

New reform rumours affect carbon market

Forward prices in the Nordic region continued to fall in week 6 with the weather forecasts continuing to promise mild weather and plenty of precipitation. The downside was limited by the uncertainty surrounding French nuclear power and the potential war in Ukraine.



Here and now

Once again, there were no major changes to the Nordic weather forecasts last week. Temperatures, precipitation volumes and wind power production all look set to remain above normal for the rest of February, and the prospect of mild winter weather has resulted in falling prices in the system contracts, especially the short-term contracts in the market. The immediate quarter contract, Q2-22, now costs EUR 44.70/MWh, EUR 7.35/MWh less than one week ago, while the 2023 contract has fallen by EUR 2.41/MWh to EUR 36.84/MWh. Spot prices remain high in all price areas other than Northern Sweden and Northern Norway.

Our recommendation

With the mild, wet weather forecasts in mind, we still believe that falling prices are the most probable scenario in the forward market over the coming week. However, this could change, especially in the event of a Russian invasion of Ukraine. Such an invasion would lead to climbing gas and coal prices, which would also affect electricity prices in the Nordic region.

EU Parliament looking at new reform of carbon market

The European carbon market was very close to reaching EUR 100/t at the start of last week, before a sudden price fall set in. On Wednesday, the carbon price fell by nearly EUR 7/t to around EUR 90/t and, as so often before, we need only look to Brussels to find the cause of the sudden fluctuations in the carbon market. The German MEP Peter Liese, who is the Chief Negotiator in Parliament on matters relating to changes in the carbon market, stated last week that the market requires “stronger price control mechanisms and greater transparency” following

the substantial price climbs that have characterised the market in recent years. The new initiatives are intended to prevent major price fluctuations, but Liese did not provide any details about which new initiatives could ensure greater transparency in the market. The statement, made during a debate by the European Parliament’s Environmental Committee, was, however, enough to trigger brief panic and a sudden sharp price fall in the carbon market, where the players perceived the statement as a bearish signal.

Forward	Wk 6 (EUR/MWh)	Wk 7 (EUR/MWh)	Expectation (wk 8)
ENOMMAR-22	69.70	66.50	↘
ENOQ2-22	52.05	44.70	↘
ENOYR-23	39.25	36.84	↘
SYHELYR-23	6.70	6.70	→
SYOSLYR-23	23.40	20.90	→

New price jumps in gas and coal markets

Last week, both the gas and coal prices reached their highest levels so far this year, and the same applied to several of the contracts in the German energy market. The reason for this is the uncertainty surrounding French nuclear power and the situation in Eastern Europe.

While Nordic electricity prices fell during the last week, developments in the fuel markets and the German energy market have been completely the opposite. In the TTF gas exchange, the 2023 contract climbed to EUR 57.70/MWh on Monday, while one tonne of coal for delivery next year has also climbed to USD 116. These are the highest price levels experienced by either contract this year and close to the highest ever levels. The same scenario applies to the German energy market, in which the 2023 contract has now climbed to around EUR 146/MWh.

The price climbs have occurred despite the fact that continental weather forecasts are promising mild weather for the second half of February. However, other factors have given the markets a boost and, as so often before, the French nuclear power sector is involved. Last week, French nuclear power operators announced that a further six nuclear reactors will be taken out of service for extraordinary safety inspections, which is a frequently recurring event at several of the now very old French nuclear power plants. The markets also fear that further shutdowns could be on the cards. The French nuclear power sector plays an important role in the European energy mix, and unexpected shutdowns always lead to climbing prices in the fuel markets.

In addition to the French nuclear sector, the market is also keeping a close eye on Eastern Europe, where the already tense situation on the border between Russia and Ukraine continues to escalate. Throughout the week, intelligence from both the USA and the EU indicated that a Russian invasion of Ukraine could take place as soon as this week, but the Russian withdrawal of some troops from the border with Ukraine does not indicate that this will happen. Nevertheless, uncertainty remains high, since it is impossible to know what sanctions Russia will face and how the gas supply to Europe would be affected in the event of a war.

Forecasts

Precipitation: Both temperatures and precipitation volumes in the Nordic region are set to fall to around or slightly below normal levels during the coming week-end. The levels are subsequently expected to climb steadily towards the end of week 8.

Production and spot: The average Nordic system price in week 6 was EUR 79.48/MWh, 20% lower than the previous week. We anticipate a largely similar level this week, with notably higher prices in both Denmark and Southern Norway. Southern Sweden, on the other hand, is delivering at a relatively low price level at present.

EPADs

The very high 2023 EPADs in Southern Norway fell slightly last week, with the NO1 EPAD closing at EUR 20.90/MWh on Monday. The price of the Finnish 2023 EPAD remains the same as last week, EUR 6.70/MWh.



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