

# Markets fear energy sanctions against Russia

European gas trading with Russia is hanging by a thread. Both the Russians and the EU are flexing their muscles with a view to putting a stop to trading.



## Here and now

Following a couple of weeks of climbing prices in the Nordic forward market, we experienced a slight downtrend in the immediate contracts in the market. The immediate month contracts and the contract for the coming quarter fell, and the Q2-22 contract now costs EUR 71.00/MWh. The weather forecasts continue to indicate low temperatures for the coming weeks, but some forecasts have also indicated that milder and wetter weather will be on the way from the middle of April. The 2022 year contract climbed slightly and is now at EUR 53.90/MWh.

## Russia once again threatens to shut off gas supplies

Last week, Russia once again threatened to shut off gas exports to Europe. At the end of March, Russia's President Putin announced in a speech that "unfriendly countries" would be asked to pay for gas in roubles rather than the currency that has previously been used, which, for the EU, has typically been the euro. This requirement is a clear attempt from the Russian President to stop the devaluation of the rouble that we have seen since war broke out in Ukraine, but, so far, the EU has refused to change the payment currency, citing

existing contracts. The markets are therefore waiting with bated breath to see whether Putin's threat to stop gas supplies to EU member states becomes a reality for any countries that have not met his rouble payment deadline of 1 April. The markets are continuing to price in a high risk premium in fear of gas supplies ceasing, while the EU and Russia appear to be participating in another staring contest to see who blinks first, which could potentially have a significant impact on European energy prices.

## Our recommendation

The enormous uncertainty surrounding European-Russian gas trading will continue to set the tone in the markets next week. If the EU decides to introduce further sanctions against Russia, this could very well lead to further price climbs, but the opposite could also be the case if neither Russia nor the EU takes action to turn the threats of halting gas supplies into reality.

Forward	Wk 13 (EUR/MWh)	Wk 14 (EUR/MWh)	Expectation (wk 15)
ENOMMAY-22	98.50	93.00	→
ENOQ3-22	70.95	71.00	→
ENOYR-23	52.75	53.90	→
SYHELYR-23	3.80	3.40	→
SYOSLYR-23	28.35	29.75	→

## New sanctions against Russia could affect gas trading

*Following the revelations of Russian war crimes in Ukraine, the EU is facing increasing pressure to introduce further sanctions against Russia. Such sanctions could also involve putting an end to gas trading.*

While Russia is threatening to halt gas exports to Europe due to the dispute relating to the settlement currency, trading is also under threat for other reasons. It could just as easily be the EU that, despite its reliance on Russian gas, elects to stop the imports, which have so far continued despite the war that broke out in February. This is due to last week's revelations of war crimes committed against the Ukrainian people by Russian forces.

Since the start of the war, the EU - in collaboration with the USA - has had a clear policy of introducing sanctions against Russia, with the aim of undermining the Russian economy and eventually forcing Putin to withdraw from Ukraine. However, European sanctions have so far not affected the energy sector, including gas trading, as the economic consequences of this have been considered to be too serious for the EU, where 40% of gas imports originate from Russia, which is also one of the largest suppliers of coal to the European energy mix.

However, the question now is whether the EU, in light of recent events, could be forced to take further steps in its sanctions against Russia and whether such steps would also cover gas trading. At the weekend, the President of the European Council, Charles Michel, tweeted that new sanctions are on the way and, on Wednesday, top EU officials are set to discuss how such sanctions will be designed. There does not appear to be agreement within the EU as to whether these sanctions should include gas, but the Union has so far managed to demonstrate unity in its stance on Russia since the start of the war and it is not inconceivable that common ground can be found also in this case.

The markets are therefore keeping a close eye on this issue, which could become the triggering factor for a complete stoppage in gas trading with the Russians and could mean that Europe will face a major supply crisis, which would be especially noticeable next winter.



## Forecasts

**Precipitation:** The cold weather looks set to continue in the coming weeks, and temperatures are expected to remain below normal for the season. On the other hand, precipitation volumes are expected to increase, and the hydro-balance deficit therefore looks set to shrink slightly. The hydro-balance is expected to be around -4 TWh by the middle of the month.

**Spot:** The average Nordic system price for week 13 was EUR 165/MWh, but this week looks set to be somewhat cheaper. The major daily fluctuations and differences between the various price areas will, however, continue.

## EPADs

The price of the Finnish 2023 EPAD continues to fall, and it is now down to EUR 3.40/MWh. However, the price climbs are continuing in Norway, where the NO1 EPAD for 2023 has climbed to EUR 29.75/MWh.

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