

Major price climbs all week

The second half of November looks set to be dry and cold and, as carbon has also climbed to new record highs, the foundations were laid for major price jumps in the Nordic energy market last week.



Here and now

The price of the Nordic system contracts increased on all five days of trading last week. The Q1-22 contract has climbed by EUR 14.10/MWh to EUR 72.10/MWh, while the YR-22 contract is now up to EUR 42.80/MWh, EUR 7.39/MWh higher than one week ago. The weather forecasts now agree that we are heading towards a shift to cold, dry weather for the second half of November, and the hydro-balance deficit looks set to increase further over the coming weeks. At the same time, the carbon market is once again experiencing price climbs, while uncertainty remains high in the gas market.

Cold weather forecasts cause market to soar

Recent months have so far been characterised by mild and wet weather in the Nordic region, and the major hydro-balance deficit that we experienced back in September has decreased significantly. However, it would now appear that cold weather is approaching the Nordic region again. The weather forecasts predict that both temperatures and precipitation volumes will fall below the seasonal norm at the end of this week, and that the weather situation will stay that way for the rest of the month. At the same time, wind power production looks set to decrease, with weather

characterised by high pressure. The question now is how long we will experience cold, dry weather for, and the fear of a prolonged period of these weather conditions has contributed to the large price climbs we have seen over the last week when it comes to the forward prices for the upcoming winter. The price spread to Germany remains enormous, nearly EUR 100/MWh for the Q1-22 contract, and the risk of very high delivery prices in the Nordic region is therefore very much present if we are heading for a relatively cold winter with low levels of wind power production.

Our recommendation

Following the major price climbs last week, the upside has decreased slightly, but as the spread to Germany remains significant, there is still room for further price climbs in the Nordic region. We therefore believe that climbing prices are most likely in week 46, although we anticipate slightly more muted fluctuations than those experienced in the last week.

Forward	Wk 45 (EUR/MWh)	Wk 46 (EUR/MWh)	Expectation (wk 47)
ENOMNOV-21	62.30	62.30	↗
ENOQ4-21	58.00	58.00	↗
ENOYR-22	35.41	35.41	↗
SYHELYR-22	19.30	18.15	↗
SYOSLYR-22	15.90	16.15	→

Carbon market climbing to new record highs

The European carbon market had experienced a quiet period, but there is once more momentum in the market, and on Monday it closed at its highest ever level.

Liquidity has been low in the carbon market for some time now, and other markets have set the tone for several months, while carbon has largely reacted to the fluctuations caused by other markets, particularly the gas market. However, the carbon market has once again come to life. On Monday, the benchmark contract, EUA-Dec 21, closed at its highest ever level, EUR 65.93/t. The highest closing price previously recorded was EUR 64.72/t back at the start of October.

The price climbs appear to be the result of a combination of technical signals and an increased desire to buy. For several weeks, the market had been trading within a narrow price range around EUR 60/t with a technical barrier of EUR 62/t. When the market finally managed to stabilise above EUR 62/t, the technical signals suddenly indicated further increases, and on Monday the market closed at a price exceeding EUR 65/t for the first time ever.

At the same time, the desire to buy appears to be growing again in the market, following a long period of low activity levels. This could be because we are approaching the New Year and several carbon emitters are therefore looking to buy allowances to cover their consumption, but is more likely to be related to speculative players in the market pushing the prices upwards.

However, it does not appear that the recently concluded COP26 summit in the UK has had any major influence on the market. The discussions and the vague agreements entered into at the COP meetings have been so uncertain and unspecific in recent years that they have not affected the European carbon market in any way. If the EU chooses to implement new changes to the carbon market, the situation would be completely different, and the market will naturally continue to keep a careful eye on political moves from Brussels.



Forecasts

Precipitation: The rest of this week looks set to be wet in the Nordic region, but there are prospects of a clear shift in the weather from the start of week 47. Precipitation volumes will fall well below the seasonal norm, and the hydro-balance deficit will likely grow again.

Spot: Following a period of low spot prices, the level has now climbed notably again. The average Nordic system price in week 45 was EUR 74.45/MWh, with very high area prices in the southern parts of the Nordic region. We anticipate a similar price level this week.

EPADs

The downtrend continues for the Finnish YR-22 EPAD, which fell for the third week in a row and is now trading at EUR 18.15/MWh. In Norway, the NO1-EPAD for YR-22 is now trading at EUR 16.15/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™