Large price falls in spot market and forward market

Nordic energy prices fell even further last week, and there was also a downtrend in the coal and gas markets. Nevertheless, there is still significant uncertainty, and the daily fluctuations are substantial.

Here and now

Forward prices continued to fall in the Nordic region last week, and the most frequently traded contracts are now at their lowest levels since the middle of the summer. The weather forecasts remain wetter and milder than normal for the time of year, and the downside last week was supported by falling prices in both the coal and gas markets. The Q1-22 contract ended up falling by no less than EUR 18.25/MWh and cost EUR 49.40/MWh when the market closed on Monday. The YR-22 contract has fallen by EUR 7.53/MWh, now costing EUR 31.00/MWh.

Sharply falling spot prices in Nordic region

Following a period of sky-high spot prices, we have seen falling prices over the last couple of weeks. The average Nordic system price for week 43 was only EUR 38.28/MWh, making it the lowest price level observed since the middle of April. Prices are also falling in certain price areas in the Nordic region. The downtrend comes on the back of an extremely expensive start to the autumn. September was the most expensive month ever recorded for the spot market since the introduction of the Nordic system price, but the rapid improvement in the hydro-balance and high levels of wind power production in recent weeks have resulted in rather steep price falls in a short period of time. The temperatures in the Nordic region are also staying well above normal for the time of year, which is helping keep consumption levels down. The falling spot prices have also played a key role in the forward market falling as much as it has done in recent weeks. Nevertheless, winter is coming, consumption will rise, and we therefore expect that the spot prices will also climb over the coming weeks.

Our recommendation

We have now seen a significant correction in the forward market, in which Q1-22, for example, has fallen by more than 30% in the last week alone. We therefore believe that the room for price climbs has now also grown significantly. If the slightly drier and colder weather forecasts become reality, the market should regain some of the losses. We anticipate that the high levels of volatility and substantial daily fluctuations will continue.

Forward	Wk 43 (EUR/MWh)	Wk 44 (EUR/MWh)	Expectation (wk 45)
ENOMNOV-21	71.00	51.35	↗
ENOQ4-21	67.65	49.40	↗
ENOYR-22	38.53	31.00	↗
SYHELYR-22	20.98	20.40	↗
SYOSLYR-22	16.30	15.90	↗

Highest oil price in seven years ahead of OPEC summit

The oil price is at its highest level in seven years, and the question now is whether OPEC's agreement to restrict production will continue.

The oil market has been climbing for several months now. Last week, Brent oil reached a temporary peak at a price of USD 86.50/barrel, which is the highest price observed since the autumn of 2014. The oil price has now more than tripled since the COVID-19 crisis set in during the spring of 2020, and the price of one barrel of Brent oil has climbed by more than USD 20 in just the last six weeks.

Following more than a year and a half in which the focus has been on coronavirus and lockdowns, the global economy is once again starting to move. The demand for oil has increased in line with this and, according to a new report from the International Energy Agency (IEA), the global demand for oil is now only 2% lower than what it was before the coronavirus outbreak last spring. Demand is also 10% higher than it was at the start of the year.

In addition to increased demand, low supply is helping push the oil price upwards. Despite climbing prices, OPEC is continuing to stand by its deal from earlier this year to restrict production. The agreement also includes Russia and it is therefore a large proportion of the world's biggest oil-producing nations that are collaborating to restrict production in order to achieve higher prices. At the same time, the USA was struck by a hurricane earlier this autumn, which resulted in greatly reduced production levels from the oil fields in the Gulf of Mexico.

Now, with record-high prices, the focus is on OPEC and Russia, who will meet this week at the OPEC summit to determine the production strategy for the first part of 2022. The question is whether the countries will continue to agree to restrict production or whether some countries will wish to increase production at this point now that the prices are so high.

Forecasts

Precipitation: The wet weather looks set to continue in the Nordic region as we head towards the weekend, and the hydro-balance deficit has now all but disappered. However, there are prospects of somewhat colder and drier weather from next week.

Spot: The major price falls in the spot market do not look set to continue. Temperatures are falling across the Nordic region, and we therefore anticipate that prices will rise. The average Nordic system price for week 44 should end up at around EUR 55-60/MWh.

EPADs

There were marginal price falls in the Finnish YR-22 EPAD last week and, together with the falling system forward, this meant that the overall electricity price fall was significant. This is also the case in Norway, where the NO1 EPAD for YR-22 also experienced a slight price fall.

Kimmo Kuusinen, Managing Director
(kimmo.kusinen@energiasuomi.fi)
Tel.: +358 40 1633922

Jarmo Tikkanen, Key Account Manager
(jt@energiasuomo.fi)
Tel.: +358407095572

Communicative Analyst
Karsten Sander Nielsen
(ksni@energidanmark.dk)
Tel.: +45 8745-6948

Energia Suomi® MYYNTI