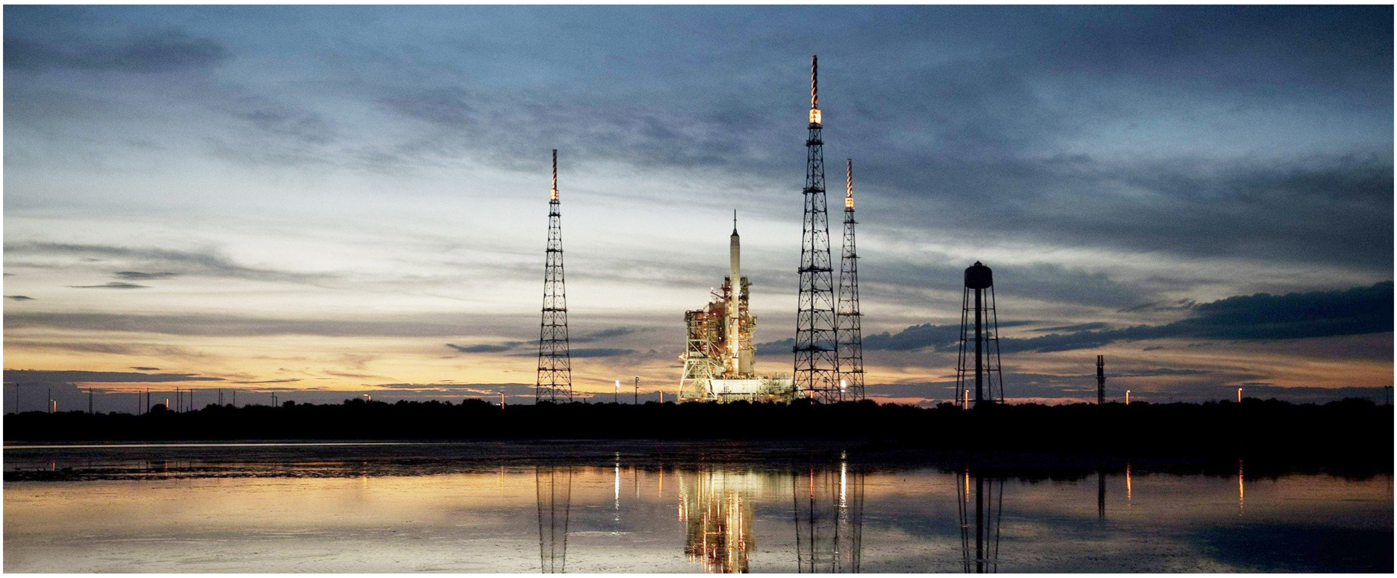
Milder weather forecasts result in significant price fall

The winter looks set to be put on hold, at least for the next few weeks, and the milder and wetter forecasts resulted in falling forward prices last week.



Here and now

After several contracts in the Nordic energy market reached their highest levels in more than a year earlier this February, the forward market experienced falling prices last week. The forecasts currently indicate a clear change in the weather towards the end of this week, with temperatures and precipitation volumes increasing to above normal for the time of year. This resulted in a clear downwards adjustment in the energy market, which had priced in a cold end to the month. The Q2-21 and YR-22 contracts fell to EUR 28.06/MWh and EUR 26.90/MWh respectively, which is EUR 5.18/MWh and EUR 0.55/MWh less than one week ago.

Our recommendation

There will continue to be a focus on the weather forecasts in the coming week. Milder and wetter weather is now on the horizon, but, if the wintry weather was to return, we could very well see another upwards adjustment in the market. Nevertheless, we consider the possibility of further price falls to be greatest in the coming week. The volatile carbon market could also affect developments next week, as the significant fluctuations look set to continue.

Cold winter depletes gas stores

The extremely cold weather across Europe in recent weeks has significantly depleted European gas stores. The stock levels in European gas stores has now fallen to just 40%, which is more than 20% lower than at the same time last year. This has helped gas prices to soar in both the day market and the distant contracts in the market. Of course, temperatures well below the seasonal norm have been a crucial factor, but the import of gas from other continents is also playing its part in the sudden plunge in stock levels. Earlier this winter, Europe did not have the opportunity to import as much LNG, as the gas prices were higher in the Far East, and producers chose to send their gas there instead. More recently, however, European prices have climbed enough for it to become advantageous to sell gas here again, which has helped alleviate the problem somewhat. Nevertheless, this does not change the fact that the stock levels are continuing to fall, and that the TTF gas contract for 2022 reached its highest price level for more than a year last week. The low supply may very well leave its mark on the market until next year.

Forward	Wk 6 (EUR/MWh)	Wk 7 (EUR/MWh)	Expectation (wk 8)
ENOMFEB-21	42.65	34.45	↘
ENOQ1-21	33.24	28.06	↘
ENOYR-22	27.55	26.90	↘
SYHELYR-22	10.23	11.28	→
SYOSLYR-22	2.60	3.00	→

Rumours of new EU intervention in carbon market

We have experienced some sharp fluctuations in the carbon market in recent weeks. The price of a carbon allowance has increased by nearly 30% during the last month, but this increase did not take place on the back of a sudden increase in demand from industry and electricity producers. Instead, the market has received a boost from speculative investors, a development that we have observed several times in the carbon market in recent years. There are now rumours that the EU will attempt to limit speculative activity in the market.

At the end of last week, several media outlets announced that the European Commission is considering introducing new initiatives to put an end to speculative parties having too much influence on the market. This would be ensured, among other things, by placing a maximum limit on the number of allowances each registered account in the exchanges may hold. No source has been specified for these media reports, but simply the fact that there were rumours spreading was enough to cause turmoil in the market.

The European Commission is reportedly concerned that speculative buyers have gained too much power over a market that is considered an essential market for the EU to achieve the new, more stringent climate objectives that were approved in December last year. The Commission would like a consistently high carbon price, determined by demand from industry, the transport sector and electricity producers.

However, according to market participants that the energy news site Montel has spoken to, it will not always be quite that straightforward. For example, a major position in the market that is controlled by a hedge fund could very well be linked to an electricity producer, and putting an end to speculative activity would still force exchanges such as ICE and ICAP to disclose who holds which positions.

The carbon price fell noticeably when the news came out last week, but quickly returned to the uptrend we have observed for a long time. However, rumours about potential initiatives to prevent speculative trading will likely continue to affect the market in the coming period.

Forecasts

Precipitation: Following several weeks of dry weather, there are now prospects of wet, low-pressure weather across the Nordic region in the coming period. Nearly twice as much precipitation as normal for this time of year is expected in the next ten days, and the hydro-balance could very well return to a surplus.

Production and spot: The significantly milder and wetter weather approaching the Nordic region will also affect the spot prices. We anticipate that the average Nordic system price in week 7 will fall to around EUR 45/MWh, which would be more than EUR 10/MWh less than last week.

EPADs

The price of the Finnish YR-22 EPAD increased by more than EUR 1/MWh last week and it now costs EUR 11.28/MWh. In Norway, the country's NO1 EPAD for YR-22 is at EUR 3.00/MWh, EUR 0.40/MWH higher than last week.

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