Markets affected by fears of war

The situation in Eastern Europe is escalating, and the markets are pricing in the potential consequences of another war between Russia and Ukraine.

Here and now

The forward market was influenced by multiple changes to the weather forecasts last week. As we head into week 5, we are in the midst of a brief period of cold weather, but the prospect of milder weather for the second half of the week, as well as next week, led to price falls in the short-term contracts in the market on Monday. On Monday, the Q2-22 contract closed at EUR 52.55/MWh, a fall of EUR 2.35/MWh for the week. However, the year contracts have climbed in line with the increases in the gas, carbon and German energy markets. The 2023 contract now costs EUR 38.40/MWh, EUR 1.50/MWh higher than last Monday.

Our recommendation

We experienced price falls during the first couple of days this week due to the milder and wetter weather forecasts. There should be room for further price falls in the market if this trend continues. However, the situation in-Ukraine continues to play a part and could lead to a significant price jump in the German energy market, which, in turn, would affect the EPADs in the southern part of the Nordic region, especially Denmark.

Carbon allowance price approaches EUR 100/t

The price climbs in the European carbon market continued last week. On Thursday, the market reached its highest ever closing price, as the benchmark contract was trading at EUR 89.76/t at the close of the day. Since the New Year, the market has been trading within a price range between EUR 80 and 90/t, and the question now is whether it has gathered enough strength for another push towards EUR 100/t. There are several factors that indicate that we could experience this price jump before long. The supply of allowances in the European carbon auctions is relatively low right now, while demand is expected to be high for the next couple of months, when the electricity producers and industry are compliance buying. Coal and gas prices could very well also climb, which would send a bullish signal to the carbon market. In addition to this, neither the EU nor its member states look likely to reduce any climate initiatives, and we could very well see further initiatives being introduced to reach the targets from the Paris climate agreement. As such, there are currently many fundamentals to indicate further price climbs in the carbon market over the coming period.

Forward	Wk 4 (EUR/MWh)	Wk 5 (EUR/MWh)	Expectation (wk 6)
ENOMMAR-22	80.00	76.05	→
ENOQ2-22	54.90	52.55	→
ENOYR-23	36.90	38.40	→
SYHELYR-23	6.95	6.85	→
SYOSLYR-23	21.90	24.40	↗

Markets fearing another war in Eastern Europe

A potential Russian invasion of Ukraine has become a major topic in the markets over the last few weeks. The markets are pricing in the risk of another war.

The escalating conflict between Russia and Ukraine has made headlines worldwide. Russia continues to position its troops along the entire border with Ukraine, and the big question now is whether a Russian attack against its neighbour is imminent and, if so, how extensive it will be. During the last Russian attack against Ukraine in 2014, the country annexed the Crimean peninsula and the easternmost parts of the country's Donbas region.

The risk of another war has also become the most important topic in the international energy markets over the last couple of weeks. The fuel markets are climbing and electricity prices are following suit, not least in the fuel-dependent parts of Europe, such as Germany. Towards the end of last week, the German year contract for 2023 had climbed for no less than seven trading days in a row and has now returned to the high levels observed in December. Naturally, this has influenced prices in the Nordic region, especially Denmark.

There is broad agreement that another war would lead to sanctions from the EU against Russia, and that the gas supply from Russia to Western Europe would fall further or potentially even cease completely. There is also a risk that the Nord Stream 2 pipeline, which is fully constructed and ready for use, will never be put into operation. As such, there is a major risk of falling gas supplies in the coming months and years in Europe, and this must be priced in by the gas markets, which we have seen happen by way of the uninterrupted price climbs in recent weeks.

Russia is a major producer of oil, gas and coal, and the international oil and coal markets have also climbed in line with the conflict escalating. The markets are holding their breath and awaiting news of the situation, while the diplomatic games between Western heads of state and Russia's President Putin continue.

Forecasts

Precipitation: The weather in the Nordic region is expected to be cold and relatively dry until the weekend, after which we expect a shift to mild, wet weather characterised by low pressure. Temperatures and precipitation volumes look set to climb above normal and will remain at such levels until the end of next week.

Production and spot: The average Nordic system price in week 4 was EUR 74.33/MWh, which is the lowest price level seen since November. However, we do expect the price level to climb over the coming weeks, and week 5 could very well reach an average price level of around EUR 105-110/MWh.

EPADs

The price climbs continued unabated for the Norwegian 2023 EPADs last week, and the NO1 EPAD has now climbed to no less than EUR 24.40/MWh. In Finland, the 2023 EPAD remains relatively stable at EUR 6.85/MWh.

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