

# Substantial price falls over Christmas holidays

A notable change in the weather in Europe has been affecting both the fuel and energy markets since Christmas. However, the price falls came on the back of low trading activity.



## Here and now

System contract prices in the Nordic forward market have been falling since Christmas and the falls have been extremely strong, particularly for the short-term contracts in the market. Up until Christmas, January looked set to be very cold and dry, but we have since experienced a change to much milder and wetter forecasts and, as the gas prices have continued to fall sharply, the electricity prices have followed suit. The Q2-22 and YR-23 contracts now cost EUR 43.60/MWh and EUR 37.50/MWh respectively, corresponding to falls of EUR 25.55/MWh and EUR 1.50/MWh since our most recent issue just before Christmas.

## Our recommendation

At the start of 2022, prices have fallen sharply, especially for the short-term contracts in the market. However, it is worth noting that trading activity has been low and the question now is what the market will do when the power traders return to their desks this week. We believe that a neutral or slightly climbing trend is most probable for both the short-term and the long-term contracts in the market.

## Market relieved following another change in weather

The Nordic energy market had just prepared for the Christmas holidays and most of January being extremely cold and dry when we experienced another change in the weather during the last few days of 2021. At the start of the New Year, there are now prospects of both temperatures and precipitation volumes being around average for the time of year during the first half of January. Nordic forward prices fell steadily when the weather forecasts were confirmed during the period between Christmas and the New Year and the falls have been extreme, especially for the short-term

contracts in the market. In the 14 days that have passed since our last issue of Fokus, the immediate quarter and year contracts have therefore fallen by 40% and 12% respectively. It is clear that the market is breathing a sigh of relief at the prospects of the extremely cold winter it had prepared for not becoming reality after all and the more normal weather forecasts, as well as the price falls on the continent and fuel markets, having given rise to a sharp downward adjustment. Spot prices have also fallen after reaching record-high levels just before Christmas.

Forward	Wk 51 (EUR/MWh)	Wk 1 (EUR/MWh)	Expectation (wk 2)
ENOMFEB-22	134.00	99.00	→
ENOQ2-22	69.05	43.60	→
ENOYR-23	62.55	70.60	→
SYHELYR-23	7.90	7.65	↗
SYOSLYR-23	13.30	13.85	→

## Gas and coal prices drop due to weather change

*European gas and coal prices have fallen sharply over the Christmas holidays. Milder weather forecasts and growing supply have led to enormous price falls for the most frequently traded contracts.*

The big story across the European energy markets last year was the gas market and the year also ended with another major drama when gas prices took a nosedive during the last few days before the New Year. The 2023 contract in the leading European gas exchange, TTF, costs EUR 41.50/MWh as we head into 2022, corresponding to a fall of no less than 30% in just two weeks. At the same time, the February contract has more than halved in price.

The significant price falls are, as we know, taking place on the back of some extreme price climbs in the gas market towards the end of the year. Like the Nordic region, the markets had prepared for a cold Christmas holidays and a freezing start to the New Year and the gas prices fell sharply when this weather situation changed. The supply situation has also improved. LNG imports to Europe are increasing and, even though the relationship between the EU and Russia remains difficult, the Russians have increased gas supplies to Europe, which has contributed to the sharp recent price falls.

For a long time, the coal market has closely followed the gas market and coal prices have therefore also fallen sharply over the last couple of weeks. One tonne of coal for delivery in 2023 is now trading at around USD 87, a fall of 20% in just two weeks. Naturally, this development has also had an impact on electricity prices, not least in Germany, where the 2023 contract has fallen by around EUR 25/MWh since our last publication shortly before Christmas.

The latest price falls clearly emphasise just how nervous the situation across the markets still is. For now, the markets have been able to breathe a sigh of relief after the frights leading up to Christmas, but if the weather forecasts become cold once more or if there is new uncertainty surrounding French nuclear power or gas supplies from Russia, we could very well see prices soar again.



## Forecasts

**Precipitation:** The weather forecasts have, as already mentioned, changed over the last couple of weeks. Both the precipitation volumes and the temperature levels now look set to remain around average for the time of year during the first half of January, albeit with a cold period towards the end of this week.

**Spot:** Spot prices peaked together with the forward market just before Christmas and prices have fallen slightly since. However, this may also be linked to generally low levels of activity in society during the Christmas holidays. The average Nordic system price for week 52 was EUR 105.51/MWh and we anticipate the level to be around the same in week 1.

### EPADs

The Finnish YR-23 EPAD is at a much lower level than the YR-22 EPAD was trading at before the New Year. It cost EUR 7.65/MWh when the market closed on Monday. The Norwegian NO1 EPAD for YR-23 is somewhat more expensive and is now trading at EUR 13.85/MWh.

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