

# EU halts import of Russian coal

The impact of the war in Ukraine on the energy markets grew further last week, when the EU stopped importing Russian coal.



## Here and now

Spot prices in Norway fell slightly last week, where the average spot price of the week was EUR 171.85/MWh in the three southern price areas, Oslo, Bergen and Kristiansand. This meant that prices in Norway were the highest in the entire Nordic area for a second week in a row, as the level fell even more in Denmark and Southern Sweden. In the forward market however, there were further price increases. The weather forecasts for the second half of April still look rather cold, and snow melting in the Norwegian mountains is therefore delayed.

## Nordic water reservoirs at risk of low levels

The weather forecasts for the Nordic region indicate that the cold spring weather, with temperatures well below normal for the time of year, will continue for the rest of April. There may be some milder periods, but we are generally looking at a cold second half to the month. This will mean that the melting of snow in the Nordic mountains will be delayed and that the already low water reservoir levels, especially in the southern parts of Norway, will decline further. The average water level in Norwegian reservoirs was around 26% in week 13. In comparison, the levels at the same time in 2020 and 2021 were

43% and 46% respectively. Naturally, this leads to higher prices. The overall Nordic hydro-balance is currently at a smaller deficit of around -4 TWh, but a large proportion of the hydro-resources can be found in the northern part of Norway and, due to poor cable connections, it is not possible to transport these to the more densely populated southern areas of the Nordic region. People in the southern areas therefore have to contend with extremely high prices, while electricity is very cheap in northern Norway and northern Sweden.

## Our recommendation

Last week brought further uncertainty surrounding European energy supplies following the EU's decision to halt all imports of Russian coal. This volatility will undoubtedly remain very high in the coming week, when the delayed melting of snow and pressure on the Nordic hydro-balance will also play their parts. We believe that further price climbs are most likely as we approach Easter.

Forward	Wk 14 (EUR/MWh)	Wk 15 (EUR/MWh)	Expectation (wk 16)
ENOMMAY-22	93.00	103.00	↗
ENOQ3-22	71.00	83.75	↗
ENOYR-23	53.90	59.25	↗
SYHELYR-23	3.40	2.45	→
SYOSLYR-23	29.75	29.90	→

## Major price jumps in coal market following new EU sanctions

*The EU has introduced additional sanctions against Russia by halting coal imports. This has caused coal prices to soar. Nevertheless, gas trading will continue, at least for now.*

In the wake of the revelations earlier in the month concerning Russian war crimes against civilians in Ukraine, the scene was set for stricter Western sanctions against Russia. This was announced last week, when the EU member states announced that, as part of the fifth package of sanctions against Russia, the member states had agreed on a complete stoppage to the importing of Russian coal.

A stop to Russian coal was what the EU member states managed to agree on following negotiations, during which several member states pushed to take things one step further and to also stop gas trading with the Russians. However, several EU member states are extremely reliant upon Russian gas, and the impact of an import ban would be much more drastic than the price climbs that resulted from the decision to stop buying coal.

Coal prices soared when an import ban was proposed last week, and the market experienced further increases when the decision was officially confirmed on Friday. The 2023 coal contract closed at no less than USD 227/t on Friday, an increase of 20% in the last week. The news also caused adjacent markets to climb, with both gas and electricity prices increasing as the week progressed. Several contracts in the German energy market reached record-high levels on Friday, when the year contract for 2023, for example, closed at EUR 194/MWh.

While the markets try to find stability in a reality that is constantly changing, the question is now how long it will take before further sanctions are introduced against Russia. The President of the European Council, Charles Michel, stated last week that, sooner or later, the EU will also have to bring sanctions against Russian oil and gas, and the markets are therefore continuing to price in a significant risk premium due to fears that this will become reality before long.



## Forecasts

**The weather:** We can see that there will be certain mild days in the Nordic region around Easter, but the rest of April generally looks set to be on the cold side. This means that the water level in Nordic reservoirs will not climb to the same extent as normal for this time of year.

**Spot:** Despite the fact that the spot prices remain high as a result of the delayed melting of snow, the price level still looks set to fall during the rest of April. The additional public holidays in the coming week will also lead to lower prices.

## EPADs

There have been continued price falls in the Finnish 2023 EPAD, which is now down to EUR 2.45/MWh. In Norway, there were no significant fluctuations in the NO1 EPAD for 2023, which closed at EUR 29.90/MWh on Monday.

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