

Extended gains in energy complex spur Nordic power market

Rally to new highs in gas, carbon and German power at beginning of this week add to pressure from high spot power prices, dry conditions.



Here and now

In a similar fashion to calendar week 34, the price development followed through once more last week to gain new highs. This impulse is carried into this week as well. The Nordic system price for this Monday was set at 91,91 EUR/MWh, the highest in more than nine years. Driving factors behind this move remained rather unchanged, i.e. forecast precipitation levels are seen to extend the current deficit in the hydrological balance. In addition, gas and emissions markets with surging prices lend further support to the overall European power complex.

Our recommendation

In light of last week's continued gains in the broader energy complex which were also sustained at the beginning of the new week and mirrored in the Nordics power sector, some pullback at some point still seems plausible. Seasonal forecasts indicating a shift to wetter conditions by October could potentially contribute to this. Renewed bullish impulses from gas and carbon and rather high volatility as a reaction to this cannot be ruled out, though.

Bullish carbon market takes aim at 65 EUR/t

Following the late push higher, which occurred towards the very end of calendar week 34, carbon trading last week not only managed to break through the previous all-time high of 58,64 EUR/t. During Friday's session a new temporary all-time high was seen at 62,45 EUR/t. At the same time, the final settlement price of the week at 61,32 EUR/t means the highest settlement in the EU ETS for the benchmark contract ever. Despite this translating into almost 5% of weekly gains, the current trading week was commenced with yet another record high of 63,19 EUR/t during Monday's

session. A driving factor remains the limited supply in EU allowances in general. Due to a limited schedule last week, only around 5,6 million EUAs were sold in 3 auctions. As of beginning of September, auction volumes are also reduced as this year's withdrawal of around 379 million certificates into the MSR comes into effect. At the same time, the bullish development in the gas sector with its implications on the power markets provides support as well, which in turn could entice speculators to challenge 65 EUR/t as a new price target.

| Forward | Wk 35 (EUR/MWh) | Wk 36 (EUR/MWh) | Expectation (wk 37) |
|------------|-----------------|-----------------|---------------------|
| ENOMOCT-21 | 67,85 | 72,25 | ↗ |
| ENOQ4-21 | 66,00 | 70,05 | ↗ |
| ENOYR-22 | 40,85 | 44,78 | ↗ |
| SYHELYR-22 | 12,83 | 12,13 | ↗ |
| SYOSLYR-22 | 9,78 | 11,40 | → |

Nordic system price at highest in more than 9 years

The Nordics spot price for power delivered this Monday averaged at 91,91 EUR/MWh over all 24 hours of the day.

To find any spot price exceeding this level one needs to look back more than nine years, on 8 February 2012 the day-ahead auction set a price of 96,15 EUR/MWh. Partly, this Monday's price level was a result of rather subdued wind power output and strong spot prices in the neighboring German power market.

From a broader perspective though, the current hydrological situation continues to be an important subject matter. At the start of this week, the deficit in comparison to normal levels this time of year appears to have been extended to currently around 16 to 21 TWh, depending on the model. Forecasts also indicate this deficit to be growing even further as the risk of rather a dry development remains in the near-term. As a consequence, on Monday the Q4-21 contract was traded as high as 70,60 EUR/MWh on Nasdaq, compared to Friday's closing at 66,35 EUR/MWh. Still, these levels are considered to be undervalued in the context of the current environment in the energy complex.

Ole Tom Djupskaas, analyst at data provider Refinitiv, for example last Friday indicated via a public posting on Twitter, that an inflow of 15 TWh above normal were necessary to reach the level, the Q4-21 contract was traded at at that point (i.e. around 67,50 EUR/MWh). The latest seasonal ECMWF forecast indicates certain chances of wetter than normal conditions for October, possibly also November, after a dry September.

If and by how much this can translate into actual inflow will be a major focus point now. For the time being, it appears that a monthly average in spot prices for September around 80 EUR/MWh or even in excess seems possible, which brings the general price level close to price peaks observed during the winter 2010/11.

Nordic region power spot (EUR/MWh)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|
| JAN | 53,38 | 69,62 | 37,18 | 41,39 | 33,60 | 30,08 | 29,85 | 30,81 | 32,93 | 53,78 | 24,10 | 45,81 |
| FEB | 68,92 | 64,46 | 49,06 | 39,67 | 30,23 | 29,05 | 19,94 | 32,28 | 39,58 | 45,86 | 13,08 | 46,84 |
| MAR | 57,02 | 64,22 | 29,20 | 44,84 | 26,74 | 25,34 | 21,91 | 30,40 | 43,42 | 40,85 | 9,00 | 34,19 |
| APR | 46,87 | 53,84 | 31,71 | 45,91 | 25,52 | 25,31 | 22,12 | 29,23 | 39,00 | 40,82 | 5,26 | 37,86 |
| MAY | 42,98 | 54,49 | 28,50 | 36,87 | 26,30 | 22,33 | 23,21 | 28,46 | 33,46 | 38,07 | 8,34 | 44,28 |
| JUN | 44,76 | 48,40 | 25,04 | 33,46 | 25,19 | 14,43 | 26,53 | 24,61 | 44,80 | 27,96 | 3,15 | 43,54 |
| JUL | 45,43 | 38,78 | 13,70 | 33,81 | 28,52 | 9,55 | 25,32 | 26,37 | 51,70 | 35,15 | 2,35 | 53,99 |
| AUG | 42,89 | 40,14 | 23,57 | 35,40 | 32,07 | 13,05 | 25,18 | 27,58 | 51,73 | 36,11 | 8,79 | 65,39 |
| SEP | 49,37 | 28,94 | 25,38 | 38,42 | 34,91 | 17,45 | 25,19 | 31,59 | 47,98 | 32,92 | 15,73 | 79,22* |
| OCT | 49,66 | 27,95 | 34,75 | 38,34 | 30,63 | 22,13 | 32,78 | 28,66 | 43,04 | 37,11 | 14,64 | 72,25* |
| NOV | 54,78 | 41,18 | 34,21 | 36,70 | 29,87 | 24,87 | 38,83 | 32,27 | 48,37 | 42,15 | 6,32 | 68,71* |
| DEC | 81,65 | 33,74 | 42,94 | 32,66 | 31,67 | 18,85 | 31,79 | 30,92 | 51,56 | 36,79 | 20,09 | 70,28* |
| AVG | 53,06 | 47,05 | 31,20 | 38,10 | 29,61 | 20,98 | 26,91 | 29,41 | 43,99 | 38,94 | 10,93 | 55,20** |

*Nasdaq forward closing prices 6/9-21 **hybrid average spot + forward closings

Forecasts

Precipitation: Lately, precipitation forecasts indicated some improvement during the next few days, but as of next week the outlook still appears dry. A new seasonal forecast though keeps the overall month at a dry level, only hinting to a shift to wetter results as of October.

Spot: Despite some more precipitation, this week's average spot price is likely to be in excess of 80 EUR/MWh, as low wind generation and high spot values in neighboring markets like Germany should show some effect.

EPADs

Norwegian EPADs continue with their recent trajectory as the situation in the Nordic energy market is not indicating any strong let up. YR-22 for NO1 lately stood at 11,40 EUR/MWh. YR-22 for Finland managed to slip a bit to 12,13 EUR/MWh.

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