

# Major new price jump due to cold autumn weather

Sharp price climbs continued for Nordic forward prices this week, with the colder weather helping the spot prices to soar. Nevertheless, the spread in relation to Germany continues to grow.



## Here and now

A so far mild autumn has now been replaced by freezing temperatures in large parts of the Nordic region and the weather forecasts indicate that the temperatures will likely remain below normal for the time of year for the next two weeks. This has caused rising forward prices in the Nordic region, where the Q1-22 and YR-22 contracts have now climbed to EUR 81.90/MWh and EUR 47.25/MWh respectively. Despite the major price jump, the price climbs have actually been even higher in Germany, which means that the area prices are also climbing in large parts of the Nordic region and that the overall electricity prices have climbed substantially.

## Our recommendation

We have now experienced several weeks of price climbs in a row in the Nordic region and the market would now appear to have priced in a cold winter to some extent. Further price climbs cannot be ruled out if the weather forecasts continue to predict cold and dry weather as we head towards Christmas, but we otherwise anticipate a sideways or slightly falling trend in the Nordic system forwards in the coming week.

## Price climbs continue in spot and forward markets

There are prospects of cold and dry weather in the Nordic region over the coming weeks and power traders are now reacting strongly to the change in the weather that has been under way for some time. After the hydro-balance deficit had virtually disappeared at the start of November, a deficit of -7 TWh is now expected by the start of December. With the low temperatures expected during the coming period, the majority of the precipitation will fall as snow and will not immediately flow into the water reservoirs. Spot prices have climbed significantly as a result of the

colder weather and Monday's Nordic system price of EUR 104/MWh marks the highest system price level since September. We anticipate that week 47 will be the most expensive week ever recorded in the Nordic region and the average price for the week could very well climb to around EUR 100/MWh. In the forward market, the 2022 year contract has now climbed by no less than 50% since the start of November, which can naturally also be attributed to the uncertainty in the gas market, which continued unabated last week.

Forward	Wk 46 (EUR/MWh)	Wk 47 (EUR/MWh)	Expectation (wk 48)
ENOMNOV-21	78.50	85.00	→
ENOQ4-21	72.10	81.90	→
ENOYR-22	42.80	63.63	→
SYHELYR-22	18.15	16.40	→
SYOSLYR-22	16.15	15.90	→

## Uncertainty about Norway's role in certificate market

*A bomb could potentially be about to go off under the European certificate market Norway is the largest issuer of certificates, but the Norwegian government is now looking to withdraw Norway from the market entirely.*

The European market for green certificates (guarantees of origin - GOs) is facing a potential game-changer. With its enormous hydrological resources and annual production of around 140 TWh of hydro-power, Norway is the largest certificate issuer in the market. However, the new Norwegian centre-left government now wants the country to withdraw from the certificate market entirely and, if the many Norwegian hydro certificates disappear, this would naturally lead to a completely new reality for the remaining countries in the market.

The reason why the Norwegian government wants to withdraw from the market is that it feels that the current system distorts competition. According to the Norwegian government, the current system results in additional expenses and a competitive disadvantage for the country's industry, as it has to spend money on green certificates even though the Norwegian energy mix is already completely green. In other words, the rationale is that it should be entirely unnecessary for Norwegian industry to buy green certificates.

If Norway elects to exit the market, it would put a serious spanner in the works for Europe's green ambitions for the coming years, as the supply would, as already mentioned, fall and the prices of the remaining certificates must be expected to rise. Speculation regarding Norway's exit from the market has also stimulated interest in buying in the market, where we have seen increased demand since the Norwegian government's announcement.

Nevertheless, it is currently far from certain that things will go as far as a Norwegian exit from the certificate market. The new government does not have a majority in the country's parliament and therefore needs to gain the support of at least one other party to implement the proposal. The government has also failed to present any details of when and how the exit from the market will take place. At the same time, the idea has been met with opposition from major players in Norway, not least the country's hydro-power giant, Statkraft, which has announced that it would like to see Norway remain as part of the market.



## Forecasts

**Precipitation:** The weather forecasts still indicate drier weather, but high pressure is now expected to set in across the Nordic region during the second half of this week. The coming weeks, however, do look set to be cold and dry and the hydro-balance is expected to fall to a deficit of around -7 TWh in two weeks.

**Spot:** Falling temperatures and climbing spot prices in the Nordic region. The average Nordic system price for week 46 was EUR 60.97/MWh and we anticipate that prices will climb notably in week 47, when we could head towards a record-high average Nordic system price of EUR 95-100/MWh.

## EPADs

While EPADs climbed in other parts of the Nordic region, the Finnish YR-22 EPAD fell to EUR 16.40/MWh last week. In Norway, the NO1 EPAD for YR-22 has fallen marginally to EUR 15.90/MWh.

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