# Markets affected by new coronavirus concerns

A rising infection count in both the USA and China has caused renewed uncertainty in the markets. The fear of a second wave of coronavirus has been a key topic in the last week.

## Here and now

In the wake of the extremely large price jump the previous week, there were falling prices in the Nordic energy market last week. The downward adjustment was primarily a reaction to the markets feeling that the increases earlier in June were a little exaggerated. Record low spot prices, a falling carbon emissions allowance market and substantial snow melting in Norwegian mountains did, however, support the price falls as the week progressed. On Monday, the Q3-20 contract closed at EUR 12.90/MWh, a fall of EUR 2.30/MWh for the week. The YR-21 contract has fallen by EUR 1.85/MWh and now costs EUR 23.65/MWh.

## Our recommendation

The coronavirus is once more causing uncertainty and, as always, it is very difficult to predict how the infection count will develop. Nevertheless, there are also other factors at play in the market. We still consider the possibility of price climbs to be greater than the chance of falls in the Nordic region, as there are still increases in the carbon emissions allowance market.

## Second coronavirus wave threatens markets

Following several weeks of international optimism surrounding the fight against coronavirus, the mood has now shifted slightly, at least in certain parts of the world. Several US states are currently reporting rising infection counts, after the Americans had just started to reopen parts of society. At the same time, a new coronavirus outbreak has taken place in the Chinese capital of Beijing, where, following more than a month with no new infections, almost 100 cases have been detected in the last week. The rising infection counts in the two largest world economies are generating high levels of concern across the markets. On Thursday last week, the oil price fell by 8% and the stock markets fell by almost 4% on the same day. The extremely sharp falls also left their mark on the carbon emissions allowance market, which is currently closely linked to the stock markets, and the electricity prices therefore followed suit and decreased. The markets are now holding their breath as they follow the developments in China and the USA, but there is some optimism to be found in Europe, which continues to report falling infection counts and is proceeding with the reopening of society.

| Forward | Wk 24 (EUR/MWh) | Wk 25 (EUR/MWh) | Expectation (w 26) |
|---|---|---|---|
| ENOMJUL-20 | 9.25 | 6.60 | ↗ |
| ENOQ3-20 | 15.20 | 12.90 | ↗ |
| ENOYR-21 | 25.45 | 23.60 | ↗ |
| SYHELYR-21 | 9.18 | 9.30 | → |
| SYOSLYR-21 | 1.03 | 1.03 | → |

## Huge decline in demand for gas

*Global demand for gas in 2020 will fall by 4% compared to last year's level. The main causes of the large fall are mild weather and the coronavirus crisis.*

Earlier in the week, the International Energy Agency (IEA) published its annual report on the gas industry and the international gas markets. In the report, the IEA estimates that global demand for gas in 2020 will be 4% below the 2019 level, which corresponds to 150 billion cubic metres. Should this materialise, it would be the largest decline in demand ever in a single year, twice as large as the fall that followed in the wake of the 2008-09 financial crisis.

There are two crucial reasons behind the large falls. The 2019-20 winter was unusually mild in several parts of the world, which had a negative impact on gas consumption. In Europe, temperatures were well above normal for the year for most of the winter, and other key areas for the gas markets, especially East Asia, also experienced mild winter weather. Naturally, the other crucial factor is the coronavirus crisis, during which gas, as well as many other markets, has experienced a notable dip in demand since the disease was declared a pandemic back in March.

The IEA believes that the demand for gas will start to increase again in 2021, but much depends on India and China. It is crucial for developments in the gas market for these countries to restart their exports following the coronavirus crisis.

While consumption declines, global gas production continues to climb. As an example, in the USA, production has increased by 5% in the first five months of the year in spite of demand in the country having fallen by 3%. The enormous oversupply of gas resulted in major price falls during the first half of 2020. In Europe, the spot markets fell to their lowest ever level at the end of May, trading at a provisional low of EUR 1.75/MWh in Germany. European gas stores are already much fuller than normal, and it seems very likely that, as last year, we will see stock levels of 100% across Europe.

## Forecasts

**Precipitation:** The dry weather forecasts from last week have now been replaced by slightly wetter forecasts. Precipitation volumes are expected to increase to around normal levels from the end of this week, although the various weather forecasts disagree slightly. The hydro-balance surplus is now at around 6 TWh.

**Production and spot:** After the average Nordic system price hit its lowest ever level in week 24, prices now look set to climb slightly this week. This is also due to wind power production decreasing compared to last week.

## EPADs

For the second week in a row, the price of the Finnish YR-21 EPAD increased. It is now trading at a market price of EUR 9.30/MWh. However, in Norway the NO1 EPAD (Oslo) remains unchanged at a price of EUR 1.03/MWh.


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