

Markets characterised by enormous volatility

The European energy markets have still not stabilised after the drastic decline in Russian gas supplies earlier this month. Fluctuations remained substantial last week.



Here and now

There were further price climbs to report in the forward market last week and the news was still dominated by the uncertainty relating to the lack of Russian gas supplied to Europe. The markets are now pricing in a winter of extreme scarcity of supply, as several countries are preparing to announce emergency plans and extraordinary measures to secure the necessary gas resources. Prices climbed also in the spot market. With an average Nordic system price of EUR 130.29/MWh for the week, the market climbed by around 30% compared to the previous week.

Europe preparing for a dramatic winter

The panic has far from subsided after gas supplies from Russia to Europe dramatically decreased earlier this month. Russia maintains that the decline in supplies is due to technical issues with the Nord Stream 1 pipeline, but Germany does not believe this story to be true. Regardless of the cause, gas supplies remain at a very low level, prices have continued to soar over the last week and the markets are clearly fearing that Russian exports will come to a complete stop. European countries are now working at full force, individually and together within the EU, to draw up emergency plans to

secure energy supplies for the coming winter. Several countries, including Germany, Spain and Austria, have initiated emergency plans to ensure adequate gas supplies, while several other countries currently have similar initiatives on the drawing board. At the same time, both the EU and the G7 countries are negotiating this week to establish joint initiatives for energy and there will be some focus on US President Joe Biden, as American LNG will be essential for Europe to secure enough gas to get through the coming winter.

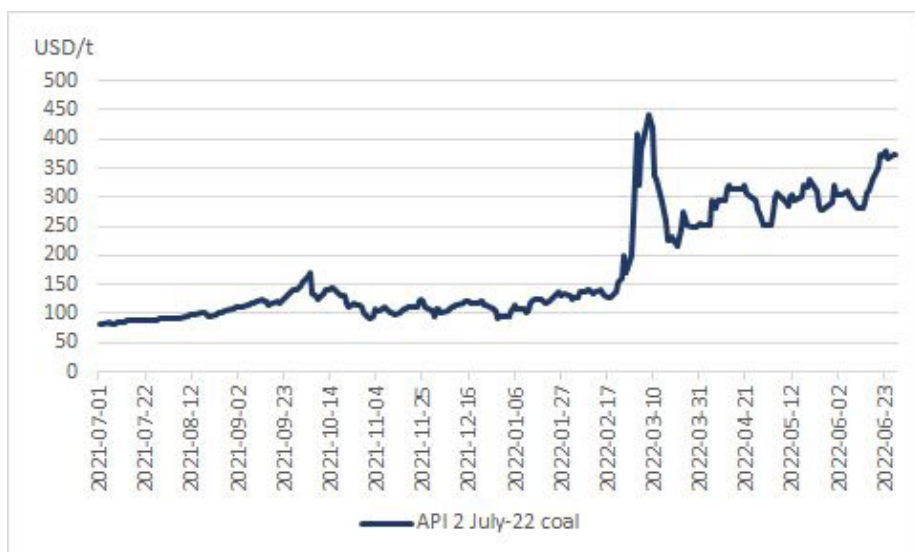
Our recommendation

The energy markets are also unlikely to stabilise next week. On the contrary, the conflicts could very well escalate further if either the G7, the EU or NATO decides to apply further pressure on Russia. For the Nordic region, the weather forecasts will also be a decisive factor. We consider the chances of further price climbs to be greater than the chances of price falls in the coming week.

Forward	Wk 26 (EUR/MWh)	Wk 26 (EUR/MWh)	Expectation (wk 27)
ENOMAUG-22	115.00	118.00	↗
ENOQ4-22	154.00	162.50	↗
ENOYR-23	97.40	99.90	↗
SYHELYR-23	18.40	21.75	↗
SYOSLYR-23	36.00	36.65	↗

Climbing coal prices after previously closed plants restart

European coal prices have been soaring recently. One tonne of coal for delivery next month now costs around USD 370, around USD 90 more than just two weeks ago. Naturally, coal prices have been affected by the new situation in the gas market. Several countries, including Germany and France, have decided to restart previously closed coal power plants in order to save gas resources and the increased consumption of coal is naturally leading to higher prices. We need to look back to the period immediately after the war broke out in Ukraine to find coal prices higher than the ones we are seeing now.



Revised carbon allowance reform approved by European Parliament

A draft reform of the European carbon market was surprisingly voted down by the European Parliament at the start of June, most probably because several of the green groups in Parliament found the proposal to be lacking in ambition. A new, greener version was presented for a vote in Parliament last week and this time it was approved. Before the reform takes effect, Parliament will need to be able to negotiate support from the EU member states and this process is set to commence over the coming months.



Forecasts

The weather: Precipitation volumes in the Nordic region are expected to increase significantly in the coming period. The next ten days are expected to offer nearly twice as much precipitation as normal for the time of year, while temperatures will drop to around or just below the seasonal norm.

Spot: Last week was characterised by very high spot prices and the level looks set to remain high this week. We anticipate an average Nordic system price of between EUR 125/MWh and EUR 130/MWh for week 26.

EPADs

The now prolonged price climbs in the Finnish EPADs continued last week and the 2023 EPAD climbed to EUR 21.75/MWh. In Norway, the NO1 EPAD for 2023 climbed to EUR 36.65/MWh.

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