

Change in weather leads to price falls in forward market

Both spot prices and forward prices fell in the Nordic region last week, as there was a particular focus on milder and wetter weather forecasts for the coming weeks. Gas prices also fell despite the uncertainty.



Here and now

Following the major price jump the previous week there were slightly falling electricity prices in the Nordic region last week, although the level does of course remain extremely high compared to the levels we have previously experienced at this time of year. The average Nordic system price for the week was EUR 130.37/MWh, a fall of 18% compared to the price level the previous week. This week looks set to offer somewhat lower prices, as wind power production looks set to increase, while the snow-melting also looks set to intensify. The forward market also experienced falling prices last week.

Our recommendation

The price falls in the forward market could very well continue this week, where both the weather forecasts and the signals from the fuel markets point towards a downtrend. Everything could however change, if Russia does indeed decide to cut gas supply to Europe, which would be a potential game-changer again next week.

Price falls for immediate forward contracts

Following several consecutive weeks of climbing prices, the trend changed for the short-term contracts in the Nordic forward market last week. Both the immediate month and the immediate quarter contract fell, with the Q3-22 contract, for example, closing at a price on Monday that was 7.5% lower than the level one week ago. The weather forecasts have changed and, even though we can still see cooler and drier periods ahead, the coming weeks now generally indicate wetter and milder tendencies. Precipitation volumes are expected

to be around 15-20% higher than the seasonal norm as we head towards the end of week 20. Temperatures will rise to around or slightly above normal, and we can therefore expect that the delayed snow-melting in the Nordic region will set in for real, and the currently critical water reservoir level in southern Norway in particular will climb rapidly. On the subject of falling forward prices, it should also be noted that we experienced price falls in both the fuel markets and in the German energy market at the end of last week and the start of this week.

Forward	Wk 18 (EUR/MWh)	Wk 19 (EUR/MWh)	Expectation (wk 20)
ENOMJUN-22	80.00	72.75	↘
ENOQ3-22	86.30	80.00	↘
ENOYR-23	74.40	77.00	↘
SYHELYR-23	1.90	2.15	→
SYOSLYR-23	32.65	34.28	→

Europe replenishing gas stores with LNG

Concern that Russia may put a stop to gas trading remains high across the European energy markets. Europe is now starting to replenish its gas stores with LNG.

Following the winter and a relatively cold spring with high levels of consumption, gas consumption in Europe has started to fall. European countries can therefore start to replenish their gas stores in what is an extremely volatile situation. After Russia decided to shut off gas supplies to two EU countries in April, namely Poland and Bulgaria, the market has been worrying that this decision could be extended to also cover additional EU countries or potentially even the Union as a whole.

However, for now, gas continues to flow from Russia to Europe, and Russian President Vladimir Putin's long-awaited 9 May speech did not offer any news about gas trading with Europe, as many had otherwise feared would be the case. Nevertheless, the market remains aware that gas exports to Europe could stop at any moment, and the next big date is 20 May, which is the deadline Russia has set for EU countries to start paying for gas in roubles.

However, while gas trading with Russia remains on a knife edge, imports of liquid natural gas (LNG) from other parts of the world are increasing. Following a long period during which it was more profitable for LNG producers to send gas to Asia, the price there has now fallen so much that Europe has become a more attractive destination. The number of LNG tankers arriving in Europe is therefore climbing, with the UK in particular receiving large volumes of gas recently.

Europe can now use LNG to replenish gas stores ahead of the upcoming winter, when Russian gas may no longer be available. The USA has already promised to increase LNG exports to Europe for the rest of the year, and Europe could therefore have some well filled gas stores to use when consumption starts rising again in the winter.



Forecasts

The weather: The next ten days look set to offer both temperatures and precipitation volumes above normal for the time of year. The snow-melting in the Nordic mountains will therefore be able to start in earnest.

Spot: The prospects of more wind and solar power in the coming period, as well as increased snow-melting and more water in the reservoirs, will lead to sharply falling spot prices in the Nordic region. We anticipate an average Nordic system price of around EUR 100/MWh for week 19, which would be the lowest level observed in three months.

EPADs

There were climbing prices for the Finnish 2023 EPAD for the second week in a row, and it is now trading at EUR 2.15/MWh. In Norway, the NO1 EPAD for 2023 climbed once again, and it is now trading at a price of EUR 34.28/MWh.

Kimmo Kuusinen, Managing Director
(kimmo.kusinen@energiasuomi.fi)
Tel.: +358 40 1633922

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