Electricity

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French export restrictions boost European electricity prices

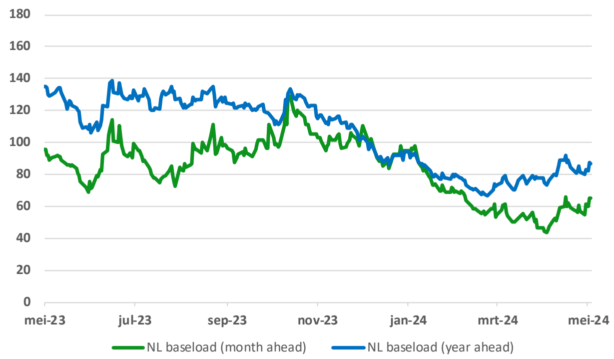
A higher gas price due to geopolitical tensions and less gas supply from Norway have a price driving effect on electricity prices. Nevertheless, the market currently seems to assess the risk of further escalation in the Middle East somewhat lower and gas imports from Norway are expected to pick up. Electricity prices in France show a surprisingly different pattern from the rest of north-western Europe. A drop in French electricity exports underlies this. The price of EU ETS allowances has recovered sharply in recent weeks. This seems mostly speculative-driven. There is a high correlation between the price of EU ETS and TTF gas prices. In this Market Update, we discuss the effects of fuel-switching and the EU ETS as a 'sustainable' hedge against inflation.

Electricity price follows troubled gas market

Electricity prices - following gas prices - have been in an upward trend channel since late February. In early April - due to the geopolitical situation in the Middle East - gas and electricity prices were pushed firmly up towards the top of the trend channel. After a correction, the electricity market has continued to move in this slightly upward trend since mid-April. The active monthly contract (June) now stands at around EUR 67/MWh. The annual contract is well above this, at around EUR 89/MWh. The spread between the monthly and annual contracts - as predicted - continues to widen as spring progresses.

Electricity price last year

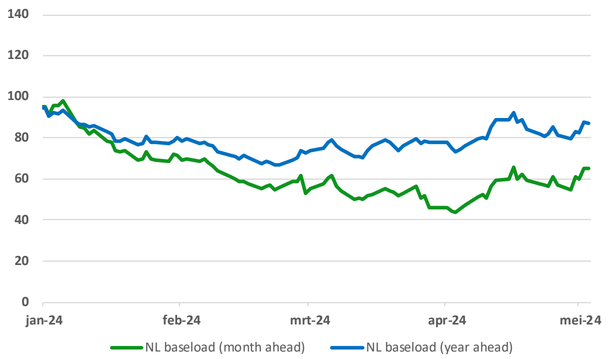
EUR/MWh



Source: LSEG Eikon

Electricity price 2024

EUR/MWh



Source: LSEG Eikon

The reason behind the slightly upward price trend in the electricity market lies largely in the gas market, which shows a similar trend. The somewhat faster price rise in the first half of April also originates in the gas market. Further escalation in the conflict between Iran and Israel during this period stirred the gas market. Direct involvement of Iran - which could lead to the closure of the Strait of Hormuz - is by far the biggest risk. 20% of globally traded LNG passes through here, particularly from Qatar.

A second price driving factor in this period is the low supply of pipeline gas from Norway. From the end of April, Norway's daily gas supply to the EU - which normally hovers around 340 mcm/day - fell sharply, to below 270 mcm/day at its lowest point.

For more information regarding this update or regarding the other services of Publieke Zaken (PZ), Energy Research & Strategy, please contact:

Hans van Cleef - hans.vancleef@publiekezaken.eu / 0031- 6 30 90 33 76
Bart van der Pas - bart.vanderpas@publiekezaken.eu / 0031 - 6 36 52 95 51
Fabian Steenbergen – fabian.steenbergen@publiekezaken.eu / 0031 - 6 18 55 34 46
Guusje Schreurs – guusje.schreurs@publiekezaken.eu