Mild weather forecasts for the forseeable future

Even though the weather forecasts indicate mild, wet and windy weather for the rest of the month, there were still price climbs for the short-term contracts in the forward market last week.

Here and now

Following several weeks of moderately falling prices, the short-term contracts in the market changed direction last week, and the Q2-22 contract closed at EUR 46.73/MWh on Monday, EUR 5.63/MWh higher than one week ago. The uptrend was most likely the result of a correction following the previous price falls, as this trend was not supported by the mild, wet weather forecasts. The neutral trend continued for the long-term contracts in the market. The 2023 forward contract now costs EUR 36.78/MWh, only EUR 1.27/MWh lower than last week.

Rising short-term contracts despite mild, wet forecasts

The fact that the short-term contracts in the forward market have climbed as much as they have has been very noticeable over the last week. Both the upcoming month contracts for February and March and the Q2-22 contract have climbed by more than 10%. This is despite the fact that the weather forecasts are promising temperatures, precipitation volumes and wind power production well above normal for the time of year in the coming weeks. A possible explanation for this could be the fact that spot prices remain high, even though the level has dropped since the New Year. The average Nordic system price for week 2 was EUR 90.91/MWh. Even though the hydro balance has improved, a deficit of -8 TWh remains. It appears that the market needed an upward correction despite the mild, wet weather forecasts, and the news of limited French nuclear power activities in the coming months supported the uptrend, as it affects the adjacent markets, especially Germany. The forward market now needs to see further falls in the spot prices before it is ready for more price falls.

Our recommendation

Despite the very mild, wet weather forecasts, as well as some cheap days in the spot market, the forward prices failed to fall last week. It would appear that we need to see the spot market stabilise at a low level before the forward market is prepared to trade downwards any further. We believe that neutral developments or slightly falling prices are most likely for both the short-term and long-term contracts in the market next week.

Forward	Wk 2 (EUR/MWh)	Wk 3 (EUR/MWh)	Expectation (wk 4)
ENOMFEB-22	85.00	97.75	→
ENOQ2-22	41.10	46.73	→
ENOYR-23	38.00	36.78	→
SYHELYR-23	7.40	6.85	→
SYOSLYR-23	14.40	18.60	↗

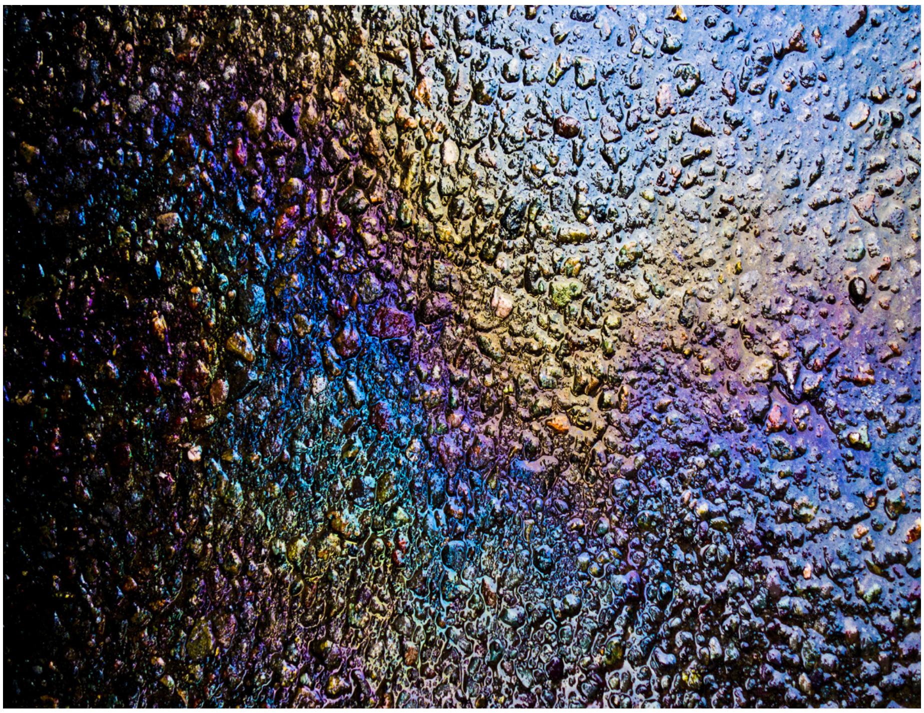
Highest oil prices in more than seven years

We have experienced some sharp price climbs in the international oil market over the last couple of months. At the start of December, the benchmark contract for Brent oil was around USD 68, but the price has climbed to USD 88 just a month and a half later. This is the highest oil price observed since the autumn of 2014.

The market also had another scare this autumn when the new COVID-19 mutation Omicron caused infection rates to soar around the world, leading to new, tighter restrictions in many countries. This led to fears that global economic activity would slow down again, which would also have had a negative impact on the oil market. However, this fear does now appear to have receded, just a few months later. Even though the infection rates remain high, the new mutation results in milder symptoms and extensive lockdowns have so far been avoided. This has given the oil market another boost.

Geopolitics always have an impact on the oil market, and the focus is currently on Russia. The escalating crisis surrounding Russia and Ukraine is causing nervousness in the market, and a potential Russian invasion of its neighbouring country would lead to another major global political crisis that would undoubtedly affect oil prices. Russia is not a member of the OPEC oil cartel but has collaborated with the organisation in relation to oil production for a number of years now.

And with oil prices at their highest level in more than seven years, the question now is precisely what OPEC plans to do about oil production. Traditionally, several of the member states tend to err towards increasing production when prices rise, and this is no doubt currently being considered. However, for now, the countries have maintained the existing production schedule, but this could change rapidly if the prices were to climb even further from the current level.



Forecasts

The weather: There are prospects of mild, wet and windy weather in the Nordic region over the next couple of weeks. The more distant and also more uncertain forecasts indicate that weather characterised by low pressure is likely to continue well into February.

Spot: As already mentioned, spot prices have fallen slightly over the last couple of weeks. We anticipate an average Nordic system price of around EUR 85/MWh for week 3, before the price level is expected to climb slightly.

EPADs

The significant price climbs are continuing in the Norwegian EPADs. Last week, the NO1 EPAD for 2023 climbed to EUR 18.60/MWh. In Finland, on the other hand, the trend is the opposite, and the 2023 EPAD has now fallen to EUR 6.85/MWh.

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