

# Downturn in coal market continues

European coal prices are continuing to fall. Coal is experiencing increasing competition from gas, further weakening the already low demand.



## Here and now

A single week of climbing electricity prices in the Nordic region was all we got, before the market started to fall again. Last week, the long-term contracts experienced price falls that could be attributed both to falling coal and gas prices and an improved hydro-balance. The immediate contracts in the forward market also fell, as the weather forecasts appear to agree that the mild weather will return at the end of this week. The Q2-19 contract ended the week with a fall of EUR 0.95/MWh and now costs EUR 40.15/MWh. The YR-20 contract has fallen by EUR 2.94/MWh and is now at EUR 35.46/MWh.

## Our recommendation

We are currently experiencing an extremely uncertain market, and we are heading into a crucial week with regard to Brexit. The markets believe that Brexit will be postponed, but, if the outcome of the British parliamentary votes is different, we could experience sudden price fluctuations. For now, we believe that climbing prices are most likely in the coming week.

## Growing pressure in coal market

The European coal market continues to experience massive pressure. On Monday, the API 2 year contract for 2020 traded at a price of USD 76/tonne, which is the lowest price for this specific contract in nearly a year. With regard to electricity production, the coal market is currently experiencing intense competition from gas, as this market is experiencing low prices and increasing supply. European gas stores are well stocked compared to normal, and the low gas prices have resulted in a shift from coal to gas when it comes to electricity production. The profit margins on coal for

electricity production have also fallen. Nevertheless, there is some hope for the coal market, which is once more experiencing climbing prices in China, which however is not yet something that is affecting the market in Europe. Interest in buying in the European coal market remains low and the stock levels continue to climb in the major coal terminals. Currently, there is around two million more tonnes of coal in stock than there was at the same time last year and, as long as we continue to experience very weak demand in the physical market, this figure could very well climb further.

Forward	Wk 10 (EUR/MWh)	Wk 11 (EUR/MWh)	Expectation (wk 12)
ENOMAPR-19	43.25	41.90	↗
ENOQ1-20	41.10	40.15	↗
ENOYR-20	38.40	35.46	↗
SYHELYR-20	4.60	4.65	→
SYOSLYR-20	0.50	0.50	→

## US oil exports continue to climb

*According to a new report from the International Energy Agency (IEA), the USA will continue to increase its oil exports in the next five years and will become the world's second largest exporter of oil.*

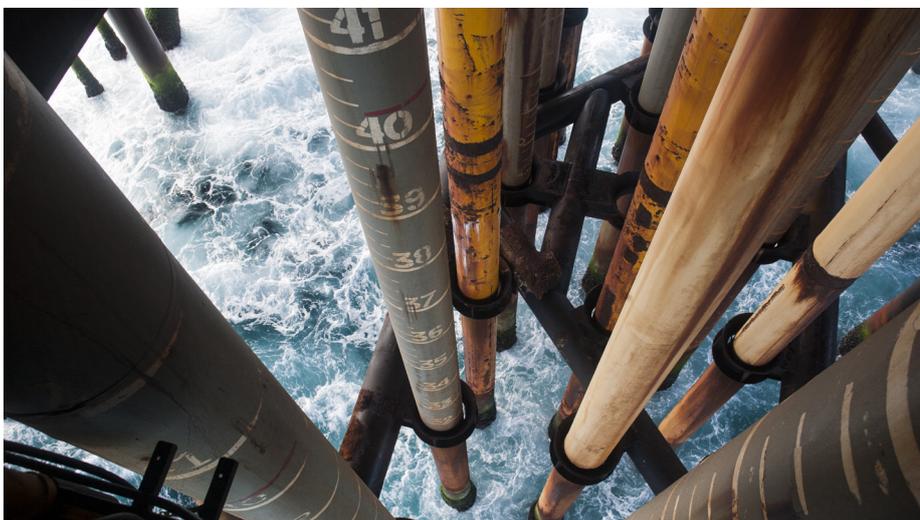
Oil production continues to climb in the USA. The country's production level reached record levels at the start of 2019, to some extent neutralising the effect of the production limitations that OPEC and Russia agreed on in December last year. The price of a barrel of Brent oil is currently stable at around USD 66.

In a new report and forecast recently published by the International Energy Agency (IEA), the agency estimates that American oil production will continue to climb significantly in coming years. Last year, the production level was 10.9 million barrels per day, but the IEA anticipates that this figure will increase to 12.4 million barrels this year and 13.2 million barrels per day in 2020. It is primarily the country's major investment in the production of shale oil that means that the Americans are able to increase production to such an extent.

According to the IEA, American exports will also climb during the next five years. If the IEA's estimations are correct, the USA will have surpassed Russia as the world's second largest exporter of oil in 2024 and will also be getting close to Saudi Arabia in first place. These countries will not increase production by nearly as much, as higher prices are prioritised here and lower growth in global supply can therefore be seen.

With regard to OPEC, as always, the question is whether the organisation can agree on a direction, or whether the many internal disagreements between member states could mean that one or more countries go their own way. OPEC is currently under major pressure from US President Trump, who does not condone the countries' policy to limit production.

The growth in production and exports coincides with the IEA also estimating an annual increase in global demand of around 1.2 million barrels per day towards 2024. This is slightly slower growth, caused partly by energy efficiency measures and partly by the increasing role of electric cars.



## Forecasts

**Precipitation:** Following a brief dry period, Nordic weather forecasts are wet once more and there are prospects of high precipitation volumes for the majority of the rest of the month. The hydro-balance deficit has decreased further and is now expected to be 8.8 TWh in two weeks.

**Production and spot:** Wind power production above the norm is still expected in the Nordic region in the coming week. We therefore anticipate an average Nordic system price around the same level as last week, i.e. approximately EUR 42-43/MWh.

## The EPADs

Last week, there were no fluctuations in the Norwegian NO1 EPAD for YR-20, which remains at a market price of EUR 0.50/MWh. In Finland, the country's YR-20 EPAD experienced a marginal increase and is now at EUR 4.65/MWh.

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