

Wednesday August 28, 2024

Differences in electricity prices between northern and Southern Europe due to hydropower

Following the gas price, the Dutch electricity price increased by more than 15% last month to about EUR 85/MWh. In the gas market, we have seen a large increase in the number of long positions since the beginning of this year. Due to the expectation of many investors for higher prices, the number of long positions has grown to a record number. However, this extreme positioning may lead to lower prices when investors decide to take their profits, especially now that inventories are well stocked and if gas demand remains lower in the coming months.

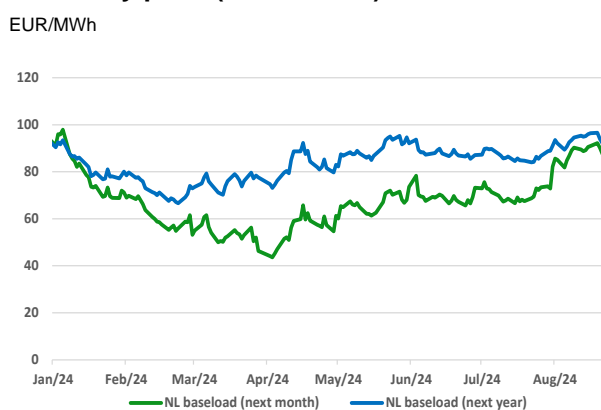
The different electricity prices in Southern Europe and Northern Europe are largely explained by water buffers due to precipitation differences. In Northern Europe, a wet summer resulted in well-filled water reservoirs and low electricity prices. In southern Europe, on the other hand, a dry and hot summer leads to a drop in hydropower production and higher prices.

Current state of electricity price

The Dutch electricity price (baseload, active monthly contract) is currently around EUR 85/MWh, as shown on the charts below. Compared to a month ago, the price has thus risen more than 15%. This relatively large price increase is mainly related to the course of prices on the TTF market over the past month.

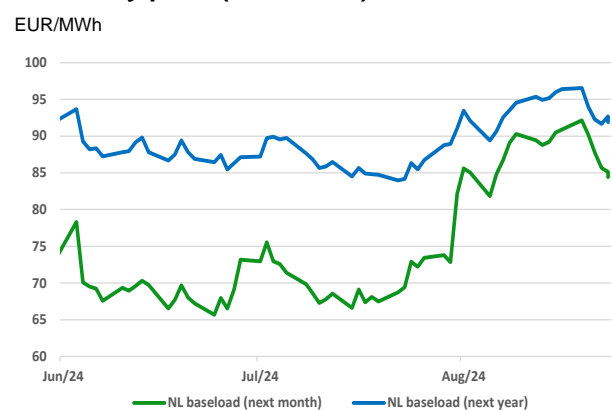
The motivations are thus no different than we already described in the most recent Oil & Gas Market Update. Initially, a heat wave in Europe caused higher gas consumption, while gas consumption in Asia was also relatively high at that time. Then, heavy fighting in the border region between Russia and Ukraine and heightened tensions in the Middle East caused a built-in risk premium on the gas price.

Electricity price (zoomed out)



Source: LSEG Eikon

Electricity price (zoomed in)



Source: LSEG Eikon

The correlation between gas and electricity prices, especially in the monthly and annual contracts, will remain high as long as the share of gas in the electricity mix remains substantial. Although the share of solar and wind in the electricity mix is increasing, we will continue to require enough dispatchable backup power in the coming years. Thus, especially in the winter months, when the contribution of solar to the electricity mix is less, the TTF market remains price setter for the monthly contracts of the Dutch electricity price.

If you like the full version of this Market Update, or more information on PZ Energy Research & Strategy's other services, please contact:

Hans van Cleef - hans.vandcleef@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

DISCLAIMER

This document has been compiled by Public Affairs B.V. ("PZ"), Energy Research & Strategy Department ("ERS"). This document is intended solely for the use of the person to whom it has been sent directly by PZ ERS. This document is for information purposes only and does not constitute an offer of securities to the public, or any advice with regard to the financial markets, energy markets, making investments, cost management and/or business activities, or an invitation to take these actions. Financial actions or transactions may therefore not rely on (the information contained in) this document. PZ, including ERS, its directors nor its employees make any representation or warranty, express or implied, as to the accuracy, completeness or correctness of this document and the sources referred to herein and they accept no liability for any loss or damage, direct or indirect. The views and opinions in this document may change at any time and PZ (ERS) is under no obligation to update the information in this document after its date. The views of PZ ERS are expressed independently of PZ's other business activities. This document may not be distributed to persons in the United States or to "US persons" as defined in Regulation S of the United States Securities Act of 1933, as amended.

© Copyright Public Affairs B.V. 2024. All rights are reserved. You may not copy, distribute or transmit this document (in whole or in part) to third parties.