Electricity

Energy
Research
Strategy

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Weather you like it or not

The active monthly electricity price contract falls to almost its lowest level this year. This is mainly due to a healthy starting point in the gas market before the onset of winter. At the same time, the uncertainty surrounding gas demand during winter is stabilising the annual contract. In southern Europe, we expect a big increase in gas consumption for electricity generation as a result of the heatwave. Closer to home, the relatively dry and warm weather has again caused low water levels in the Rhine. As a result, weather will prove to be a determining factor for market developments in the coming weeks. The Spanish presidency in the European Council may have an impact on the electricity market reform negotiations and the IEA is shedding light on the fall in European electricity demand.

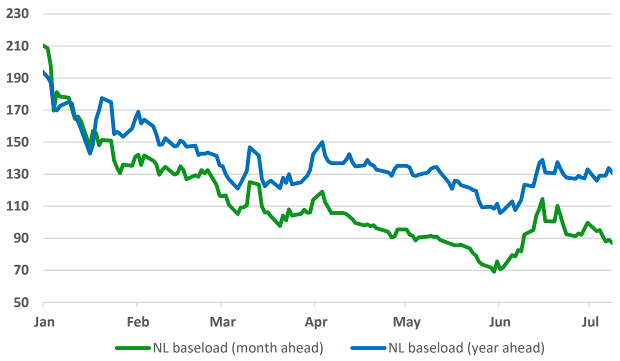
Electricity price: spread between monthly and annual contracts rises

In the previous electricity market update, tightness and associated nervousness trumped the gas and electricity markets. In the absence of fundamental drivers, speculators saw their opportunity to make a big stir in the financial markets. For instance, there were a number of delayed retirements of Norwegian gas fields due to maintenance taking longer than planned. In reality, this did not involve significant amounts of missed gas, but the news resulted in support for gas and electricity prices.

Just in recent weeks, most of Norway's gas fields have returned to service. This is currently creating a price depressing effect. Initially on the gas market, but then on the electricity markets. The active monthly contract of Dutch electricity (baseload, delivery in August) therefore fell some 30% over the past month, from EUR 115/MWh on 15 June to EUR 78/MWh on 14 July, as shown in the chart below.

Monthly electricity contracts under pressure

x EUR/MWh



Source: Refinitiv Eikon

With the recent falls in gas and electricity prices, the question is how low we can go. Over a month ago, we reached a low of just below EUR 74/MWh. A point that is once again in sight. However, this is still almost twice the long-term average of around EUR 40/MWh. With a well-stocked gas supply, and repeated new records in renewable energy output, sustained downward price pressure on the monthly contract for the next two months is certainly conceivable. Excluding price increases due to unforeseen production outages at power plants, the summer months are increasingly characterised by low, and for spot and day-ahead markets even regularly negative, prices.

At the same time, we see less downward flexibility with the annual contract. The market is charging a hefty premium between the monthly and annual contract. It means the market is factoring in more tightness over time. As a result, upside price risks are priced in over the medium term. In the short term, there are no problems for security of supply, but the prospect of an uncertain upcoming winter remains an important factor for the annual contract.

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