

# Highest gas prices in 2020

Last week, the day price for gas climbed to the highest level experienced so far this year. The causes include strikes in the Norwegian oil and gas industry.



## Here and now

The price climbs in the Nordic energy market continued at the start of last week, but the market fell back significantly on Friday and Monday this week. The hydro-balance surplus has decreased significantly, and the Nordic system price was EUR 22.49/MWh on Monday, the highest level observed in nearly one month. Falling carbon prices and price falls in the German energy market did, however, result in falls that ended up completely neutralising the increases from earlier in the week. When the market closed on Monday, the Nordic Q1-21 and YR-21 contracts cost EUR 29.60/MWh and EUR 24.75/MWh respectively.

## Our recommendation

The upside in the market currently appears larger. The carbon market has dropped to nearly EUR 25/t and, as we do not believe the market will move much further downwards, this also limits the possibilities of price falls in related markets, including the Nordic energy market. Of course, much depends on the weather, but price climbs seem to be the most probable scenario next week.

## Gas spot prices increasing substantially

On Friday last week, European spot prices for gas reached the highest level we have seen so far in 2020. The day price in the Dutch TTF gas exchange ended up at EUR 13.85/MWh, the highest level observed since December 2019 and around 20% higher than at the start of the month. Several factors meant that the price of the short-term contracts in the gas market has climbed significantly in recent times. The strike among Norwegian oil and gas workers has now moved into its third week, and the country's gas production has fallen by around 8% during this period, a figure that could

rise further if the strike is not resolved this week. In addition to the strike, other Norwegian gas facilities are being affected by urgent maintenance work. The lack of production is being felt across the rest of Europe, to which Norway is normally a major natural gas exporter. In addition to the Norwegian strike, the cold autumn weather is also contributing to the price climbs. Temperatures across large parts of the continent are currently well below normal for the time of year. The relatively high stock levels of gas across Europe have, however, limited the price climbs to some extent.

Forward	Wk 41 (EUR/MWh)	Wk 42 (EUR/MWh)	Expectation (w 43)
ENOMNOV-20	22.70	24.05	↗
ENOQ1-21	28.45	28.21	↗
ENOYR-21	23.65	23.70	↗
SYHELYR-21	16.30	14.98	→
SYOSLYR-21	0.65	0.65	→

## Fears over La Niña affecting markets

*The markets are keeping an eye on the developing weather in the Pacific region, where the latest version of the La Niña weather phenomenon is under way.*

An old but familiar phenomenon has once again begun to haunt the international energy markets. We are talking about La Niña, a weather phenomenon that affects temperature, wind and precipitation, especially in the countries around the Pacific. La Niña typically results in torrential rain in Australia, South East Asia and parts of South America.

The La Niña typically occurs every 3-5 years and lasts, on average, for 9-18 months. There is currently broad agreement among meteorologists that another La Niña has begun. The state-owned US weather institute, NOAA, has found that we have been experiencing La Niña-like weather conditions for three months now, and that there is a 75% chance of the weather phenomenon continuing for at least another six months.

Previously, La Niña has had a huge influence on the international energy markets, which has also affected Nordic electricity prices. When an intense version of La Niña struck the Pacific region in 2010-11, it resulted in a notable drop in Australian coal exports as a result of the extreme weather conditions affecting the coal-producing regions along the east coast of the country. At the same time, temperatures fell in East Asia, which resulted in higher electricity and gas consumption in China, affecting prices in Europe.

With this in mind, it is not surprising that the markets are currently keeping a close eye on the weather forecasts and the meteorologists' forecasts in relation to La Niña. Australia and Colombia are still two of the largest coal exporters in the world, and if production was to be hampered by extreme weather conditions again, this could result in price climbs for coal, including in Europe. However, the more important factor is that China could very well be struck by cold weather again, which would increase the country's consumption of both gas and coal significantly.



## Forecasts

**Precipitation:** The remainder of week 42 looks set to be dry and cold in the Nordic region, but there could very well be a change in the weather coming from the start of next week, as the forecasts are indicating weather characterised by low pressure. The hydro-balance surplus is now down to 8.50 TWh, which means it has halved over the past two weeks.

**Production and spot:** The decrease in the hydro-balance surplus and the low temperatures mean that spot prices have started to climb in the Nordic region. We anticipate an average system price of around EUR 21/MWh in week 42. This in spite of wind power production looking set to increase in the coming week.

## EPADs

The price of the Finnish YR-21 EPAD fell substantially last week, and it now costs EUR 14.98/MWh, EUR 1.32/MWh less than a week ago. The Norwegian NO1 EPAD for YR-21 remains stable at EUR 0.65/MWh.

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