

Markets characterised by fears of recession

Concern about the global economy has characterised the markets in recent weeks and risk appetite has been low, which has led to falling prices both in the Nordic region and on the continent.



Here and now

Following several consecutive weeks of price climbs, the trend changed last week in the forward market. The German energy market fell on every day of the week, and fuel and carbon have also experienced price falls, which has helped pull the Nordic market downwards. Wetter weather forecasts provided a further boost to the downside for the short-term contracts in the market. There were also falling prices in the spot market, and the average Nordic system price for week 23 was EUR 97.36/MWh, a fall of around 20% compared to last week's level.

Fears of recession lead to falling prices

We have experienced a week of falling prices across the markets. In the German energy market, the 2023 year contract fell on all five days of trading, after having reached a record-high level the previous week. Gas and coal prices have also fallen and, for the gas market, this development has taken place even though supply has decreased following an explosion at a gas plant in the USA. The price falls can largely be attributed to a general low willingness to take risks in the markets due to poor economic key figures from both Europe and the USA, not least

in the form of sky-high inflation and significant falls in the stock markets. The markets fear that the situation could develop into another global recession, not least if the war in Ukraine continues or potentially develops to involve countries other than Russia and Ukraine. The appetite for risk is therefore very low, and this trend has also affected the Nordic region. The markets are holding their breath while awaiting developments over the summer, with the developments in the war set to be particularly important.

Our recommendation

Following a rare week of falling prices, the focus is now on the weather forecasts. If the forecasts continue to indicate mild and wet weather, further price falls cannot be ruled out, especially if the downtrend continues in Germany. We believe that neutral or slightly falling developments are most likely in the coming week, but volatility remains high across the markets.

Forward	Wk 22 (EUR/MWh)	Wk 24 (EUR/MWh)	Expectation (wk 25)
ENOMJUL-22	92.00	69.23	↘
ENOQ3-22	106.05	82.50	↘
ENOYR-23	79.00	78.15	↘
SYHELYR-23	4.90	8.40	→
SYOSLYR-23	33.90	33.15	→

European Parliament votes against carbon market reform

Somewhat surprisingly, the European Parliament voted against the planned new reform of the European carbon market last week, and negotiations have therefore resumed.

In recent months, the EU has been working on a new reform of the European carbon market, a step considered important for the Union to achieve the ambitious climate targets it has set in the preceding years. A committee established under the auspices of the European Parliament has worked on a draft reform based on the recommendations from the European Commission. Still, when it was submitted for a parliamentary vote last week, it ended up with a majority of MEPs voting against the reform.

In connection with the negotiations, the committee had slightly lowered the ambition levels in a bid to gain support for the deal from the more right-wing groups in parliament. This meant that the deal that was being voted on involved a decrease in carbon emissions of only 63% by 2023 compared to the 67% that the left-wing members of parliament had demanded. This change meant that many centre-left members of parliament ended up voting against the proposal, which they perceived as unambitious.

The committee must therefore return to their desks and try to find a compromise that will appeal to a parliamentary majority. This will not necessarily be an easy task with the economic challenges most member states face in the wake of the COVID-19 pandemic and the war in Ukraine. When parliament eventually agrees on a market reform, the next step will be negotiations between the EU and the national governments of the member states.

The carbon market reacted by way of falling prices last week as it became clear that the reform proposal had been rejected by parliament. On Friday, the market closed at a carbon price of EUR 81.86/t, more than EUR 5/t lower than at the start of the week. Volatility is expected to be high in the coming period, and market players are keeping an eye on the changes to the proposal that will be required for parliament to support the committee in a vote.



Forecasts

The weather: The weather forecasts in the Nordic region continue to indicate wet weather for the coming week, and the hydro-balance deficit is decreasing. The deficit is expected to be only around -5 TWh in two weeks, significantly lower than at the start of the month.

Spot: Following the price falls last week, we anticipate that Nordic spot prices will stabilise this week. An average Nordic system price of around EUR 100/MWh seems probable in week 24.

EPADs

The price of the Finnish 2023 EPAD has continued to soar since our last issue of Focus. It is now at EUR 8.40/MWh. In Norway, the NO1 EPAD for 2023 is now at EUR 33.15/MWh.

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