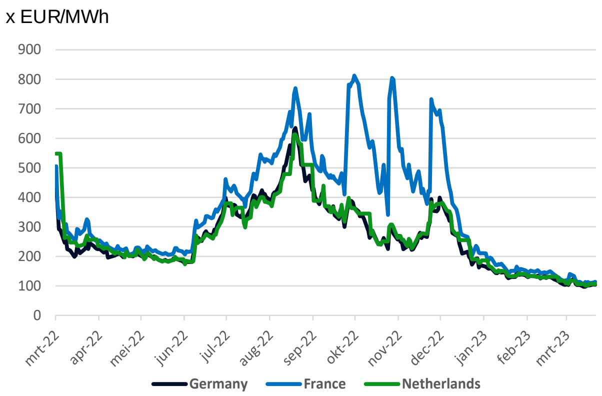
Financial turmoil

The main price drivers for electricity prices at the moment are ever-declining gas prices and relatively favourable weather conditions for renewable generation. We look ahead to expectations regarding electricity generation from solar and wind power. In addition, we see possible upward price effects due to the strikes in France and a cold snap in late March/early April. Nevertheless, we cannot escape looking at broader sentiment in financial markets as well. Although the impact on the gas markets, and hence the electricity markets, is not as strong as in, say, the oil markets, an effect is indeed visible.

Electricity price falls to EUR 100/MWh

Sentiment in the (TTF) gas market continues to have a major impact on electricity pricing due to gas plants being the most expensive marginal price setter in the electricity market. Compared to the previous Electricity Market Update, the TTF gas price (delivery April 2023) fell from over EUR 48/MWh to just below EUR 40/MWh on 20 March 2023. The price has since recovered to EUR 42/MWh. A relatively mild winter resulting in relatively high gas stocks and relatively low Asian gas demand have caused this price drop. Partly as a result, the electricity price of the active monthly contract (delivery April 2023) fell from just above EUR 116/MWh to just above EUR 100/MWh compared to the previous Electricity Market Update.

Electricity price falls to EUR 100/MWh
(baseload, contract delivery April 2023)



Source: Refinitiv Eikon

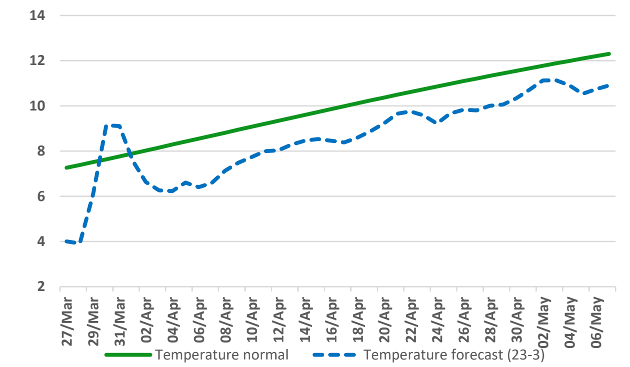
In doing so, the electricity market did show a sudden increase in prices on 9 and 10 March (from around EUR 109/MWh to over EUR 125/MWh). This was mainly due to strikes at French LNG terminals as a result of an announced increase in the statutory retirement age. This had a direct effect on the TTF gas price and therefore also an indirect effect on the electricity price. Incidentally, the end of the strikes in France is not immediately in sight. Indeed, new strikes have again been announced after French President Macron last week forced the law shaping the increase in the retirement age through parliament without a vote. It makes the upside risks for French electricity prices to persist for longer.

In addition, short-term upside price risks can be found in the weather forecast. While we have had a relatively mild winter so far, the adages "March stirs its tail" and "April does what it wants" still seem appropriate during the start of spring. Meteorologists expect the cold spell that started this week to continue for at least the first two weeks of April (see chart below). Temperatures in the Netherlands and Germany (the EU's biggest gas consumer) look set to fall below the long-term average for the month of April. Colder temperatures will keep demand for gas and electricity higher than average.

Nevertheless, we do not expect these lower-than-average temperatures to put too much upward pressure on gas and electricity prices as temperatures, although below average, are starting to rise just as much. In addition, we have the excellently stocked gas storage facilities as a back-up for the really cold days with extra energy demand.

Forecast temperature Netherlands

Degrees Celsius



Source: Refinitiv Eikon

Negative sentiment in financial markets is being felt

Besides sentiment in the gas market, sentiment in financial markets is also affecting energy markets. Financial market sentiment has deteriorated significantly in recent weeks. The combination of turmoil regarding the banking sector, coupled with rising interest rates, is putting pressure on commodity markets - including energy prices. The turmoil in the banking sector is leading to risk aversion among investors. Commodity investments are seen as a riskier investment than bonds and - to a slightly lesser extent - equities.

Due to base effects, inflation on energy decreases 'naturally' after a year. After all, inflation is an indicator of the annual increase (or decrease) in consumer prices. As these energy prices are now lower than a year ago, overall inflationary pressures decrease. Here, it does not matter that the current level of energy prices - including electricity prices - is still three times higher than before the energy crisis. However, as the still high energy prices feed through to other products (food, commodities, higher wages, et cetera), core inflation is still high as shown in the chart below. Something that worries central banks.

Conversely, ongoing interest rate hikes by central banks in both Europe and the US are also affecting energy markets in various ways. Interest rate hikes increase the likelihood of recession. Less economic growth, or an increasing chance of it, means less demand for energy and thus leads to pressure on energy prices as parties anticipate it. Higher interest rates are of course the result of high inflation and rising costs, but it also makes investing more expensive. This also applies to investments in the energy sector, with little distinction between renewable or fossil energy. However, subsidies can often be claimed for investments in renewable energy, which reduces investment costs. In addition, alternative pricing mechanisms such as *Power Purchase Agreements* (PPAs) or *Contract for Difference* (CfD) are increasingly used, where fixed price agreements largely eliminate the risks of more expensive financing costs.

Financial investors often find in commodity investments a hedge against rising inflation. Such investments are seen as a hedge against inflation because rising commodity prices are directly or indirectly a major cause of rising inflation. With overall inflation falling, the attractiveness of investing in commodity markets is also decreasing. There is also less need for diversification in investment portfolios now that interest rates are rising and cash is no longer interest-free in an account. As a

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