

# Clear improvement in hydro-balance

Nordic hydro-balance improving The weather forecasts have confirmed that the cold winter is no longer on the cards, and this led to further falls in the short-term contracts in the market last week.



## Here and now

Following the sharp price falls over the New Year, the market has calmed down somewhat. However, the weather forecasts have now confirmed that the cold winter weather is not set to return anytime soon, and this has caused further price falls on the short end of the market. The Q2-22 contract closed at EUR 41.10/MWh on Monday, EUR 2.60/MWh lower than last week. On the other hand, the long-term contracts in the market did climb, but only very marginally compared to the price falls experienced since Christmas. The YR-23 contract now costs EUR 38.00/MWh, an increase of EUR 0.50/MWh during the course of the week.

## Our recommendation

The market stabilised slightly last week, but we still consider there to be room for further price falls, particularly for the short-term contracts in the forward market. Naturally, this will depend on whether the weather forecasts continue to predict a mild end to January. On the other hand, we believe that the EPADs in the southern parts of the Nordic region will stabilise or climb slightly.

## Rapid improvement in hydro-balance after New Year

There have been few changes to the weather forecasts in the last week, and they still indicate relatively average temperatures as we head towards the end of January, with precipitation volumes expected to be slightly above normal for the time of year. When the hydro-balance deficit is as significant as was the case around Christmas, such average forecasts are something that can lead to rapid improvements. The PointCarbon analysis bureau therefore predicts that the balance deficit will be around -9 TWh in two weeks' time. By comparison, the level

was -22 TWh just two weeks ago. The improved hydrological situation is also reflected in the immediate forward contracts, with the system contracts for February and March, for example, having almost halved since the market peaked shortly before Christmas and the EPADs in the most densely populated southern areas of the Nordic region having fallen. Accordingly, there are now prospects of deliveries taking place at notably lower prices for the rest of the winter than what we anticipated just a few weeks ago.

| Forward    | Wk 1 (EUR/MWh) | Wk 2 (EUR/MWh) | Expectation (wk 3) |
|------------|----------------|----------------|--------------------|
| ENOMFEB-22 | 99.00          | 85.00          | ↘                  |
| ENOQ2-22   | 43.60          | 41.10          | ↘                  |
| ENOYR-23   | 70.60          | 38.00          | ↘                  |
| SYHELYR-23 | 7.65           | 7.40           | →                  |
| SYOSLYR-23 | 13.85          | 14.40          | ↗                  |

## Carbon price close to record-high levels

Even though we have experienced relatively large price falls in both the fuel market and the German energy market since Christmas, there have been no corresponding price falls in the European carbon market. On the contrary, the situation in the carbon market has been that of an uptrend, and the carbon price reached around EUR 88/t last week, which is very close to the record-high levels experienced last autumn. However, it is worth noting that the price climbs have taken place on the back of limited trading, both due to the Christmas holidays and because the EU-controlled allowance auctions have only resumed this week.



## New nuclear power reactor in Finland ready for testing

After more than a decade of postponements, the end finally appears to be in sight for the scandals affecting the new Finnish nuclear reactor, Olkiluoto 3. The nuclear reactor, originally scheduled to be put into service in 2009, has been delayed a number of times, but testing is now expected to begin within a couple of weeks, and full production is due to start from June. Olkiluoto 3 has a capacity of 1600 MW and will have a crucial impact on electricity prices, as the Finns will no longer be as reliant on imports from the neighbouring countries as has been the case until now.



## Forecasts

**The weather:** The rest of week 2 looks set to be very mild and wet, but the temperatures will fall to around normal for this time of year from the start of next week. Nonetheless, no seriously cold winter weather looks set to be heading for the Nordic region.

**Spot:** Even though the spot prices have not reached quite the same highs as before Christmas, the level remains very high compared to normal for this time of year. The average Nordic system price for week 1 was EUR 123.19/MWh, and we anticipate a level of around EUR 110/MWh in week 2.

## EPADs

The already very high NO1 EPAD in Norway for 2023 climbed even further last week and now costs EUR 14.40/MWh. In Finland, the 2023 EPAD fell slightly and is now down to a price of EUR 7.40/MWh.

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