ABN·AMRO

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Electricity monitor

Hans van Cleef, Sr. Energy economist
Tel.: 020 343 46 79 / hans.van.cleef@nl.abnamro.com

Electricity prices jump through the roof

- **Gas prices high due to low stocks, limited supply and high demand**
- **EU ETS to be revised; prices have reached new record highs**
- **Electricity prices in Europe have been rising to highest point in years**

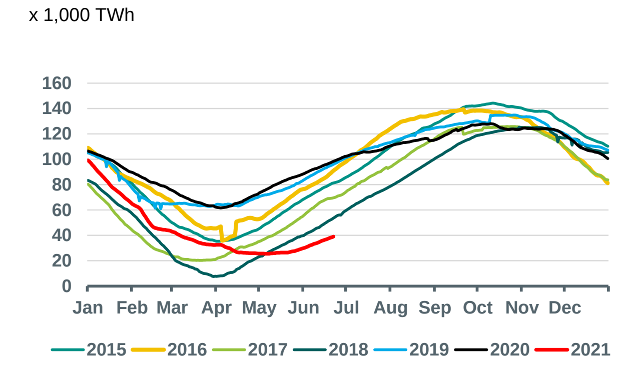
Electricity prices high due to EU ETS and commodity prices
Title Transfer Facility (TTF) natural gas prices have risen sharply recently. As a result of supply uncertainties, prices rose to the highest point in more than thirteen years. The increase was more than 25% in the month of June alone. The stock levels were already low after the relatively harsh winter and cold spring. Normally, stocks are replenished from the months of April/May onwards. But this year we had to deal with a period of very warm weather (so extra demand for electricity for cooling purposes) combined with relatively little wind (so more dependence on gas instead of sustainable energy).

In addition, stocks in other parts of the world are also lower than normal. This means that the available supply of LNG goes to the highest bidder, mainly in Asia (e.g. China, India, Taiwan and South Korea). The price of LNG in Asia (JKL-marker) is about EUR 4/MWh higher than the TTF monthly price (equal to USD 1.10/mmBtu). Also the price of EU ETS (CO2 emission rights) has risen sharply in recent months, putting upward pressure on prices.

Gas prices remain high for the time of year

Source: Bloomberg

Gas reserves Netherlands

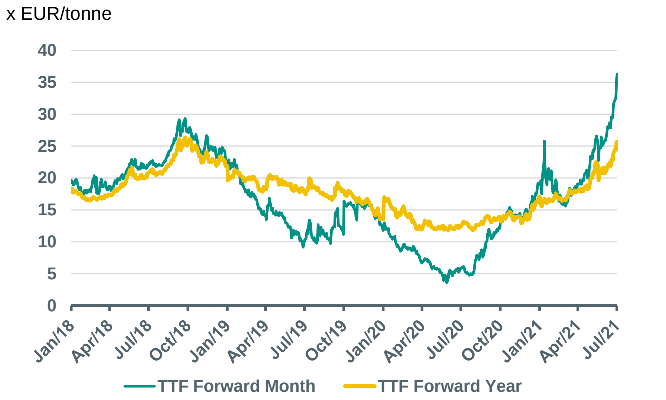


Source: Gas Infrastructure Europe

The uncertainty about whether supplies can be replenished in time before the coming winter season, is creating expectations that the current scarcity may endure. This is causing prices to rise even further. And whereas in the past in the Netherlands, gas production in Groningen could be relied on, this will now mainly have to come from imports. European gas stocks are now in line with the low reserves seen in 2015, 2017 and 2018. In the Netherlands, on the other hand, we have not been at the current low level of stocks at this time of year for even longer than that.

For the time being, Gazprom appears reluctant to increase gas exports to north-western Europe via Ukraine. In addition, there are interruptions in gas exports from Norway and maintenance at LNG import terminals in Europe. Compared to 2018, Russia is exporting significantly less natural gas to Europe. According to S&P Platts, total exports from Russia to Europe have decreased by 26.5 bcm over the last two years. During the past two winters, Europe drew 43 bcm from stocks to meet demand. Next winter, it is expected to need some 68 bcm. Also for the month of July, Russia has not booked additional capacity to increase gas through its pipelines in Ukraine. Rumours suggest that the Russians are deliberately holding on to this slow decline in exports, and thus contributing to shortages at a time of extra demand, to put pressure on the completion of the *NordStream II* pipeline between Russia and Germany. And this just when the political party of the Greens in Germany has indicated that if they win the elections in September, they will block the completion of the pipeline.

TTF gas contracts: month versus next calendar year



Source: Bloomberg

Because of these potential shortages, traders have started to hedge, which is partly why there is already upward price pressure. Nevertheless, the price difference per contract is very large. The active TTF monthly contract is currently trading at around EUR 31.65/MWh. In comparison, at the beginning of March - just after the winter - this was still about EUR 15.50/MWh. The contract for the next calendar year (CAL22) is now at EUR 23.65/MWh (at the beginning of March at EUR 16.50/MWh). Thus, the price fluctuations in the monthly contract are much larger than in the annual contract. Whether the monthly contract will fall again quickly depends very much on the weather conditions (demand for gas for generating electricity and heating/cooling) and the supply of gas in the form of LNG or via pipelines. Still, on Tuesday 6 July, TTF prices already dropped by almost 10% based on profit taking and talks about lower LNG imports by China.

EU ETS breaks records again

On 14 July, the European Commission (EC) will announce its plans on how to meet more ambitious carbon emission targets for 2030. Under the name 'Fit for 55', the EC will announce the entire package. In the already leaked plans, serious changes for the EU ETS are on the agenda. In order to reduce CO_2 emissions by 55% rather than 40% by 2030, the number of emission allowances available on the market will have to be reduced more quickly. Firstly, this will be achieved by increasing the reduction factor. This is currently a reduction of 1.74% in available allowances per year, but could be increased to 2.5-3% per year. In addition, there is talk of a one-off reduction in the number of available rights.

The maritime sector would also be added to the existing EU ETS, and the road transport and built environment sectors would have their own emissions trading system. Not all member states are in agreement on this yet. Finally, a *Carbon Border Adjustment Mechanism* (CBAM), or border tax, may be announced. The European border tax aims to protect the competitive position of European companies against companies outside the EU that have to deal with less strict climate regulations.

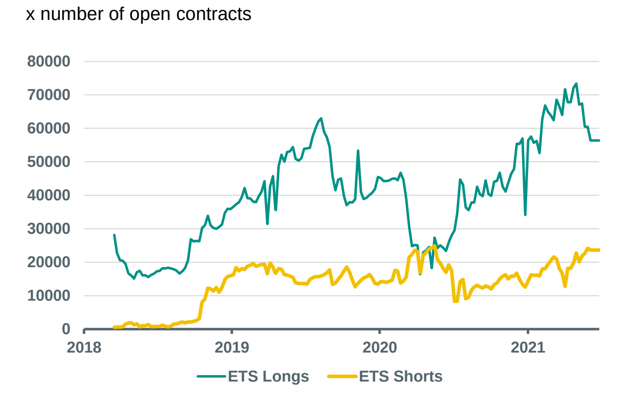
Ahead of the announcements, the EU Emission Trading Scheme (ETS) price reached a new record high of EUR 58.64/tonne earlier last week. Expectations regarding the adjustments to the EU ETS mechanism by the European Commission are causing optimism and market speculation. In addition, the demand for emission rights is also increasing as coal and gas-fired power stations are running at full capacity to meet electricity demand now that the summer weather is relatively mild with not too much sun and little wind.

It is remarkable that, despite the recent price rise, this is not immediately reflected in the speculative positions. Although the number of positions speculating on price rises (*longs*) is still historically high, there has recently been a substantial profit-taking after the sharp rise in prices. The number of positions anticipating price falls (*shorts*) is also still relatively high. This provides room for further profit-taking on the *longs*. A so-called *buy-the-rumour-sell-the-fact* scenario (in which market speculation is so advanced that the actual fact leads to profit-taking) lurks. Still, higher EU ETS prices cannot be ruled out, depending on how strong the EC interventions in the EU ETS will be.

EU ETS hits new record high

Source: Bloomberg

EU ETS speculative positions



Source: Bloomberg

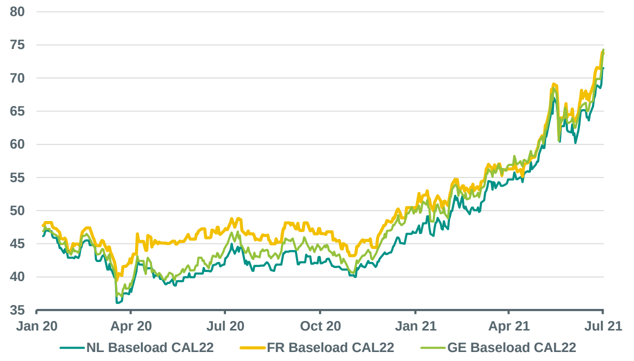
Electricity prices

In line with higher gas prices, high coal prices and record prices of CO2 emission allowances, European electricity prices are also reaching multi-year highs. The *day-ahead* prices are trading at the highest point in more than four years. The increase of electricity prices even leads to the restart of the most polluting coal-fired power plants. Although the *dark-spread* (profitability of coal-fired power stations) is still negative for many coal-fired power stations, coal-fired power stations are starting up more often to meet electricity demand. In the month of June, the yield of sustainable energy turned out to be disappointing and the high gas prices make gas plants less competitive compared to coal plants than before. After all, the increase in gas prices was faster than the increase in coal prices.

It is noticeable that the price increases for the next calendar year (CAL22) show the same pattern for several countries. The prices in the Netherlands, France and Germany follow exactly the same pattern despite the differences in the electricity mix.

Base load prices CAL 22 rising fast

x EUR/MWh



Source: Bloomberg

We expect that the scarcity in the gas market will not be resolved in the coming weeks. Weather conditions and import volumes will determine stockpiling and thus the price of TTF and NBP. Mild weather and high returns from renewables may help. As a fall in the price of coal is not expected in the short term either, this will not have a depressing effect on prices. It is possible that the announcement of the new EU ETS measures will cause some price movements and the electricity price could fall a bit when gas stocks are further replenished. But all in all, a rapid fall in the electricity price does not seem likely. Something that will have a direct impact on the energy bills of households and businesses this year and next.