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JULY 2018

Wholesale electricity prices are set to remain on the high side in most European markets this summer, but the risk of price spikes will be mitigated in several countries by better hydropower stocks compared to the previous year. Commodities will remain a source of support, with price gains on the coal and gas markets a key driver in recent months. Injection-related buying could also continue to prop up natural gas prices, which will have a knock-on effect on markets with a high penetration of gas-fired generation.

GERMANY

German spot prices will remain rather high for the rest of the summer, but extreme spikes are unlikely, according to traders. As wind power tends to be low over the summer and another German nuclear reactor closed at the end of 2017, Germany often needs thermal generation to meet demand. Recent coal, gas and carbon emission allowance price gains have made thermal generation more expensive compared to a year ago. Thermal plant maintenance in the Netherlands and low nuclear availability in Belgium are also putting upward pressure on German prices. Further upward momentum could come from France if its nuclear plant availability outlook is revised down considerably, as has happened often since 2016. Price spikes are unlikely in Germany though as its nuclear and lignite plant availability is due to be good and solar power is typically high over the summer.

UK

UK power prices could continue to trade at recent high levels during the third quarter if NBP natural gas prices retain their current premium. Both UK gas and power are currently strong due to bullishness across wider commodities including oil, coal and carbon. All commodities reached multi-year highs earlier in 2018 and have shown little sign of falling consistently since. The potential for gas injections into European storage sites to increase in the third quarter ahead of winter also poses a risk to the British gas market and by extension UK power. This could increase demand for British gas through the Belgian Interconnector and push gas prices higher.

ITALY

Traders believe that a possible rally in the Italian summer contracts will be mitigated by higher hydro availability, which was up 12 percentage points year on year according to Italian TSO Terna’s report at the end of May. This could ease the dependence of Italy from cross border imports and its reliance on the gas market to generate electricity from gas-fired plants. During June, market participants shifted risk premium from July ‘18 to August ‘18 as weather forecasts played down the risk similarly boosted the outlook for summer supply margins and were at a multi-year high of almost 2.7TWh in week 26.

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of strong air-conditioning driven demand in July. But some traders believe that August ‘18 is already quite high, considering reduced demand from industrial users. In August there is typically a drop in energy demand as industrial consumers close or reduce production for summer holidays.

**HUNGARY**

Electricity prices in Hungary through the third quarter of the year are will be supported by the bullish influence of expected heat waves and uncertain hydro availability in the neighbouring Balkan region. Recent heavy rainfall in the Balkans has failed to substantially boost river flows, putting a question mark over longer-term hydro generation in the region. Nevertheless, hydro reservoirs in Romania, Serbia, Greece and Bulgaria remain well above last year’s levels. Hydro output plays an important role in the Balkans’ generation mix and determines export volumes to Hungary. Movements on the carbon market and the fuels complex will also be key price drivers for Hungary, which could override fundamental signals. The ICIS assessment of the Hungarian Q3 ‘18 Baseload contract gradually increased from €47.20/MWh at the beginning of May to €56.48/MWh on 27 June, reflecting the bullish sentiment.

**CZECH REPUBLIC**

Planned maintenance at 1GW Temelin nuclear unit between 30 June and 28 August will squeeze Czech supply over the third quarter. But the outage has been partially offset by the return of 469MW Dukovany nuclear unit, which returned to almost full capacity by 14 July, according to data published by owner CEZ. Also of key importance to Czech delivery prices in summer are prices in the coupled markets. The Czech Republic is market coupled with Slovakia, Hungary and Romania and prices in these markets tend to be more expensive, which could boost Czech prices. But a transmission cable between the Czech Republic and Slovakia will be offline from 13 July to 7 October, which could partially offset the effect of higher prices in the coupled markets.

**POLAND**

The Polish electricity market will be strongly influenced by temperatures over the next months. In previous years, some of the country’s ageing power plants have experienced cooling issues during summer, leading to a reduction in power production. Other drivers will include movements on the carbon futures market. Due to its reliance on emissions-heavy coal-fired generation, EUA emissions are one of the main drivers of the Polish curve. A potential bearish driver could be the reconnection of an upgraded transmission line with Germany, resulting in greater import capacity for the Polish market.

**BULGARIA**

The outlook for Bulgarian power prices is rather uncertain due to upcoming legislative and regulatory changes. The controversial export tariff was increased to €5.03/MWh from the previous €4.73/MWh from 1 July. The approved increase was slightly smaller than previously expected but market participants were kept on their toes until the very last moment, creating an uncertain trading environment. Regulator EWRC announced its decision on the day when the change came into force. In addition, many renewable producers have entered the market from 1 July. Until now, those producers have been receiving set feed-in-tariffs (FiT) and their generation was used to supply end users on the regulated market. The FiT has been changed to a contracts for premium scheme. Their output will be initially resold by state-owned utility NEK to give the producers time until the end of the year to adjust to the new market conditions. It is unclear how and at what price NEK will be offering the extra power on IBEX. Distribution system operators and grid operator ESO are now also obliged to cover their technological losses on IBEX from 1 July.

**GREECE**

Greek prices will be influenced by moves on the carbon and gas markets due to the prevalence of thermal
generation in Greece’s generation mix. The trading strategy of state-owned utility PPC will also have an effect on prices. PPC manages the majority of hydro generation assets in the country. While hydro reservoirs so far in 2018 are at a multi-year high, it is unclear to what extent these will be used going ahead. There is a possibility that PPC will only use the hydro stocks at times of very high demand in a bid to save water for the fourth quarter. Movements on the Hungarian and Italian markets will also be drivers for Greek prices. Cross-border trading strategies of Greek suppliers will be another price driver. Suppliers who obtain power through the so-called NOME auction mechanism face no export limitations despite the country’s attempt to impose stricter control on auctioned volumes last year. The NOME system obliges PPC to sell electricity to rival suppliers in a bid to improve competition on the market.

**TURKEY**

Turkish gas-fired power plants may be looking to buy volumes from private wholesalers from July, but much will depend on a possible tariff increase for end consumers. An electricity trader said gas-fired power plants may be looking to buy natural gas from private wholesalers in July at or around $247.00/thousand standard cubic meter (kscm, €20.10/MWh), although others said the price could be closer to $250.00/kscm. However, gas-fired power plants will decide to buy gas from wholesalers in July and throughout the summer months depending on two factors: a possible increase in regulated tariffs to end consumers and the Turkish lira-US dollar exchange rate.