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## Glowing coal and rising allowances

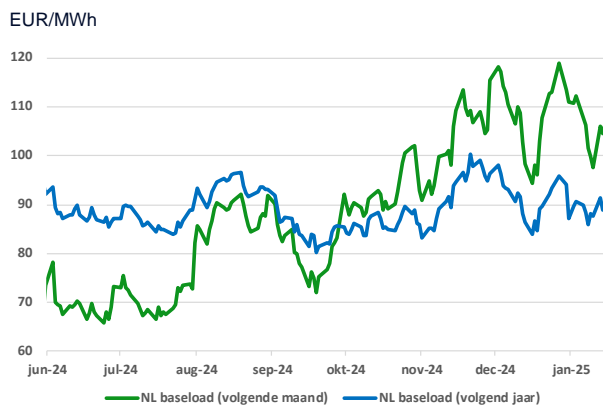
*The monthly Dutch electricity price contract is volatile, with gas prices and weather conditions in particular being the determining factors. Low solar and wind production and the high gas price were also behind the increased demand for coal in Europe in the fourth quarter of 2024. Nevertheless, there was downward pressure on the coal price. Ample global supply, relatively low demand in Asia and coal reserves in Europe explained this price trend.*

*In the day-ahead market, we see periods of dunkelflaute causing regular price spikes again this year. Water reservoirs in Scandinavia are well stocked, which has an impact on the Dutch electricity price due to interconnection cables. The EU ETS price is in a rising trend this year. In particular, demand for allowances has increased from the power sector. This is because the importance of gas and especially emission-intensive coal in the Dutch electricity supply is high during the winter months*

## Volatile monthly electricity contract responds to gas market

The active monthly contract (delivery in February) of the Dutch electricity price (baseload) currently trades at around EUR 103/MWh. The active annual contract (delivery in 2026) is lower at around EUR 89/MWh. The spread between the two contracts is telling of the short-term uncertainty in the market. In particular, the price of the monthly contract is volatile, with fluctuations largely determined by the gas price and weather conditions. The annual contract has a more stable trend. This is mainly due to the elimination of seasonal differences, with low and high renewable generation in winter and summer respectively being included in one price. In addition, the expectation of a wider gas market in 2026 also plays a role, as does the fact that annual contracts are less responsive to everyday commotions anyway.

### Volatility especially visible in the monthly contract



Source: LSEG Eikon

Volatility in the monthly contract is most evident at times when there is a threat of supply disruption in the already tight gas market. The expiry of the transit agreement of Russian gas through Ukraine in the last week of 2024 and the alleged Ukrainian air strike on the Turkstream compressor station in mid-January are good examples. These (alleged) disruptions impact the gas market, which translates directly to volatility in the monthly contract in the electricity market. In the annual contract, the effect is somewhat muted. With the increase in global LNG production, a less tight gas market is expected, with corresponding stability in electricity prices.

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