

Gas markets soaring again

Gas imports to Germany from Russia via the Nord Stream 1 pipeline have plummeted, and this has led to another significant price jump across the markets.



Here and now

Electricity prices climbed again last week following the downtrend in the previous week. The main reason for the climbing prices in the forward market is the uncertainty relating to Russian gas supplies to Europe, with German electricity prices climbing sharply in line with the falling gas import levels. Drier and warmer weather forecasts have contributed to the price climbs, and prices have even been climbing in the spot market. The average Nordic system price for week 24 was EUR 100.29/MWh, marginally higher than the level seen in week 23.

Declining gas supplies cause markets to soar

Last week, the big story across the markets was the sudden decrease in Russian gas supplies to Europe via the Nord Stream 1 pipeline. The reasons for this are disputed, but there are no doubts about the consequences, namely the substantial price climbs in the energy markets. The immediate month contract in the leading European gas exchange, TTF, was trading at no less than EUR 125/MWh on Monday, an increase of 43% compared to the previous week. Prices have also soared in the day market and the

developments are also affecting the adjacent markets, where, among other things, we have seen price jumps for coal, the demand for which is growing under the circumstances. Electricity prices have now also climbed as a result of the situation and, in the Nordic region, we are now at the highest price level ever observed for the Nordic system contracts for the coming months, quarters and years. The markets will continue to monitor the situation closely over the coming week, when volatility will remain high.

Our recommendation

Despite the substantial price climbs last week, it is far from certain that we will not see further price climbs in the coming week. Volatility will remain high and the situation surrounding gas imports from Russia will remain crucial to developments. However, we believe that the most likely scenario is another week of climbing prices for both the short-term and long-term contracts in the forward market.

Forward	Wk 24 (EUR/MWh)	Wk 25 (EUR/MWh)	Expectation (wk 26)
ENOMJUL-22	69.23	103.50	↘
ENOQ3-22	82.50	116.00	↘
ENOYR-23	78.15	97.40	↘
SYHELYR-23	8.40	18.40	→
SYOSLYR-23	33.15	36.00	→

Russia and Germany disagree on cause of falling gas supplies

Gas supplies via the Nord Stream 1 pipeline have plummeted in the last week and Russia and Germany disagree on the cause.

For months, the markets feared that the Russian halting of gas deliveries to selected European countries would be extended to include exports through the Nord Stream 1 pipeline in the North Sea. To some extent, this became reality last week. On Tuesday, the state-owned Russian energy company, Gazprom, announced that the flow through the gas pipeline would be reduced to 60% of capacity. The following day, export levels were dropped further to just 40% of the pipeline's maximum capacity.

According to Gazprom, the reason for this drop in supply is that maintenance work identified technical problems associated with the pipeline and that the country is unable to obtain the required spare parts to repair the damage from Siemens due to Western sanctions. These parts are allegedly in Canada and cannot be shipped to Russia due to the trade embargoes that countries, including Canada, have imposed against Russia in the wake of the invasion of Ukraine back in February.

In Germany, which is now missing out on Russian gas, there is, however, a conviction that there is no technical fault in the pipeline, but that this is a purely political move on Russia's part. The German Minister of the Economy, Robert Habeck, more than implied in his reaction to the drop in gas supplies that he does not believe that there are any issues with Nord Stream 1, but that this is simply a move in the gas war that has been playing out between Russia and the EU in recent months.

As a result of the falling gas supply from Russia and the fear that it will stop completely, Germany has instead employed other means. On Monday, the German government announced that it will increase production at German coal power plants to meet demand and save gas reserves. This is a solution that Germany would have preferred not to take for climate reasons, but that has now become necessary, at least temporarily.



Forecasts

The weather: Following a period of mild, wet weather, the weather forecasts now indicate warmer and drier weather conditions in the Nordic region. Temperature levels 3-5 degrees above normal for the time of year are expected in the next ten days, and the hydro-balance deficit is growing once more.

Spot: Spot prices look set to climb sharply this week, both due to the fuel market situation and the warmer and drier weather. We anticipate an average Nordic system price of around EUR 150/MWh for the week.

EPADs

The price climbs continue for the Finnish EPADs, due to the uncertainty surrounding Olkiluoto 3. The 2023 EPAD is now trading at EUR 18.40/MWh. In Norway, the NO1 EPAD for 2023 remains at EUR 36.00/MWh.

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