

# China triggers major fall in coal market

The Chinese government was no longer willing to quietly watch the rising coal prices and has therefore ordered an increase in Chinese coal production. This has triggered a sharp price fall, including in Europe.



## Here and now

The price falls in the Nordic forward market continued last week, before the prices climbed again on the back of the drier weather forecasts on Monday. When the market closed on Monday, the Q1-22 contract cost EUR 67.65/MWh, virtually unchanged from last week. The YR-22 contract is also largely at the same level as last week, now costing EUR 38.53/MWh. Nevertheless, the area prices have fallen in the most densely populated areas of the Nordic region, and the overall electricity prices in most price areas are now lower than they were a week ago.

## Sudden, major price falls in coal market.

The prolonged uptrend in the coal market has come to an end, and we have seen some very extreme price falls over the last couple of weeks. The price of one tonne of coal for delivery in 2022 has fallen by nearly 40 dollars in less than two weeks, and it now costs around USD 120. The reason for the price falls can be found by looking to China, which has experienced significant price increases for coal during the autumn, just like Europe. The demand in the most populous country in the world is so high that the Chinese coal price climbed to no less than USD 300 earlier in the month.

The Chinese government is seemingly unwilling to accept such a price level, and an order was issued to increase production from Chinese mines to help improve the situation. The Chinese have previously attempted to limit coal consumption in the country, not least due to air pollution, but the current extreme circumstances mean that the country now has to significantly increase production levels. As the largest producer and consumer of coal, China is particularly crucial when it comes to the direction the prices move in, including in the nervous European market.

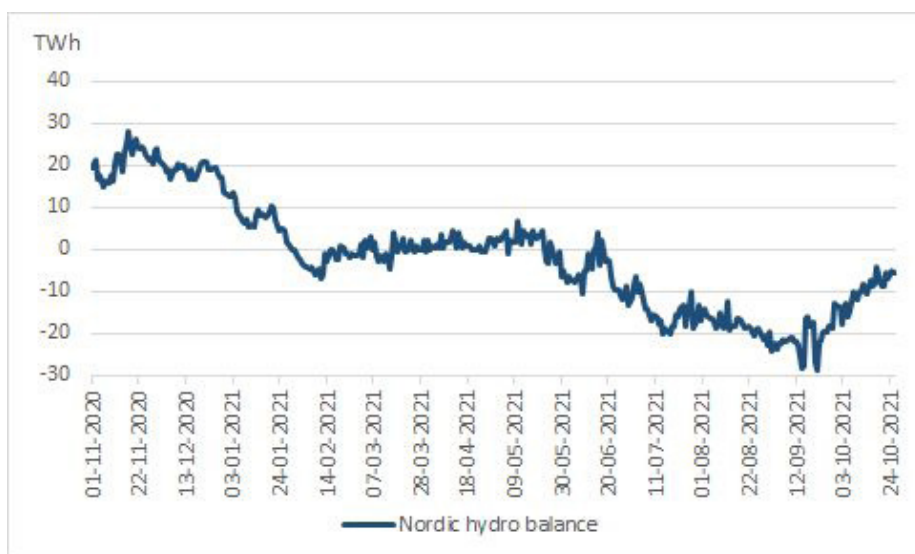
## Our recommendation

Following several months of significant price fluctuations, the markets now appear to have calmed down. Nevertheless, the uncertainty remains high, and news about the gas supply, in particular, could lead to great volatility again. We believe that price climbs are most likely, as the market will have the space to trade up further if the dry and cold weather forecasts for November come true.

Forward	Wk 42 (EUR/MWh)	Wk 43 (EUR/MWh)	Expectation (wk 44)
ENOMNOV-21	70.85	71.00	↗
ENOQ4-21	66.70	67.65	↗
ENOYR-22	39.05	38.53	↗
SYHELYR-22	20.40	20.98	→
SYOSLYR-22	16.15	16.30	→

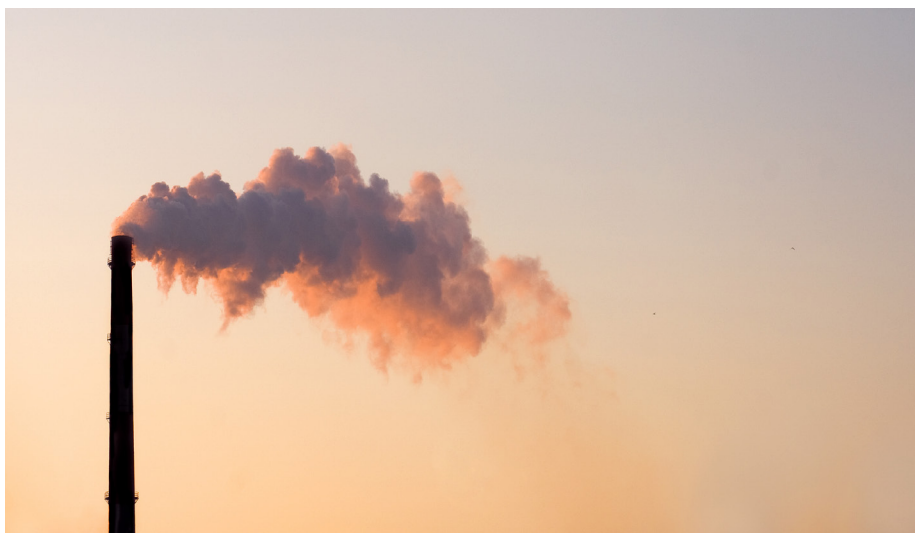
## Hydro-balance deficit almost gone

Several weeks of wet and mild weather have left their mark on the hydrological situation in the Nordic region. Just over a month ago, the hydro-balance had a significant deficit of nearly 30 TWh, but the wet start to autumn now means that this deficit is expected to be only 5 TWh as we head into November. Naturally, this has eased the pressure in the Nordic energy market, which experienced extremely large price fluctuations earlier this autumn, when the major hydrological deficit coincided with widespread panic across the fuel markets.



## New debate concerning carbon market reform

European energy ministers will meet this week to discuss the opportunities for potential future reforms to the European carbon market. Several countries are unhappy about the way in which speculative investors have taken control of the market and pushed prices upwards and downwards in order to make a profit. The type of reform required to remedy the situation remains unclear. This discussion forms part of a wider debate among EU member states about how the energy markets are functioning in the wake of the enormous price fluctuations in recent months.



## Forecasts

**Precipitation:** Following a long period of wet weather, there is now plenty to indicate that we are heading towards a period of drier weather at the start of November. The drier weather forecasts led to price climbs in the Nordic energy market at the beginning of this week.

**Spot:** The mild and wet autumn weather once more resulted in falling spot prices last week. The average Nordic system price for week 42 was EUR 52.98/MWh, the lowest level observed for three months. We anticipate a similar level this week.

## EPADs

The price of the Finnish YR-22 EPAD climbed further last week. It now costs EUR 20.98/MWh. Prices have also climbed in Norway, and the NO1 EPAD for YR-22 is now trading at EUR 16.38/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

**Energi Salg Norge™**