

Growing hydrological pressure in Nordic region

Dry weather forecasts are causing the Nordic hydro-balance deficit to grow further, and Norway is now considering limiting exports abroad.



Here and now

Since our last edition three weeks ago, the prices in the forward market have simply continued to climb. The hydro-balance deficit has grown, and there are prospects of very low hydrological resources in the Nordic region this coming winter, while the market is already concerned with other matters. Gas supplies from Russia to Europe have decreased even further as the summer has progressed. These circumstances have also led to further price climbs in the forward market, and July also offered the highest spot prices ever experienced in Denmark.

Gas crisis continues unabated

The summer holiday period did not offer any improvements in the gas market, where the supply situation worsened even further. Even though the crucial Nord Stream 1 gas pipeline was put back into service following maintenance work earlier this summer, the flow through the pipeline is now at only 20% of the installed capacity. The Russians are still blaming the low flow on technical issues, but the EU does not believe this explanation. Even though European gas stores are currently well stocked and the EU has implemented a plan to reduce gas consumption in

the Union by 15% by the end of the coming winter, this is not enough for the market to feel at ease. Both the day price and the upcoming month contract are currently trading at around EUR 200/MWh in the leading European gas exchange. In the meantime, the markets are awaiting new signals that could change the situation. The European energy markets, with their record-high prices, can only wait to see whether Russia will halt supplies completely or increase the flow.

Our recommendation

Prices are continuing to soar this summer, and the market remains extremely volatile. There is still a high potential for further price climbs, especially if Russia completely stops the gas supply to Europe, and with the developments of the last six months in mind, it seems most obvious to believe that the price jumps will continue in the coming week.

Forward	Wk 29 (EUR/MWh)	Wk 32 (EUR/MWh)	Expectation (w 33)
ENOMSEP-22	152.25	157.25	↗
ENOQ4-22	235.25	250.00	↗
ENOYR-23	125.13	158.50	↗
SYHELYR-23	37.15	23.90	→
SYOSLYR-23	39.90	50.40	→

Growing hydro-balance deficit

The water reservoir level in Norway remains very low compared to the historical norm, and the Norwegian government is now proposing limitations on exports.

The hydrological situation in the Nordic region is under pressure, and the situation has not improved during the summer holidays. According to the PointCarbon analysis bureau, the Nordic hydro-balance is expected to be at a deficit of no less than -12.5 TWh in two weeks, and the water reservoir level is very low. At the end of July, the water reservoir level in southern Norway was around 55%. By comparison, the figure at the same time last year was 64%, while the historical average is no less than 75%.

The significant hydrological deficit is contributing to the high prices for delivery that we are currently seeing, as well as the significant price jumps in the forward market, where the system contracts for the coming months, quarters and years have now reached new record-high levels this summer. The risk of empty water reservoirs this winter, when we also expect gas supply issues, has resulted in a significant price jump. Unsurprisingly, the increases have been most substantial in Norway, but the limited hydrological resources are affecting the Nordic region as a whole.

The explosively climbing electricity prices in southern Norway have led to the Norwegian government proposing to limit the export of electricity to other countries if the water reservoir level drops below a certain point. Major new cables between Norway and the continent and Norway and the UK mean that Norway now exports a large proportion of its electricity to these countries, where prices remain higher than in Norway, despite recent price climbs.

The Norwegian Minister of Energy announced that he would consider regulating exports so that these can be limited if the water reservoir level becomes critically low, but he did not specify how such an arrangement might work. Norwegian export limitations would, all else being equal, lead to sharply falling electricity prices in Norway and would also affect the rest of the Nordic region.



Forecasts

The weather: The rest of week 32 looks set to be relatively warm and dry in the Nordic region, but there are prospects of low pressure from the start of next week. Precipitation volumes will rise, but temperatures could fall to around or below normal for the time of year.

Spot: There are no prospects of falling spot prices in the Nordic region any time soon. We anticipate an average Nordic system price of around EUR 150/MWh this week and sky-high EPADs in Denmark and southern Norway in particular.

EPADs

There were further price climbs in the 2023 EPADs in Norway during the summer holidays, and the NO1 EPAD now costs EUR 50.40/MWh. In Finland, the level has fallen slightly, and the 2023 EPAD is currently trading at EUR 23.90/MWh.

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