

EU getting closer to gas price cap

At a summit in Brussels last week, the EU came one step closer to agreeing on a gas price cap. The European Commission will now present a detailed plan to implement this price cap



Here and now

We have experienced yet another week of falling forward prices in the Nordic region. The weather forecasts remain mild, with temperatures above normal for the time of year for the next two weeks as a minimum. Just as important was the expectation that the EU would agree on a price ceiling for gas, which caused both fuel prices and electricity prices to fall last week. The most frequently traded contracts in the forward market are now at their lowest levels in three months. In the spot market, the Nordic system price climbed for the second week in a row in week 42 and the average price for the week ended at EUR 84.59/MWh.

Our recommendation

The significant price falls in the markets are continuing and we absolutely cannot rule out further price falls in the coming week. There are no signals from the weather forecasts to put an end to the downtrend and the EU's intention to introduce a price ceiling for gas could very well lead to the markets dropping prices even further.

Progress in EU plans to implement gas price cap

An EU summit took place in Brussels on Thursday and Friday last week and the most prominent item on the agenda was once again the sky-high energy prices. The member states again discussed the possibility of implementing a gas price cap and this time it would seem they have reached an agreement on the direction to take. Germany, which so far has been the strongest opponent of a price cap, has now agreed to the European Commission preparing a detailed proposal for how such a cap could look in practice and when the Commission

finishes this work, the price cap could very well be adopted. Naturally, the aim is to reduce gas prices for the benefit of consumers and we have also seen falling gas and electricity prices in Spain and Portugal, where such a price cap has already been implemented. The largest argument against the proposal has been that a price cap could increase consumption at a time when the product is scarce and that this could, in the worst-case scenario, force Europe to ration gas. The market reacted to the news from the summit with falling prices.

Forward	Wk 41 (EUR/MWh)	Wk 42 (EUR/MWh)	Expectation (w 43)
ENOMNOV-22	172.00	150.00	↘
ENOQ1-23	259.00	232.50	↘
ENOYR-23	136.50	123.13	↘
SYHELYR-23	32.00	32.00	→
SYOSLYR-23	75.72	75.72	→

Major new price falls in forward market

The Nordic energy market experienced further price falls last week. The 2023 year contract has fallen by 35% in less than a month, in no small part due to the mild autumn weather.

Price falls are continuing relentlessly in the Nordic energy market. Over the last month, the price levels for the most frequently traded forward contracts have fallen steadily after the market had climbed to extreme levels at the end of summer and start of autumn. The Nordic system contract for 2023 closed at a price of EUR 123.13/MWh on Monday, 35% lower than one month ago, and has more than halved compared to when the market peaked around two months ago. The price falls for the short-term contracts in the market are even more substantial. The November contract has halved in price this last month, while the Q1-23 quarter contract has fallen by around 45%.

One reason for the price falls is the market interventions the EU is currently working on, which, among other things, include a requirement for member states to reduce electricity and gas consumption, a profit ceiling for certain electricity producers and now also an anticipated price ceiling for gas. The aim of these interventions is to lower prices, and the markets, including the Nordic energy market, have so far had bearish reactions to the reforms.

Another equally important cause of the price falls is the weather situation in the Nordic region and the rest of Europe this autumn. The latest weather forecasts indicate temperatures well above normal for some time into November, culminating at a level around five degrees above the seasonal average at the end of this week. During the same period, precipitation volumes look set to fall to around or slightly below normal for the time of year, but several weeks of high precipitation volumes mean that the Nordic hydro-balance deficit has decreased significantly. According to Energy Quantified, the hydro-balance deficit is now only -4.5 TWh, a significant improvement compared to the low point of -18.6 TWh at the start of September.



Forecasts

The weather: Autumn started exactly how consumers would have hoped, with mild and wet weather across the Nordic region. The latest forecasts indicate that this weather situation will continue for at least some time into November.

Spot: The unusually mild autumn weather is helping keep the spot prices down, even if the level remains extremely high from a historical perspective. We anticipate an average Nordic system price of approximately EUR 75/MWh for week 43.

EPADs

Following some major fluctuations in the Finnish EPADs over recent weeks, the 2023 EPAD closed at EUR 32.00/MWh on Monday, exactly the same price as last week. In Norway, there were also no fluctuations in the NO1 EPAD for 2023, which continues to cost EUR 75.72/MWh.

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