

Nord Stream 2 shelved by Germany

The diplomatic situation surrounding the crisis in Eastern Europe is escalating further, and Germany has now put an end, temporarily at least, to the Nord Stream 2 pipeline.



Here and now

We have experienced a week of very small price fluctuations in the Nordic forward market. The weather forecasts remain erratic, with mostly mild weather for the rest of February and precipitation volumes and wind levels varying from day to day. During the course of the week, both the gas market and German electricity prices experienced price falls as a result of growing hopes of a diplomatic solution to the crisis in Ukraine, but uncertainty remains substantial after Germany shut down the Nord Stream 2 approval process. Both the Q2-22 and 2023 contracts in the Nordic market closed marginally higher than last week on Monday.

Our recommendation

The enormous uncertainty affecting the markets right now makes it extremely difficult to predict price developments for the coming weeks. As expected, the markets are reacting to the news of the temporary halt of the Nord Stream 2 pipeline by increasing prices. However, there are still a number of loose ends, including the continued risk of a Russian invasion of the whole of Ukraine, as predicted by Joe Biden this past weekend.

Germany halts Nord Stream 2

The tense situation at the border between Russia and Ukraine continues and the entire world is monitoring developments, which also have a major impact on European electricity and fuel prices. Last week, there was initially encouraging news when Russia withdrew some of its troops from the border with Ukraine, but optimism has since receded again. On Monday afternoon, President Putin announced that Russia recognises the pro-Russian breakaway republics in Eastern Ukraine and that the Russians will send military

troops to the regions. On Monday, this announcement led to the news the markets had feared and awaited for weeks. The German Chancellor, Olaf Scholz, stated that the approval process for the Nord Stream 2 gas pipeline between Russia and Germany has been paused until further notice. It would therefore seem that the brand new pipeline, which is ready for use in the Baltic Sea, will not be put into operation until the situation between Russia and the West has improved.

| Forward | Week 7 (EUR/MWh) | Week 8 (EUR/MWh) | Expectations (week 9) |
|------------|------------------|------------------|-----------------------|
| ENOMMAR-22 | 66.50 | 65.55 | ↗ |
| ENOQ2-22 | 44.70 | 45.25 | ↗ |
| ENOYR-23 | 36.84 | 37.40 | ↗ |
| SYARHYR-23 | 66.65 | 65.90 | ↗ |
| SYCPHYR-23 | 70.28 | 68.40 | ↗ |

Continued price falls in carbon market

The price falls continued in the European carbon market last week. Just a couple of weeks after the price of a carbon allowance almost exceeded EUR 100/t, the price has now dropped below EUR 90/t. This is despite it currently being a season that is traditionally associated with high demand, as industry players and electricity producers need to buy allowances to cover their 2021 consumption before the end of March. Speculation relating to another new carbon market reform, to ensure greater transparency and prevent the enormous price fluctuations we experienced last year, is weighing heavily and led to further price falls in week 7.



Hydro-balance surplus

Following a long period of mild, wet weather, the Nordic hydro-balance once more has a surplus. The PointCarbon analysis bureau therefore predicts that the balance surplus will be around 5 TWh by the start of March. This is the first time in nearly a year that there has been a balance surplus. Since the increased hydro resources can primarily be found in the northern parts of Norway, they are not providing much benefit to the more densely populated areas in Southern Norway, and since exports to other European countries remain high, there have been no notable falls in the spot market.



Forecasts

Precipitation: Erratic weather is expected to dominate the Nordic region at the end of this month and the start of March. Above-average temperatures are expected for most of this period, while precipitation volumes and wind power production are expected to vary on a day-to-day basis.

Production and spot: High levels of wind power production led to lower spot prices in Denmark and Southern Sweden last week, while the level remains high in Southern Norway, which experienced the highest prices in the Nordic region by some distance. We anticipate an average Nordic system price of around EUR 90/MWh in week 8.

EPADs

For the second week in a row, the Southern Norwegian EPADs experienced price falls, but the NO1 EPAD for 2023 remains high at EUR 19.65/MWh. In Finland, the 2023 EPAD experienced a marginal increase to EUR 7.00/MWh.

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