

Thursday 11 April 2024

EU ETS prices have started a fragile recovery

Electricity prices are experiencing some positive momentum within the downward trend we have been seeing since October last year. This is mainly due to lower temperatures, which near the long-term average next week. In addition, the stronger gas price is also adding upward pressure on electricity prices. The rising gas price is mainly due to increasing demand for LNG from Asia. The spread between JK LNG and TTF is leading tankers destined for the spot market to the Asian market more often. Due to the brisk start of the filling season, gas demand in Europe is low, limiting the price effect.

The EU ETS price is recovering slowly but steadily. Still, the upside potential seems limited in the short term. Indeed, from a policy perspective, not too much can be expected until the European elections (6-9 June). Signals regarding European industrial and power generation activities will remain the main drivers in the short term. In the longer term, the theory indicates that the price of emission allowances should start to rise. There are big differences between the (possibility of) CO₂ reductions in the power sector and industry. It makes the future of the EU ETS price more recalcitrant than theory. The price for CCS could be a good indicator of future ETS prices if investments in industry sustainability lag behind.

Slight upward pressure for electricity prices

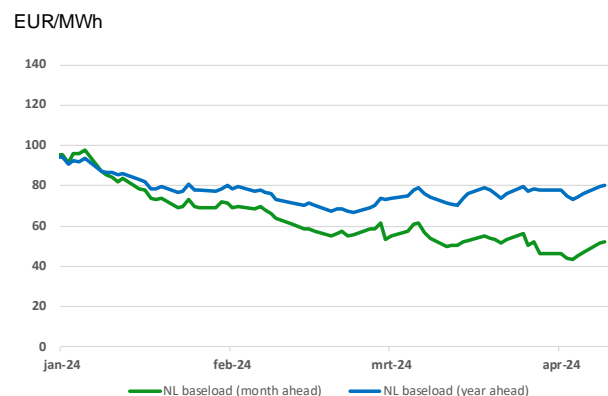
Electricity and gas prices are finding some support within a longer downtrend. The monthly electricity contract in the Netherlands (May delivery) currently stands at around EUR 50/MWh. The annual contract for 2025 hovers around EUR 80/MWh. In the gas market, we see roughly the same trend. The active monthly TTF gas price contract has been moving up the last week in the upward trend channel started in mid-February (currently around EUR 28/MWh), as has the annual contract (EUR 34/MWh).

Electricity price (zoomed out)



Source: Refinitiv Eikon

Electricity price (zoomed in)



Source: Refinitiv Eikon

Last week's weather pattern combined high temperatures with strong wind, putting pressure on gas and electricity prices. Continued mild temperatures and high gas supplies therefore counteracted the slight price rise, preventing a faster rise in electricity prices. This week, temperatures will fall, to below the long-term average after the weekend. The weather models then show temperatures around the long-term average. These weather forecasts, together with some price drivers in the gas market, are the reason for the upward price movement in the electricity price. The evolution of the electricity price over 2024 (chart on the right) shows that the monthly and annual contracts are slowly diverging.

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