

Price spread to Germany remains huge

The price spread between the Nordic region and Germany remains very large. The traditional correlation between the two markets has been taken out of play completely by the current circumstances.



Here and now

The price of the Nordic system contracts continued to fall last week, but, from Thursday, the market changed direction and prices were climbing again until Monday. The Q1-22 contract now costs EUR 66.70/MWh, EUR 4.20/MWh higher than one week ago, while the YR-22 contract has fallen to EUR 39.05/MWh, EUR 1.45/MWh lower than last week. The weather forecasts remain a crucial factor and the latest forecasts are slightly drier than before the week-end. High spot prices also continue to prop the market up.

Nordic-German spread continues to grow

There was explosive growth in the price spread between German and Nordic energy markets early this autumn and the price difference appears to have stabilised at a very high level. The Nordic region and Germany are currently being driven by very different fundamentals and the spread between the two markets' 2022 contracts remains at nearly EUR 90/MWh. The German 2022 contract closed at EUR 127.20/MWh on Monday, while the corresponding Nordic contract now costs EUR 39.05/MWh. Previously, the Nordic contracts would, to some

extent, have followed the uptrend when German electricity prices rise as sharply as we have seen lately, but the correlation between the two markets is no longer as pronounced. Nordic power traders see no need to trade up based on the climbing gas prices that have caused the increases in Germany. Since Denmark and Southern Sweden continue to follow Germany, this means that it is the EPADs that experience price climbs instead when the system contracts do not. Accordingly, there were further increases for the DK1, DK2 and SE4 EPADs last week.

Our recommendation

We will continue to observe Nordic and German energy markets reacting completely independently of one another in the coming week. We believe that climbing prices are most likely in the Nordic region, where the weather forecasts now indicate drier weather as we head towards the start of November. Developments in Germany appear less certain, but the gas market will continue to set the tone.

Forward	Wk 41 (EUR/MWh)	Wk 42 (EUR/MWh)	Expectation (wk 43)
ENOMNOV-21	72.00	70.85	↗
ENOQ4-21	62.50	66.70	↗
ENOYR-22	40.50	39.05	↗
SYHELYR-22	17.40	20.40	→
SYOSLYR-22	16.40	16.15	→

Russian gas exports to Europe remain low

There is once again growing uncertainty relating to Russian gas deliveries, after Gazprom once more acquired only a small volume of the capacity in the lines running to Western Europe.

Last week did not change the fact that Russia remains the focus in the European gas markets. The markets do not appear to have much faith in Vladimir Putin's announcement that Russia would like to increase Russian gas exports to Western Europe. This fear was further supported by the fact that the state-owned Russian gas company, Gazprom, purchased only minimal capacity through the gas lines running through Ukraine to Western Europe again for November. A similar situation can also be seen when it comes to the gas line running through Poland.

The Russian explanation is that lower deliveries and high demand internally and from other countries, not least China, means that there is less gas available for Western Europe. Nevertheless, there is widespread suspicion within the EU that the falling exports to Europe instead constitute a mixture of a punishment for the Nord Stream 2 line not being approved and pressure being put on the EU to get the project back on track. The Russians are very well aware that the gas prices we have seen this autumn are way above the pain threshold in terms of what Europeans can cope with and that it is therefore something that must be managed politically.

The Vice President of the European Commission, Frans Timmermans, said last week that Russia is continuing to fulfil its contractual obligations relating to gas deliveries, but that the major price climbs highlight the fact that the market had expected much greater deliveries to the EU than it is currently receiving.

Nord Stream 2 therefore remains high on the agenda in the markets, while the project participants, including Gazprom, try to get the project approved by the European courts.



Forecasts

Precipitation: The wet weather across the Nordic region will continue for at least another week, but we could be heading towards drier weather after that point. The hydro-balance deficit continues to dwindle and is now only -7 TWh.

Spot: Spot prices fell in the Nordic region last week and the average Nordic system price reached its lowest level since July at EUR 62/MWh. We anticipate that prices will climb slightly in week 42 and that the EPADs will remain high in the southern price areas.

EPADs

The price of the Finnish YR-22 EPAD increased further last week and it now costs EUR 20.40/MWh. There were no major fluctuations in the NO1 EPAD for YR-22 in Norway, which is now trading at EUR 16.25/MWh.

Senior Portfolio Manager
Lorents Hansen

(loha@energisalgnorge.no)
Telephone: + 47 9770 6413

Communicative Analyst
Karsten Sander Nielsen

(ksni@energidanmark.dk)
Telephone: +45 8745 6948