

Electricity Monitor

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Record after record

- ▶ Electricity prices have risen fast, new price records in the UK
- ▶ Gas prices have also gained sharply due to increased demand and less LNG imports in Europe
- ▶ Thermal coal prices have risen due to additional demand from China
- ▶ Price EU ETS (Carbon emission rights) hits new record high (> EUR 35/tonne)

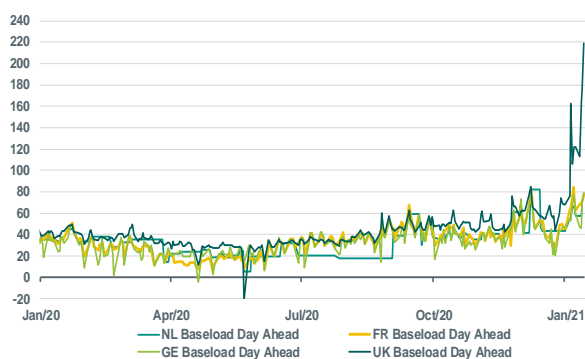
Several factors reinforce price movement

Electricity prices have risen sharply across the board in recent days. Day-ahead prices (next-day delivery) are showing strong increases in all countries in north-western Europe. But the trend is broader than that. Demand for natural gas in Spain has never been higher than yesterday. Although outside our focus area, there are also seeing strong price increases in Asia. In particular, baseload prices in the UK have been above EUR 100/MWh for a week and reached a record high of GBP 195/MWh (EUR 219/MWh). A combination of factors are responsible for this strong upward price momentum in electricity prices: higher prices for natural gas, coal and carbon emissions (EU ETS).

Demand for electricity in general (especially for heating) has increased recent weeks. However, the price increase is not limited to short-term electricity prices. As seen in the graph on the right, prices for - in this case - calendar year 2022 are also rising sharply in recent weeks.

Electricity: day-ahead prices on the rise

x EUR/MWh



Source: Bloomberg

Electricity prices CAL22

x EUR/MWh



Source: Bloomberg

The price of electricity in the UK has risen at a higher pace than elsewhere and has reached a record high. There are several reasons for this. To start the unexpected failure of some power plants in the UK, including a biomass plant and a gas plant. Meanwhile there was a low yield from wind power. As a result coal fired power plants had to step in. Power plants which are scheduled to be decommissioned in the coming years. In addition, there are problems with interconnection cables between the UK and the Netherlands (until early February) and France (until mid-February). These high prices can be seen as evidence that the grid operator is struggling to balance the system.

EU ETS price reaches new record high

On January 12, the price of EU ETS CO₂ emission allowances reached a new record high of EUR 35.42/ton before easing towards the low EUR 33's. The recent increase was due to no new allowances being auctioned for several weeks ahead of the start of the next phase for the ETS (Phase IV = 2021-2030). In case companies which fall under the ETS now face shortages of carbon allowances therefore have to be purchased on the market. In addition, we suspect that market speculation was another important reason for the price gain. The adjusted European target of not 49% but 55% CO₂ reduction by 2030 may have driven some of this speculation. Another reason may be that short-term investors, who are simply looking for extra yield, want to take advantage of the recent price trend. Something that then further accelerates the move.

EU ETS reaches new record high

x EUR/tonne



Source: Bloomberg

Cold weather leads to higher gas prices... worldwide

Several cold fronts are leading to an increase in demand for natural gas to meet the heating demand. This is happening at several continents at the same time. So natural gas prices react accordingly in all markets. While the price increase in the US is still limited to reaching the highest level in six weeks, we see the price of natural gas in the UK, the Netherlands and the Asian (Japan Korea marker) LNG price increasing even more strongly. According to the weather reports, more cold weather is coming as a result of the possible formation of a polar vortex¹. In anticipation of the current strong demand for gas, and the potential for further increasing demand for gas, we see that market speculation is driving prices up.

LNG imports into Europe had already cooled off somewhat due to the fact that most LNG shipments are currently headed to Asia. This leaves consumers in north-west Europe mostly at the mercy of imports from the "traditional" channels through Norway and Russia. An explosion earlier this week at the transit pipeline in Ukraine, which runs from

¹: A Polar Vortex is a pattern of winds that rises in the Arctic resembling cyclones that flows around the North Pole year round. A Polar Vortex is the most dangerous when it weakens as it creates more acute winter conditions and can lead to extreme frigid weather conditions in the eastern U.S. and cold weather in Europe.

Russia to Europe, is said to have had no impact on gas supplies. This is also because gas stocks in Europe are still substantial. In the Netherlands, gas stocks are also declining, but are currently still more than sufficient, at around 60%, to meet expected demand.

Natural gas prices jump higher due to cold weather

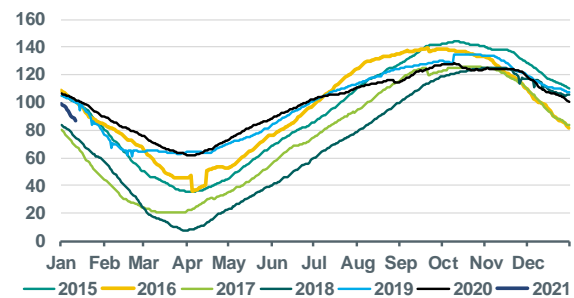
USD/MWh



Source: Bloomberg

Abundant Dutch natural gas inventories

x 1.000 TWh



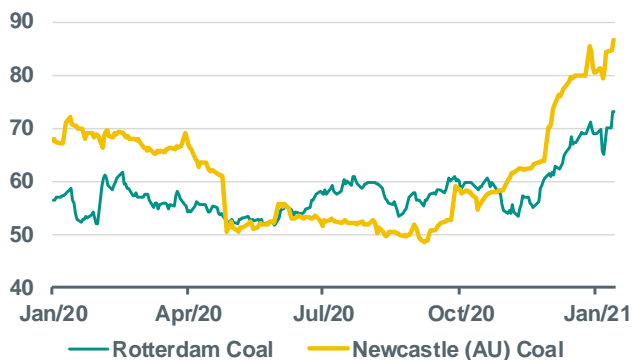
Source: Bloomberg

Coal Prices also gained

Coal prices have also shown a strong upward trend in recent months. Higher demand for coal from Asia is the main reason for this price movement. With gas prices rising sharply around the world, we are also seeing the demand for coal increase again to meet the demand for electricity generation. The rising demand for electricity for heating purposes is creating high demand for coal (and gas) from Japan and India. Recently, several Chinese power company owners sent out a warning that a shortage of coal is imminent as supplies are rapidly dwindling. The Chinese import of Australian coal has been reduced to almost zero due to an import ban after Australia accused China to be responsible for the coronavirus. The bulk of the Chinese coal imports now come from Indonesia.

Coal prices rise on the back of higher Chinese demand

x EUR/tonne



Source: Bloomberg

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