Enormous price climbs following outbreak of war

The Russian invasion of Ukraine resulted in enormous price jumps across the markets during the past week. The colder and drier weather forecasts across the Nordic region have also contributed to the price climbs.

Here and now

Even though market players attempted, to some extent, to price in the fears of war, the Russian invasion of Ukraine had a substantial impact across the markets last week. The fuel markets experienced enormous price climbs and, in line with the ripple effects spreading, Nordic energy prices also soared. The upside was further boosted by drier and colder weather forecasts in the Nordic region. When the markets closed on Monday afternoon, the Q2-22 contract had climbed by 60% during the course of the week. It now costs EUR 74.00/MWh. During the same period, the 2023 contract climbed by around 25% to EUR 47.40/MWh, and the EPADs have also been climbing in several price areas.

Our recommendation

As last week, it must be stated that the situation in the market is so extraordinary that significant price fluctuations seem likely. The developments in the war in Ukraine will be crucial, as well as any potential new Western sanctions. Next week could also see changes to European energy policies.

Substantial price jumps following Russian invasion

Naturally, the Russian invasion of Ukraine has been the single most important topic across European energy markets in the last week. The enormous price climbs in the Nordic forward market were, of course, simply a result of the sharp upwards adjustments that have characterised international markets. The fuel markets in particular currently have a lot of different factors to contend with. Naturally, one of these factors is the immediate supply situation, since Russia is one of the leading global producers of gas, oil and coal. Another factor is the consequences of Western sanctions against Russia, which will affect the world economy over the coming months and years. Enormous price jumps were experienced in the gas, coal and oil markets in particular. In the leading European gas exchange, TTF, the 2023 contract climbed by no less than 55% during the course of the week and temporarily traded at EUR 81/MWh before the price level fell back again slightly. The price of one tonne of coal for delivery next year has climbed by 20% to USD 150, while one barrel of Brent oil has exceeded USD 100 for the first time in nearly eight years.

Forward	Wk 8 (EUR/MWh)	Wk 9 (EUR/MWh)	Expectation (wk 10)
ENOMMAR-22	65.55	67.90	→
ENOQ2-22	45.25	74.00	→
ENOYR-23	37.40	47.40	→
SYHELYR-23	7.00	7.30	→
SYOSLYR-23	19.65	24.58	→

Debate on German energy supplies continues to rage

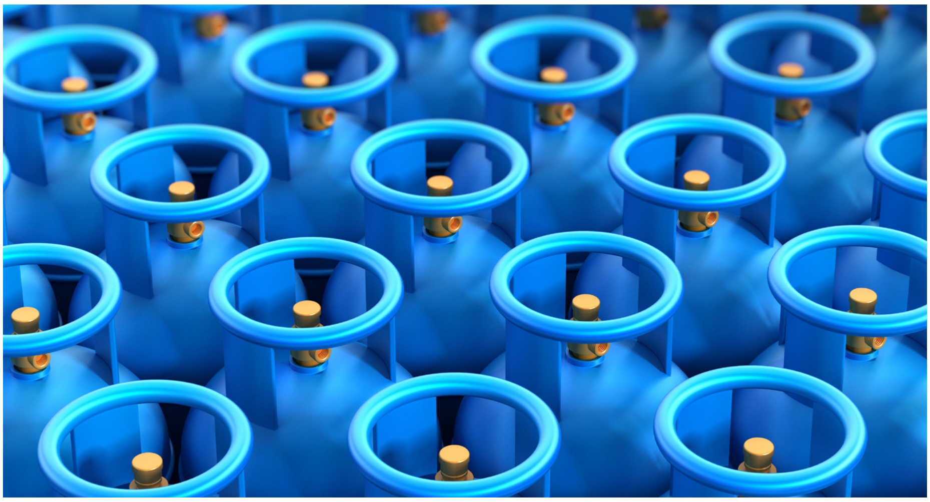
One of the outcomes of the Russian invasion of Ukraine and Germany shelving Nord Stream 2 is that the discussion surrounding Germany's energy supplies has intensified in the last week.

In the wake of the Russian attack on Ukraine last week, the West has introduced a number of extensive sanctions against Russia. But the immediate dependency on Russian gas has not changed in Europe, and the gas flow from Russia to the EU has actually increased slightly following the invasion. In the EU, in Germany in particular, there is now intense debate as to how the dependency on Russian gas can quickly be eliminated.

Last week, German Chancellor Olaf Scholz announced that the country is shelving the Nord Stream 2 gas pipeline, meaning that Germany is now facing a supply crisis in the coming years, as the country is still heavily dependent on Russian gas. One of the possibilities for reducing this dependency could be to extend the service life of the last nuclear power plants in the country or perhaps even to permit some of those that have been closed down to resume production. This debate was brought back to life following the Russian invasion, when the German Minister for Economic Affairs, Robert Habeck, stated that he would not rule out the possibility of keeping the German nuclear power sector alive. Germany made the decision to phase out nuclear power n 2000, and the shutdowns of reactors accelerated following the Fukushima accident in 2011.

However, the need for gas will not vanish in the short term and, while Germany hopes to become less dependent on Russian gas, plans are under way to secure alternative supply. In a speech this weekend, Olaf Scholz announced that Germany would accelerate the construction of two new LNG terminals to increase the import capacity for LNG from the USA and the Middle East.

Another possibility could be for the Germans to increase production at the country's coal power plants, but, since this does not align well with German climate ambitions, there is some resistance associated with this option. Regardless of the outcome, the significant influence German electricity prices have on the Nordic region will continue to be a determining factor for Nordic electricity prices in future years, regardless of the decisions that are made in relation to German energy supplies.



Forecasts

Precipitation: A shift to colder and drier weather forecasts contributed to the price climbs in the Nordic energy market during the last week. The forecasts indicate temperatures, precipitation volumes and wind power production below normal levels for the first half of March.

Production and spot: The average Nordic system price for week 8 was EUR 101.57/MWh, the highest level observed since week 1. Exports remain high, and hydro-resources in southern Norway remain limited. We anticipate an average price of up to EUR 130/MWh this week.

EPADs

In addition to the explosive price climbs in the Nordic system contracts last week, Norwegian and Finnish EPADs also experienced increases. The NO1 EPAD for 2023 now costs EUR 24.58/MWh, while the Finnish 2023 EPAD has climbed to EUR 7.30/MWh.

Senior Portfolio Manager
Lorents Hansen
(loha@energisalgnorge.no)
Telephone: + 47 9770 6413

Communicative Analyst
Karsten Sander Nielsen
(ksni@energidanmark.dk)
Telephone: +45 8745 6948

Energi Salg Norge™