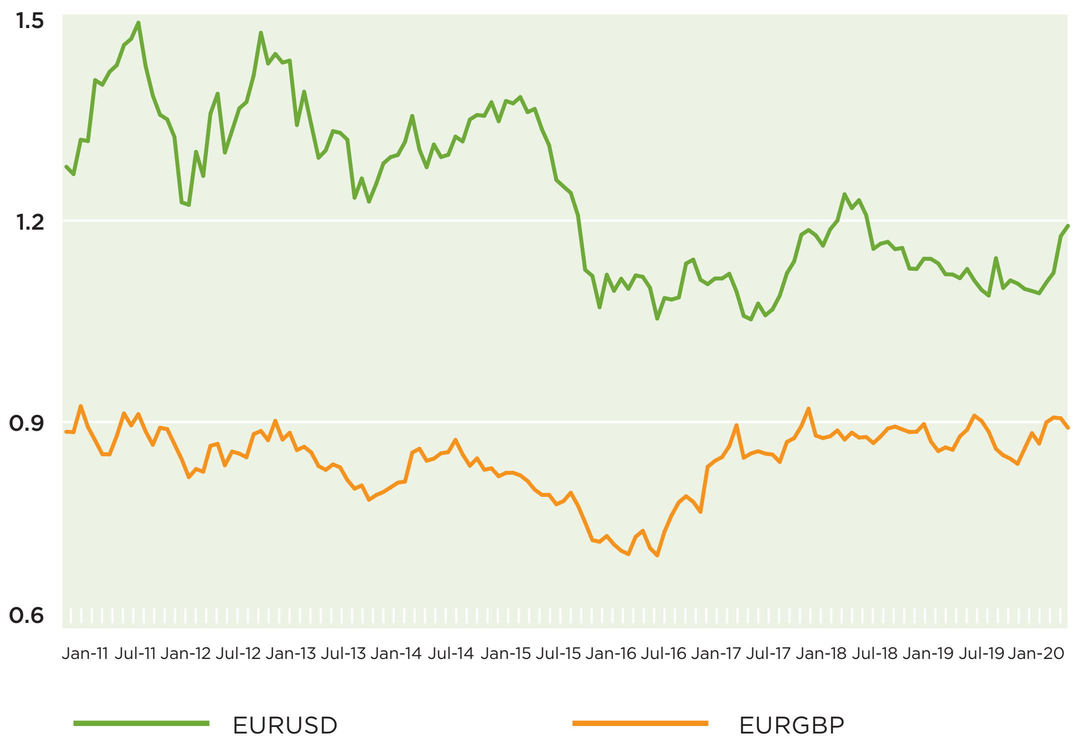
## FX Rates




| EURUSD % | |
|---|---|
| 1 | 1 Mth |
| 8 | 3 Mth |
| 9 | 12 Mth |

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

## FX Rates

The dollar's decline remained the dominant story in currency markets over August with a dramatic shift in Federal Reserve policy adding to pressure on the greenback. The euro settled 1.3% higher versus the dollar at $1.194, its highest level since May 2018, while it fell versus the pound finishing the month at £0.89 a drop of 0.8%.

The federal reserve outlined, toward the end of the month, a dramatic shift in monetary policy. The policy shift, the largest in decades, will result in the Fed putting an increasing focus on the labour market and softening its inflationary stance. The change is an indication that interest rates are likely to remain low and that the Fed intends to use all tools at its disposal to stimulate growth in the labour market and broader economy.

## For more information please contact: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