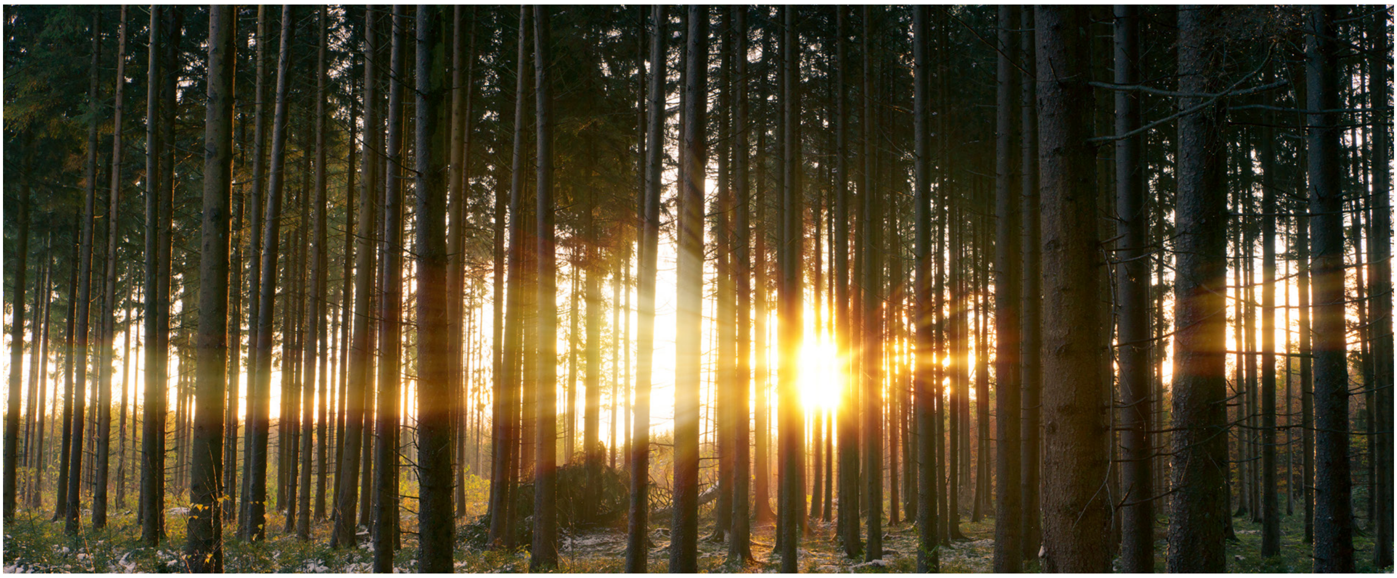
Major price falls following weather change

The cold winter in Europe lasted for a couple of weeks and has now given way to mild, wet weather. This resulted in falling electricity prices last week.



Here and now

The Nordic weather forecasts made it increasingly clear that a weather change was under way last week. Following several weeks of temperatures below normal, the level is now expected to be around 3-4 degrees above average from the middle of week six. These changes resulted in significant price falls across the Nordic energy market last week. The Q2-19 contract has fallen by EUR 3.60/MWh (approximately 7.5%) to EUR 43.90/MWh, while the YR-20 contract has fallen by EUR 1.61/MWh and is now trading at a price of EUR 36.90/MWh.

Disappointing start to year in allowance market

During the last week, the European carbon emissions allowance market fell to its lowest level so far this year, and the market closed at a price of EUR 21.99/t on Friday. This was almost 15% lower than the price at the start of the year. The price fall has occurred after a very bullish end to 2018, with high interest in buying due to the uncertainties ahead of the commencement of the EU's latest carbon emissions allowance market reform, the MSR reform. Many of the market players therefore elected to hedge, and the allowance price climbed above EUR 25/t. Nevertheless, demand has now quietened down in spite of the upcoming deadline to buy allowances to cover 2018 emissions. In March, all carbon emitters covered by the EU allowance system (ETS) must have purchased allowances corresponding to their emissions in 2018. Previously this has resulted in high levels of activity in the market during the months of January and February, but the situation has been different this year. The price fall in the allowance market has taken place in spite of expectations among several analysts in the market that the price would climb further at the start of 2019.

Our recommendation

With the most recent price fall in the market in mind, it now seems that the downside in the market has reduced significantly. The market now believes that there will be a very mild end to the winter, but there is room for further increases if this situation were to change. We consider the chances of price climbs to be greater in the coming week, as the market has already fallen substantially on the basis of the latest mild weather forecasts.

Forward	Wk 5 (EUR/MWh)	Wk 6 (EUR/MWh)	Expectation (wk 7)
ENOMMAR-19	53.55	48.35	↗
ENOQ1-20	47.50	43.90	↗
ENOYR-20	38.51	36.90	↗
SYHELYR-20	4.25	4.38	→
SYOSLYR-20	-0.05	-0.05	→

Increasing levels of LNG imports to Europe

European imports of LNG (liquid natural gas) are currently experiencing substantial growth. The underlying cause of this includes the low prices in Asia.

Imports of LNG to Europe from other parts of the world have increased substantially in recent times. In the last couple of years, LNG producers have typically sold their gas in Asia, as there was more money to be made from selling there. However, during autumn, gas prices in the Far East fell substantially enough for it to become attractive for exporters to send the gas to Europe instead.

LNG imports in Europe have taken off in the last few months and, according to analysts that have spoken with the energy news site Montel, overall imports of LNG in 2019 are expected to reach 15-30 tonnes.

Several European countries will limit gas production during 2019. Predominantly the Netherlands, where the government has ordered production at Europe's largest gas field, near Groningen, to be reduced, as the production causes disruption to residents in the area. Production from the Groningen field is expected to fall by around 7 million tonnes this year, and this lost supply must naturally be obtained from elsewhere.

According to a gas analyst from the International Energy Agency (IEA), Europe will import around 20-25 million tonnes of gas in the coming years to compensate for the falling production internally within Europe. Demand for gas is also expected to climb over the years in line with ramped up phasing out of coal across Europe, and alternative energy sources need to be identified to meet the demand for electricity. The combination of declining production and increasing demand means that LNG imports are an obvious option for Europeans, who would prefer not to become too reliant upon gas imported from Russia.

While European production of gas is on the decline, the situation is very different on a global level. According to the energy consultancy Wood Mackenzie, overall global gas production is set to increase by around 40 million tonnes in 2019.

Forecasts

Precipitation: From the middle of week 6, precipitation volumes in the Nordic region are expected to climb above normal and, with the exception of a couple of dry days during week 7, the weather forecasts for the next ten days look set to be wet. The hydro-balance is still expected to have a major deficit of 19 TWh in two weeks' time.

Production and spot: Spot prices have also started to fall as the weather situation has become milder. An average Nordic system price of approximately EUR 50/MWh is expected in week 6. Wind power production will increase in line with the high pressure moving away.

The EPADs

There were price climbs in the Finnish YR-20 EPAD for the second week in a row and it now costs EUR 4.38/MWh. In Norway, there were no fluctuations in the NO1 EPAD, which remains at EUR -0.05/MWh.

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