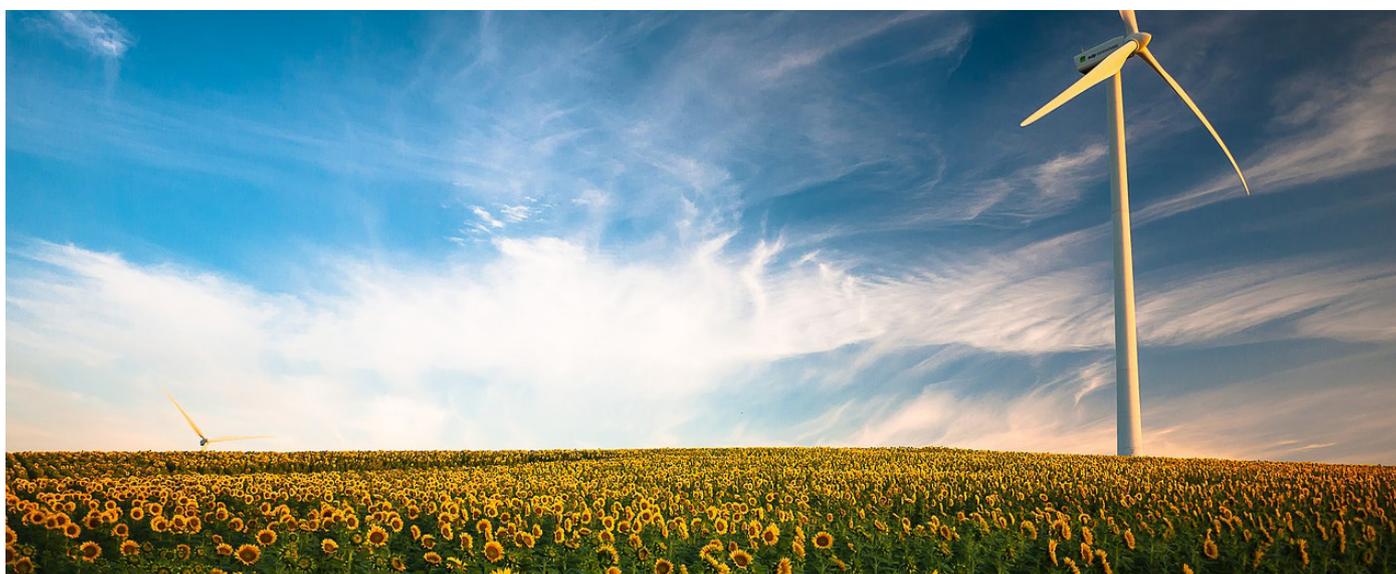


Price climbs following change in weather

We experienced a clear change to the Nordic weather forecasts last week, and the rest of July now looks set to be very dry. This has caused Nordic energy prices to climb, especially in the short-term forward market.



Here and now

The Nordic energy market changed direction last week, and following a couple of weeks of price falls we experienced an uptrend instead. It was the short-term forward market in particular that experienced increases as a result of changed weather forecasts and a weakened hydro-balance. The hydro-balance has dropped back to a deficit again now that the forecasts indicate precipitation volumes below average for most of July. When the market closed on Monday, the Q4-19 contract cost EUR 39.95/MWh, EUR 2.55/MWh more than last week. The YR-20 contract increased by EUR 1.15/MWh to EUR 37.15/MWh.

Our recommendation

We are currently experiencing price climbs as a result of a combination of dry weather forecasts and climbing coal and gas markets. This trend could very well continue next week. The cause of the price climb in the coal market is uncertain but the trend looks set to continue. We therefore believe there will be further price climbs in the coming week, in the long-term contracts in the market as a minimum.

Hydro-balance weakened again

The weather forecasts for the Nordic region have become extremely dry, and precipitation volumes some way below normal are expected for the next 14 days as a minimum. This has resulted in the hydro-balance, which had otherwise experienced substantial improvements during May and June, once more being weakened. According to the Point Carbon analysis bureau, the hydro-balance deficit is expected to be around 6 TWh at the end of week 30. The weakened hydro-balance means that much higher prices are expected in the Nordic region in the coming months than was the case a

few weeks back. The month contract for August, for example, has increased by just over 12% in the last week, while an average Nordic system price of just over EUR 32/MWh is now expected for the remainder of July. The quarter contracts for Q4-19 and Q1-20 have not experienced quite such large price jumps, and the market does not currently appear to be worried about limited supply from the hydro-power sector over the coming winter. Nevertheless, this could change if the dry weather continues until late summer as was the case last year.

Forward	Wk 27 (EUR/MWh)	Wk 28 (EUR/MWh)	Expectation (wk 29)
ENOMAUG-19	29.50	33.40	↗
ENOQ4-19	37.40	39.95	↗
ENOYR-20	36.00	37.15	↗
SYHELYR-20	4.68	4.78	↘
SYOSLYR-20	0.43	0.43	→

Allowance market could climb further over summer

The European carbon emissions allowance market will be trading at a price close to the highest level experienced in ten years over the coming months, according to the experts.

Serious fluctuations in the European carbon emissions allowance market have once more become a reality. Following a few quiet months, the allowance price climbed to more than EUR 27/t again at the end of June, before the market subsequently fell again. Experts from the Refinitiv analysis bureau now predict that the allowance market will climb again in the coming months.

In a new report published by Refinitiv last week, the company's analysts stated that they anticipate an average carbon emissions allowance price of around EUR 27/t during Q3. This would be a slight increase from the current price level of just over EUR 26/t. The reason is likely the declining supply in EU-sanctioned allowance auctions, as the number of allowances available for sale is expected to fall by around 50% in August. This could push the prices in the market upwards.

The fact that the coal market has lost a large part of its role in the energy mix to gas has, during 2019, limited the price climbs in the allowance market as it has also resulted in reduced demand for carbon emissions allowances. Refinitiv does not believe that this trend will continue, and this means that climbing allowance prices are more likely in the coming quarter.

The market continues to keep an eye on the Brexit debate, which is currently closely linked to the election of a new British Prime Minister. The Brexit nervousness continues to place a dampener on the market but, to some extent, the market has priced in the fact that the incoming prime minister will likely be more positive towards Brexit, with Boris Johnson being the front runner.

If the benchmark allowance contract surpasses EUR 27.53/t, it would be the highest price level in 11 years and this is a scenario that could very well occur during the summer. Another heatwave in Europe, which could increase demand for coal, could very likely result in the above scenario playing out.



Forecasts

Precipitation: Dry weather forecasts have been one of the main reasons for the climbing electricity prices in the last week, and the forecasts remain much drier than normal. Precipitation volumes well below normal are expected in the next ten days.

Production and spot: For the second week in a row, Nordic spot prices were around EUR 28/MWh last week, but we anticipate a clear increase in the coming week as a result of the dry weather and prospects of much lower wind power production.

The EPADs

While the Norwegian NO1 EPAD for YR-20 remains at EUR 0.43/MWh, the Finnish EPAD experienced price climbs last week. It is now trading at a market price of EUR 4.78/MWh.

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