

Major hydro-balance deficit returns

Several weeks of cold weather, combined with high levels of electricity exports to other parts of Europe, have caused the Nordic hydro-balance deficit to grow significantly again. This has caused prices to soar.



Here and now

The weather forecasts for the rest of December moved towards milder weather last week. Following several cold weeks, there are now prospects of temperatures close to or above the seasonal norm from around the start of next week. At the same time, wind power production and precipitation volumes also look set to climb. The forecasts triggered a clear price fall in the short-term contracts in the forward market, while the year contracts experienced further price climbs together with gas and carbon. The Q1-22 contract fell to EUR 86.68/MWh during the course of the week, while the YR-22 contract has climbed to a new record-high level of EUR 53.60/MWh.

Our recommendation

Even though we are experiencing record-high prices in both the spot and forward markets, there are high chances that we will see further price climbs over the coming week. Fuel and carbon could very well continue to climb, causing German electricity prices to soar, and the Nordic prices should, to some extent, follow suit. Naturally, the weather could cause different developments, but we believe that climbing prices are once more most likely.

Weeks of winter weather cause major hydrological deficit

Following the cold start to the winter, the Nordic hydro-balance has once again dropped to a significant deficit. The PointCarbon analysis bureau now estimates that the balance has dropped to -15 TWh, after having largely disappeared at the start of November. Naturally, the significant new deficit was caused by the relatively dry, cold weather in the Nordic region in recent weeks, together with low wind power production, while the continuously high exports of electricity to Germany and the UK have put further pressure on the situation. With the new deficit,

the hydropower producers have the opportunity to raise prices, and the spot prices look set to climb further this week. The record-high average Nordic system price of EUR 157/MWh observed last week could very well be beaten this week, given that the hydrological situation has deteriorated. As such, we anticipate an average Nordic system price of EUR 160-165/MWh for week 49, but lower prices look set to follow as we are heading towards a shift to milder weather during the second half of December.

Forward	Wk 48 (EUR/MWh)	Wk 49 (EUR/MWh)	Expectation (wk 50)
ENOMJAN-21	106.38	97.00	↗
ENOQ1-22	91.50	86.68	↗
ENOYR-22	51.00	53.60	↗
SYHELYR-22	14.80	14.90	→
SYOSLYR-22	15.90	16.40	→

Growing pressure in European gas market

The latest price climbs highlight the fact that Europe is short on gas as we head into winter. Stock levels are low, and Nord Stream 2 may not be put into service before the summer.

The cold has set in for real across Europe, and last week offered wintry weather across large parts of the continent. This has led to significant new price climbs in the gas market, where the impact of the gas dispute with Russia can very much be felt at present. In the Dutch TTF gas exchange, the January contract is currently trading at around EUR 95/MWh and the 2022 contract at approximately EUR 60/MWh. With the exception of a couple of days back in October, these are the highest prices ever recorded for these contracts, and day prices have also stabilised at a level of around EUR 90-95/MWh.

Traditionally, European gas stores are nearly at bursting point by this time of year as we head into winter, but the situation is very different this year. The stock levels were already low compared to normal back in the summer, and the supply problems this autumn have made it impossible to fill the stores up. The average stock level in the European gas stores is therefore now only 67%, which is 20% lower than the historical average for the start of December.

Russia is continuing to hold back gas exports to Europe, and there are no immediate prospects of the pressure easing in the European gas market. At the start of December, the flow of gas to Europe was at the same low level as during autumn, and the market therefore appears to have been right not to trust Putin's announcement last month that Russia was happy to increase the gas supply to western Europe.

In the meantime, the markets continue to keep an eye on the developments relating to the disputed Nord Stream 2 gas line from Russia to Germany. The approval process for the pipeline in the German courts is dragging on, and several analysts predict that the line, which is otherwise complete and ready for use, will not be put into service before the second half of 2022.



Forecasts

Precipitation: Temperatures, precipitation volumes and wind power production will rise in the Nordic region over the coming week. However, the forecasts subsequently indicate that colder weather could once more be on the way for the final week before Christmas.

Spot: The spot prices experienced further price climbs last week, and the average Nordic system price was a record-high EUR 157/MWh. As mentioned, we anticipate even higher prices this week, and the area prices, in Finland in particular, are expected to be sky-high due to the freezing winter weather.

EPADs

Following the falls during the preceding week, the Finnish YR-22 EPAD experienced a marginal price climb last week, to a price of EUR 16.40/MWh. In Norway, the NO1 EPAD for YR-22 has also climbed slightly and now costs EUR 14.90/MWh.

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