

All eyes on the gas market again

The uptrend in the Nordic energy market returned last week, when both spot and forward prices climbed, following the significant price falls in the previous week.



Here and now

The enormous price falls we reported in last week's Focus have not lasted. The market has once again changed direction over the last week, and prices have climbed in both the spot and forward markets. Low wind power production and a continued hydrological deficit have caused spot prices to rise, while the forward market remains influenced by developments on the continent, primarily in the gas market. During the course of the week, the Q1-22 contract climbed by EUR 8.60/MWh to EUR 58.00/MWh, while the YR-22 contract climbed by EUR 4.41/MWh to EUR 35.41/MWh.

Our recommendation

The situation in the gas market remains unclear and, unless we see clear changes to the weather forecasts, gas will continue to set the tone over the coming week. We consider the possibility of falling prices to be greater than further increases, but volatility will remain high.

New price jump despite wet weather forecasts

The coming weeks look set to be relatively wet in the Nordic region compared to normal for this time of year. The latest forecasts predict precipitation volumes approximately 30% above average for the time of year as we head towards the end of next week. At the same time, temperatures slightly above normal are also expected for the rest of this week before colder conditions set in from the start of week 46. The hydro-balance is expected to be at a minimal deficit of around -1.5 TWh in two weeks' time. Despite the continuously wet weather, prices in the Nordic region have climbed substantially

over the last week, including for the short-term contracts in the market. In week 44, the average Nordic system price climbed by nearly EUR 20/MWh compared to the previous week, and high prices are being experienced in Southern Norway in particular. Several Southern Norwegian price areas experienced record-high prices of more than EUR 200/MWh during certain hours on Monday as a result of the hydrological deficit, low imports from Sweden and high exports to the continent via the new transmission cables. This emphasises the new reality of higher prices in Southern Norway.

Forward	Wk 44 (EUR/MWh)	Wk 45 (EUR/MWh)	Expectation (wk 46)
ENOMNOV-21	51.35	62.30	↗
ENOQ4-21	49.40	58.00	↗
ENOYR-22	31.00	35.41	↗
SYHELYR-22	20.40	19.30	↗
SYOSLYR-22	15.90	15.90	↗

Russian gas exports rising

Last weekend, Vladimir Putin heavily implied that Russia would increase its gas exports to Western Europe. The gas flow to the EU did indeed increase this week.

Some relief was evident in the hard-pressed European gas market earlier this month when Russian President Vladimir Putin said in a TV interview that the state-owned gas company Gazprom would increase its exports to the EU. For most of the autumn the Russians have been restricting gas exports to the west, and there has been great speculation about the reasons for this, so Putin's message that supply levels would be increased was therefore well received.

Nevertheless, the problem is that there is low confidence that the Russians will actually increase exports to the EU to any notable extent. The European gas market has subsequently found that it is a piece in a larger Russian political game that largely relates to Russian influence on the EU and, more specifically, the Nord Stream 2 gas line to Germany. The market therefore immediately reacted by increasing prices, when the gas flow did not increase as much as had been hoped this Monday.

However, by Tuesday morning, the markets were able to note that Russian exports to the EU via Poland were increasing, and the prices therefore fell significantly. Even though this now indicates that Putin will fulfil his promise of increasing exports, the markets remain highly sceptical of how long the president can be trusted for. Some risk has therefore been priced in by the market players, and the prices for the coming winter remain sky-high.

The gas market continues to be the determining factor for movements in related markets. Where we have previously seen the carbon or coal markets pulling the gas prices along, the situation is now the opposite. To a great extent, gas now sets the tone across the markets, and electricity prices in the Nordic region are therefore also strongly influenced by this situation. The focus will remain on Russia and its gas exports to the EU over the coming months.



Forecasts

Precipitation: The hydro-balance deficit has now all but disappeared, and wet weather is expected across the Nordic region in the coming weeks. Precipitation volumes around 20% higher than normal for the time of year are expected to fall during the next ten days.

Spot: Spot prices climbed again in week 44, and we anticipate a similarly high level this week, with wind power production also expected to fall. We anticipate an average Nordic system price of approximately EUR 60/MWh this week.

EPADs

Price falls continued for the Finnish YR-22 EPAD, which is now down to EUR 19.30/MWh. The NO1 EPAD for YR-22 in Norway remains stable at EUR 15.90/MWh.

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