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Dutch cabinet collapses, electricity prices refuse to follow

The active monthly contract (delivery in July) for Dutch electricity (baseload) is currently trading at around EUR 78/MWh, while the annual contract for delivery in 2026 is slightly higher at EUR 85/MWh. After a decline in early April driven by developments in the relatively tight gas market, we are now seeing stabilisation. At the same time, the price of emission allowances within the EU ETS is currently fluctuating between EUR 70/tonne and EUR 75/tonne. The European Commission will decide shortly on a possible increase in supply to finance REPowerEU expenditure.

The fall of the cabinet has brought additional uncertainty about national energy and climate policy. The concrete consequences for the electricity market will become apparent in the coming months. It is evident that the heat transition depends to a large extent on (national) policy measures and market incentives. For example, demand for heat pumps has risen precisely because of the phasing out of available subsidies.

The ECB lowered its policy interest rate to 2% on Thursday 5 June. In the short term, US trade tariffs could push inflation down further and slow economic growth, which could prompt further interest rate cuts. However, the impact of the ECB's interest rate cuts on the costs of developers of renewable energy projects, such as offshore wind, is limited. These projects are often dependent on long-term loans, and long-term interest rate markets are largely dependent on the level of the risk premium. Here, interest rates have "normalised" since 2022, which means that the ECB interest rate is not translating into cheaper long-term loans.

Month ahead on the rise, year ahead stabilizes

The active monthly contract (delivery in July) of Dutch electricity (baseload) currently trades at around EUR 78/MWh. The active annual contract (delivery in 2026) is a little higher than this at EUR 85/MWh. Prices fell sharply in early April, especially for the monthly contract, partly due to the development of the gas price. Prices then stabilised, with a slight upward trend visible in both the active annual and monthly contracts over the past two months.

Noteworthy is that the price recovery since mid-April has been stronger in the active monthly contract. In early April, the difference between the active annual and monthly contract was still EUR 20/MWh, where it is now only EUR 7/MWh. Firstly, this is due to maintenance on the NorNed interconnection cable. As a result, no electricity was imported from Norway from 1 April. Immediately after the maintenance was completed on Saturday 7 June, capacity was reduced by 303 MW due to an outage. Work on this unexpected maintenance is scheduled to continue until 20 June.

There is also another explanation for the rising monthly contract. Renewable electricity generation peaks in May, as both solar and wind production are generally at high levels in May. Although longer days in June mean more solar production on average, wind speeds are higher in spring.

When the active monthly contract rolls over to the next month, this is immediately visible in the price trend. Thus, when in April the active monthly contract moves from delivery in May to delivery in June, this has a slight upward effect. Then this effect took place again when rolling over to July, a month again associated with less wind power. The timing of this rollover is highlighted with arrows in the graph below (left). This way, seasonal effects have allowed the monthly and annual contracts to converge in recent months.

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