

Increasing LNG imports provide boost to gas market

The weather forecasts in the Nordic region have become colder and drier over the weekend. This led to major price jumps for the short-term contracts in the market on Monday.



Here and now

We experienced a slightly falling trend in the forward market at the end of last week, but this situation changed on Monday. The weather forecasts actually became notably colder and drier over the weekend, and the market exploited this development to trade upwards at the start of the week. This meant that the short-term contracts in the market ended the week with increases overall. The Q2-22 contract therefore now costs EUR 54.90/MWh, an increase of EUR 8.17/MWh during the course of the week. The 2023 year contract closed at EUR 36.90/MWh on Monday, a marginal EUR 0.12/MWh higher than one week ago.

Our recommendation

The weather forecasts now indicate a somewhat cooler end to January, which caused a notable price jump in the forward market at the start of this week. If this is confirmed by the forecasts during the remainder of the week, there would be room for further price climbs in the market. The fears of a war between Russia and Ukraine could put further pressure on gas prices, which would cause electricity prices to climb even further.

New price falls in spot market

The results of what has become an extended period of wet, mild weather across the Nordic region can now be seen in the spot prices. The average Nordic system price for week 3 was EUR 85.91/MWh. Even though this is an extremely high price when viewed from a historical perspective, it was actually the cheapest week since week 46 last year, and the level was less than half of what the market peaked at shortly before Christmas. The southern parts of the Nordic region continue to follow Germany, but as spot prices have also fallen there, the

DK1, DK2 and SE4 prices also dropped to a low level compared to the average in recent months. Now that the colder, drier and less windy weather forecasts for the next couple of weeks have come in over the weekend, we do, however, expect the spot prices to climb slightly going forward. As such, we could very well see the average Nordic system price exceeding EUR 100/MWh in both week 5 and 6. The market is continuing to keep an eye on the Finnish nuclear power reactor, Olkiluoto 3, at which trial production is expected to start in the coming week.

Forward	Wk 3 (EUR/MWh)	Wk 4 (EUR/MWh)	Expectation (wk 5)
ENOMFEB-22	97.75	102.00	↗
ENOQ2-22	46.73	54.90	↗
ENOYR-23	36.78	36.90	↗
SYHELYR-23	6.85	6.95	→
SYOSLYR-23	18.60	21.90	↗

Europe increasing LNG imports

In a pressurised period with high prices, the European gas market has received a helping hand in the form of the large quantities of LNG that are currently arriving in Europe from other continents.

Over the last six months, we have repeatedly reported on the highly pressurised supply situation in the European gas market. It is the frosty relationship between the EU and Russia in particular, as well as the difficulties associated with the approval of the Nord Stream 2 pipeline, that have resulted in relatively empty gas stores across the continent compared to normal.

Another reason for the prolonged shortage of gas in Europe is that the large producers of liquid natural gas (LNG) had been choosing to send their gas to Asia in 2021, because they were able to secure better prices for the gas there. However, this trend has now changed. Prices in Asia have fallen, in part due to the mild winter weather and because the stores there are now close to full. LNG from the USA and the Middle East, for example, is therefore now being shipped to Europe, where gas stores had otherwise been depleted amidst what is a very uncertain situation.

Record-high levels of LNG imports are expected over the coming months, and stock levels are also improving. Right now, the total stock level in European gas stores is 45%, compared to 60% at this time last year, which represents an improvement, as the difference was even greater one month ago. Even though large volumes of LNG are expected to arrive in Europe over the coming weeks, we will likely still need to deal with stock levels below the seasonal norm for the rest of winter.

Increased import levels have caused gas prices to fall for both the short-term and long-term contracts in the market. However, these falls have, to some extent, been limited by the increasingly tense situation between the EU and Russia and the growing fears of another war in Eastern Europe.



Forecasts

The weather: The weather in the Nordic region will be largely mild and wet as we move towards the weekend. However, we will subsequently be heading for drier and colder conditions, and it will be interesting for the market to see just how far into February this situation will continue.

Spot: We anticipate that the spot prices will climb slightly, after having reached their lowest levels for more than two months last week. Wind power production also looks set to decrease when the weather becomes dominated more by high pressure next week.

EPADs

The major price jumps are continuing for the Norwegian 2023 EPADs, with the NO1 EPAD climbing to EUR 21.90/MWh last week. The Finnish 2023 EPAD remained largely stationary and now costs EUR 6.95/MWh.

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