

# Notable downward adjustment in forward market

Even though the war in Ukraine is continuing unabated, there were price falls across the forward market last week. Spot prices, on the other hand, have climbed sharply.



## Here and now

Following two weeks of soaring electricity prices in the Nordic region, the market clearly felt it was time for a downward adjustment last week, and prices fell for both the short-term and long-term contracts in the market. The Q2-22 contract closed at EUR 89.50/MWh on Monday, a fall of 27% compared to the previous week, while the 2023 contract has fallen by 8.5% to EUR 48.50/MWh. The gas market continues to determine developments and, for now, gas deliveries from Russia to Europe are continuing, despite significant sanctions and Russian threats of shutting off supplies. Nevertheless, the uncertainty remains high, and daily fluctuations are substantial.

## Our recommendation

During the last couple of days of trading, fluctuations in the Nordic energy market have calmed down slightly compared to the first couple of weeks after the war broke out. However, we anticipate that the extremely high volatility will continue in the coming week, and the question of Russian gas supplies to the EU will continue to determine developments.

## Record-high spot prices across parts of Nordic region

While the forward market experienced price falls last week, deliveries in the spot market are taking place at near-record high levels. The average Nordic system price for weeks 9 and 10 was around EUR 150/MWh, which is the highest price level observed in the Nordic region, with the exception of a couple of weeks just before Christmas last year. We anticipate an average Nordic system price of between EUR 140 and EUR 145/MWh in week 11. In Denmark, week 9 became the most expensive week ever, with average prices of EUR 295/MWh in DK1 and EUR 292/MWh in DK2, although prices

fell slightly in week 10. Deliveries in Southern Sweden and Southern Norway are also taking place at near-record high levels at present. Prices were extremely high at the start of last week in particular, as there were low levels of wind power production, but prices fell slightly later in the week. The Nordic region is also noticing the impact of the new transmission cables to other countries where prices are higher, which is causing prices to climb, especially in Norway, where the new 1400 MW cable to England was put into service last year.

Forward	Wk 10 (EUR/MWh)	Wk 11 (EUR/MWh)	Expectation (wk 12)
ENOMAPR-22	160.00	116.00	↗
ENOQ2-22	122.50	89.50	↗
ENOYR-23	52.50	48.00	↗
SYHELYR-23	7.50	8.05	↗
SYOSLYR-23	27.50	28.65	↗

## All eyes still on the gas market

*The markets have priced in the risk of a major energy crisis in Europe, and everyone is waiting to see whether gas deliveries from Russia will cease.*

Even though Germany has shelved the Nord Stream 2 project following the Russian invasion of Ukraine, Russian gas continues to flow at full capacity via existing gas pipelines connecting Russia to Western Europe. Despite the escalating conflict, both Europe and Russia have a mutual interest in continuing supplies, as neither party currently has the financial safety net to allow a complete stoppage of the gas trade.

The enormous price climbs we have seen in the gas market, both in the lead-up to and after the war broke out in Ukraine, do, however, show that the markets are not taking it for granted that the situation will remain unchanged. An enormous risk premium has been priced in, in case Europe chooses to follow in the footsteps of the US and ban the import of Russian gas, or if Putin was to shut off gas supplies and completely cut Europeans off from Russian gas, which Germany, in particular, remains highly dependent upon.

In the Dutch TTF gas exchange, the price of gas for delivery in the coming month more than trebled during the first couple of weeks of the war and, even though we have now seen the market fall slightly again over the last week, the market remains characterised by extreme nervousness. Even though both the EU and Russia would generally prefer to see the gas trade continue, the way in which events play out in Ukraine could suddenly lead to either of the parties withdrawing if they believe it would benefit them in the diplomatic game against the opposition.

While coal and carbon prices also continue to show large, daily fluctuations, the gas market is the most decisive factor when it comes to European electricity prices at present, and everything indicates that the enormous volatility will continue in the coming weeks, since peace negotiations in Ukraine have so far been unfruitful.



## Forecasts

**Precipitation:** Nordic weather forecasts continue to promise largely mild weather for the coming weeks, while precipitation volumes and wind will vary somewhat. The hydro-balance currently has a small deficit of around 3 TWh.

**Spot:** As already mentioned in this issue, spot prices have climbed sharply over the last couple of weeks, and we anticipate that the high levels will continue during the coming period. March could very well end up being the most expensive month ever in the Nordic spot market.

## EPADs

Despite the significant fluctuations in the forward market, the 2023 EPAD in Finland remained relatively stable last week. It is now at EUR 8.05/MWh. In Norway, the NO1 EPAD for 2023 is now at EUR 28.65/MWh.

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