A bearish supply outlook for natural gas prices across Europe will keep energy markets under significant pressure in 2020. A transit agreement to flow Russian gas into Europe via Ukraine signed at the end of 2019 dissolved the prior risk of reduced supply into the continent. Strong pipeline flows, combined with rising LNG production expectations, will keep already-high levels of gas storage bolstered across Europe.

Power markets will be watching summer weather forecasts for signs of extreme heat that could lead to nuclear outages and hydro tightness. Gas traders will be wary as ever of a cold winter later in the year. However, continent-wide gas oversupply is likely to maintain strong downward pressure on both power and gas markets, mitigating any bullish temperature-related risks, as well as offsetting reduced production at the key Groningen gas field in the Netherlands.

In the wider energy complex, both carbon and coal look set for a weak year due to falling regional demand, also linked to the gas glut. Meanwhile, all global markets will be keeping an eye on trade negotiations between the US and China. Despite tensions easing at the beginning of 2020, the trade spat has not been resolved. A substantial improvement or deterioration in relations between the world’s two largest economies would have a significant impact on crude markets and in turn spill market-moving sentiment over the wider European energy mix.
GAS

KEY POINTS

• Weather-related premium lingers on longer-dated 2020 products with the temperature risk to remain a key factor for fourth-quarter products
• European storage levels entered 2020 at multi-year highs and likely to weigh on markets
• Confirmation of flows from Russia via Ukraine to keep pipeline gas situation comfortable
• High LNG imports into Europe will continue to cap natural gas prices during the first three quarters of the year
• Overarching bearish supply outlook to offset Groningen production cuts
• Market awaiting Nord Stream 2 confirmation with downside potential in the event of early pipeline completion
• High gas-for-power generation demand outlook to add some price support

NORTHWEST EUROPE

Due to an unseasonably warm winter across Europe, demand-related risk has drained from continental February contracts since the beginning of the fourth quarter of 2019.

Assuming current temperature forecasts do not significantly change, the same is likely to occur with March contracts. Stocks are widely expected to retain their current high levels through to the front winter and keep key price-setting markets across northwest Europe under substantial pressure as a result.

Ample LNG and pipeline supply during 2020 will further boost storage levels throughout the year and maintain bearish pressure on TTF prompt and near curve contracts, the benchmark contracts for continental European gas markets. This will offset falling domestic production in the Netherlands.

GRONINGEN CUTS

Output from the key Groningen field in the country is expected to drop significantly in 2020 compared to previous years. The Dutch government has accelerated cuts to the field’s output due to its perceived threat to public safety as the cause of earthquakes that result from gas extraction.

Monthly production from Groningen fell to a 12-year low of 0.64 billion cubic metres (bcm) in October 2019, the first month of gas year 2019, in line with the lowest ever production cap for the ongoing gas year of 11.8bcm.

“Monthly production from Groningen fell to a 12-year low of 0.64 billion cubic metres (bcm) in October 2019”

LNG SUPPLY

The reduced Groningen supply will be mitigated by high LNG imports, perhaps the key bearish factor for natural gas prices in 2020. With new production expected to come into the global LNG market, mostly from the US, the LNG supply glut seen in Europe in 2019 is set to continue in 2020.

An increase in LNG supply will further shift price and liquidity dynamics as markets in countries with substantial import capacity, such as the UK and France, will feel relatively greater pressure than those without LNG terminals or just one, such as Germany and the Netherlands.

France imported 16 million tonnes of LNG in 2019, an increase of around 70% year on year according to LNG Edge. ICIS price assessments suggest that French prompt natural gas prices will remain at a discount to the Dutch gas TTF market in 2020, as the country consolidates its position as a major importer of LNG.

Meanwhile, Britain ranked fourth out of 47 global importing nations as LNG arrivals more than doubled in 2019.
The abundance of LNG to Britain has had an impact on prompt liquidity of late, as varying levels of sendout from LNG terminals left shippers balancing instances of over or undersupply. In November 2019 for example, Day-ahead liquidity rose by 6% year on year.

However, OTC liquidity on the British NBP is unlikely to make a comeback in 2020. Over the last two years trade has progressively shifted onto exchange platforms. Between January and November 2019, OTC liquidity dropped by 31% year on year, whereas exchange liquidity fell by only 7%.

**NEW PIPELINES**

Adding to the comfortable supply picture will be pipeline supply from Russia confirmed at the end of 2019.

Following the signing of a transit agreement in late December between Ukraine and Russia, prices relaxed as the prior risk of failed negotiations drained from gas contracts for delivery in 2020.

The new transit agreement should provide greater supply-side stability for European markets, covering a minimum of 65bcm per year in 2020 and 40bcm per year between 2021 and 2024.

Another potential bearish pipeline-related factor surrounds the completion of the much-contested Nord Stream 2 route flowing Russian gas into the region.

The pipeline overcame EU legal challenges during the final quarter of 2019 but has since become the focal point of US sanctions which have forced key pipelaying vessels to withdraw from the project, despite more than 90% of the route having been laid.

A speedy resolution to the ongoing dispute around the pipeline could fast-forward its completion and have a bearish impact on fourth quarter prices in 2020.

The current expected completion date is the final quarter of 2020 or the first quarter of 2021.

“Britain ranked fourth out of 47 global importing nations in 2019.”

**BEARISH STORAGE**

With strong supply anticipated, gas reserves that have been kept high this winter by unseasonably warm weather and low demand, are expected to remain robust for much of the year.

In Germany, the country with the highest storage capacity in Europe, sites ended last year with gas stocks at a record 96% of capacity.

The TTF Summer ‘20 contract has slumped as a result of the limited injection demand and winter prompt contracts already trading at similar prices to the front summer.

The Q4 ‘20 product’s premium to Summer ‘20 rocketed during the final quarter of 2019, climbing from €1.85/MWh on 1 October to €3.96/MWh on 31 December.

That means shippers are more likely to buy gas from the hub rather than incur withdrawal fees, capping injection demand between April and September – a typical driver of summer prices.

Meanwhile, the Q4 ‘20 contract remains elevated relative to first-quarter contracts due to temperature-related risk premium, opening up profitable spreads to summer contracts.
Traders holding storage capacity are likely to take advantage of the arbitrage, but if sites remain relatively full then injection capacity will be limited across Europe in 2020.

**UK MARKET CHANGES**

On the regulatory side, the British gas market faces a number of changes in the coming year. A new tariff regime would mean an alteration to the rules of the British gas industry to suit EU-compliant charging structures.

Regulator Ofgem currently favours a proposal that would keep tariffs the same for all entry and exit points. In spring 2020, Ofgem will also announce its decision on capacity share of the Bacton terminal, where both the Dutch BBL and the Belgian Interconnector pipelines beach in Britain.

Both pipelines can send gas between Britain and mainland Europe. However, the Belgian Interconnector currently holds all baseline capacity, meaning the BBL pipeline is restricted in its offering to shippers.

Meanwhile, natural gas liquidity in Belgium may fall in 2020 as LNG imports reduce the use of the Interconnector pipeline connection to Britain.

**MERGER PREPARATIONS**

Germany’s 16 transmission system operators (TSOs) will reduce capacity offerings throughout 2020 as they implement regulatory changes regarding the harmonisation of capacity types ahead of the July 2021 deadline.

The merger is scheduled for October 2021 and runs the risk of heavy congestion between the two current market areas.

A significant risk premium remains on the German Cal’22, which is partly due to these merger concerns but also expectations of higher demand ahead of the country’s coal phase-out. In the last session of 2019, the NGC Cal’22 traded €0.85/MWh above the Cal’21 product.

“**The TTF Q4 '20 product’s premium to Summer '20 rocketed during the final quarter of 2019 from €1.85/ MWh on 1 October to €3.96/ MWh on 31 December.**”

**CENTRAL AND EASTERN EUROPE**

Austria will remain the reference market in central Europe in 2020 on the back of rising liquidity and its well-developed regulatory framework. However, the Czech Republic will become a key transit country for Russian flows diverted from Ukraine back to contents
and destined to central Europe and Italy. Russian flows from Nord Stream 2 will traverse Germany along the planned EUGAL pipeline, which will link to the Czech system.

OTC volumes in Slovakia almost tripled to 11.57TWh year on year in 2019 due to an increase in curve trading, which may support liquidity development in 2020 as well. That said, Slovakia is expected to see lower Ukrainian transit flows this year under the new transit deal.

Natural gas liquidity at the Hungarian MGP market should also continue to develop in 2020 as new infrastructure comes online in the absence of gas transit supply risk via Ukraine.

In Poland, the outcome of the dispute over Poland's gas storage law will be of key interest to market participants in the coming year as a revision could spark a revival of the market.

In 2017 legislation was amended in Poland so that any importer had to maintain in storage 11% of the volume it delivers in an average gas year.

To comply, shippers had to book expensive domestic capacity or store volumes abroad. The country is now required to respond to Brussels' call to revise its law in early 2020 or face referral to the EU courts.

The Romanian gas market may continue to face low trading liquidity in the first half of 2020 due to the deregulation of gas tariffs.

The move is expected to improve trading activity but does not come in force until the final quarter of this year. The supply overhang is unlikely to clear in the upcoming months, even if there is an extended period of cold weather.

This bearish trend is expected to continue even at the beginning of the injection season in April and linger throughout the summer months. On the other hand, companies are expecting to boost their profits as a controversial 2% tax on their gross margins was scrapped by the new government at the beginning of January.

As a result, the regulator ANRE is in the process of revising down transmission and distribution tariffs, which had included the tax.

THE BALTIC STATES AND DENMARK

The Baltic States entered 2020 with changes afoot, as Latvia and Estonia became a single merged market and the opening of the Balticconnector pipeline linked Finland physically to Estonia.

Further updates on Lithuania's involvement in the hub merger and progress toward creating a four-way merged hub are expected in 2020.

The major event dominating Danish gas trading in the coming year will be the shutdown of the Tyra field.

This field accounts for more than 90% of domestic production and will be fully offline until 1 July 2022 for redevelopment work.

During the field's closure Denmark will be primarily reliant on imports from Germany and storage reserves, with prices more sensitive to demand changes.

Short-term price spikes are also more likely, particularly if there are periods of extreme cold weather.
SOUTH AND SOUTHEAST EUROPE

Italy's new transport tariffs entered into force at the beginning of the year and will set fixed costs for entering the Italian grid at the Tarvisio interconnection point with Austria, and also raise charges for entering the Passo Gries interconnector point with Switzerland.

Furthermore, variable costs that had previously been applied to entry points in the previous tariff methodology have now been transferred to exit points. Higher exit tariffs on the German and French grids look set to weigh on overall costs for transporting gas via Switzerland to Italy. In any case, high levels of LNG sendout across the region should cap PSV prices. Italy has three LNG terminals.

A boost to Italian gas liquidity is expected once the TAP pipeline comes into force. The pipeline will enable up to 10bcm of gas to be flowed from Azerbaijan to Italy via Greece and Albania. As a result, natural gas markets in Greece and Bulgaria also have the potential for development in 2020 due to expected supply diversification from the pipeline.

Greek and Bulgarian markets also have new trading platforms either established or expected in 2020.

The year will be important for Spain's natural gas market, with long-planned reform of the LNG sector finally coming into effect. New regulations will band Spain's six LNG import terminals together as one single "Virtual Balancing Tank", or TVB (Tanque Virtual de Balance).

The TVB rules come into force amid an oversupplied LNG system in Spain which should only continue to grow in 2020. There are 22 vessels expected in February, compared to 14 delivered during the same month the year before.

Market participants will be hoping the TVB will increase liquidity. By potentially increasing access to cheaper spot LNG volumes, the new framework may also push prices down, possibly creating a repeat of conditions that led to exports to France in the last two months of 2019.

LNG

The close correlation between European hub prices – most notably the Dutch TTF – and Asian spot prices will continue in 2020 given the low-price environment. TTF pricing will gain further traction as an indexation method for LNG supply globally, and as a liquid alternative to Asian indexation for short-term hedging.

Europe will also be the price floor for global pricing, although a very weak Asian market could see prices there briefly dip below Europe. 2019's record European LNG imports could be matched or exceeded in 2020 given the rise in US production but only if European storage stocks are drawn down by the end of the winter. Price spreads remain tight in Europe which means northwest Europe may be favoured for additional cargoes, although Spain's large terminal capacity will play an important role for sellers. High LNG imports will continue to cap gas prices in 2020, which were trading around 30% lower in 2019 year on year.

Mild weather could see low-priced LNG cargoes displace pipeline gas supplies in northwest Europe, continuing a trend seen during the first half of winter in 2019, where pipeline flows fell significantly year on year, while LNG imports rose.

Amid a delay in the start of Russia's Nord Stream 2, Russian pipeline gas supply into Europe could continue at a similar level as in 2019 – it remains the low-cost supplier into the region. Much focus will remain on this and Norwegian gas flows into Europe which are forecast to rise each year out to 2023 but where there may be some flexibility.
POWERSCTOR DEMAND

Spain’s LNG glut has been one of the key drivers of the recent increase of gas use for power generation. Demand for gas-fired power increased by around 80% year-on-year in 2019, reaching 111 TWh.

Further gas-for-power growth is forecast for 2020. According to Spanish power grid operator REE, coal plants generated just 4.3% of the country’s electricity in 2019, down from 14.1% in 2018. Meanwhile, the share of gas in the generation stack doubled to almost 21%.

The story in Spain is one seen across Europe where high carbon prices and LNG-induced pressure on gas markets has boosted the profitability of gas-fired power generation.

In Germany, market dynamics pushed gas-fired generation, both as a total in TWh and percentage share of the electricity generation mix, to its highest level in 2019 since 2011.

The likely strength of gas-for-power demand relative to coal in 2020 should provide support for continental gas prices, particularly in markets where gas-fired generation accounts for a significant chunk of electricity generation, such as the UK, the Netherlands, Germany, Italy and Spain.

TURKEY

Turkish gas companies are expecting trading liquidity to increase in 2020 as many more companies look to trade volumes on a spot basis.

Volumes on the energy exchange EPIAS had increased during the first half of January, compared with the average of December 2019.

Discover how ICIS can help you identify opportunities in Asia

Get to grips with the evolution in Asian LNG demand, understand the impact of every event and identify opportunities in this fast-paced market with the new ICIS LNG Demand Forecast.

Building on the success of the ICIS LNG Supply Forecast, the ICIS LNG Demand Forecast provides a two-year projection of a country’s demand requirements in monthly granularity. Most importantly, it allows you to compare shifts in forecasts immediately after every market event.

• Discover and assess potential opportunities
• Identify high-impact deals
• Observe the bigger picture via a single, easy-to-use interface
• Access data to validate your forecasts

UPGRADE YOUR PLANNING HERE

The trend is likely to continue because companies are incentivised to do so.

Firstly, this is due to the fact that daily average prices on the energy exchange have typically been lower than the import price paid by the Turkish incumbent BOTAS to the Russian producer Gazprom, according to reports in early January.

Secondly, many gas suppliers opted to remain in short positions for the start of the year and source volumes on a spot basis, as this may be a cheaper option.

Thirdly, companies are pinning their hopes on spot pipeline imports which may start later this year.

Last month the Turkish regulator EPDK launched the first ever spot import capacity bookings with Bulgaria, allocating a total of 2.9mcm/day on the Strandja 1-Malkoclar interconnection point with Bulgaria. ■
KEY POLICIES TO WATCH

• The European Commission’s Green Deal, a roadmap for the energy transition towards a climate neutral EU by 2050, will include a climate law to be announced in March. The 2030 target for carbon emission reductions is expected to rise to 50-55% as part of the Green Deal, the initial target being 40%. But there remains uncertainty over how the deal will be implemented and who will pay the bill. The role of natural gas in the transition and beyond is also yet to be clarified. Gas would need to be decarbonised and the network retrofitted to take in biogases such as hydrogen.

• Capacity booking on EU pipelines connected to third countries will need to become open to third parties from late February, under changes to the European Gas Directive. The owner of the infrastructure will also have to be separate from the owner of the gas flowing through the pipeline. Existing pipelines can apply for a derogation in the country where they first connect with the EU network, while future pipelines can ask the European Commission for exemptions. It is not clear whether Nord Stream 2 will be eligible for either a derogation or an exemption. It remains uncertain how the pipeline will comply with the directive and how much gas will be allowed to flow through it.

• A new round of Brexit negotiations and the 2021-2027 EU budget negotiations are also key things to look out for in 2020. The budget is likely to unlock more resources for financing electricity interconnectors included in the list of projects of common interest adopted in 2019.

• Germany’s flagship coal phase-out legislation is widely expected to pass into law in the first half of 2020. Longer-dated German power products are already priced in a firm contango due to expected supply tightness in the country, also related to the country’s nuclear phase-out by the end of 2022. The supply tightness will have significant implications for continental power export dynamics as well as gas-for-power demand in the absence of coal and nuclear.
**POWER**

**KEY POINTS**

- High levels of gas-fired generation to continue across Europe in 2020
- Strong power market correlation to the weak gas price outlook to ease prices
- Bearish carbon and coal futures to add further downward pressure

- In the event of a hot summer, nuclear risk and hydro supply tightness represent the key bullish risks for continental markets
- Renewable growth likely to retain upward trajectory and dampen prices
- A cold fourth quarter of the year would also inject bullish momentum into longer-dated contracts

**NORTHWEST EUROPE**

Wholesale power markets in the northwest of Europe are poised for a weak 2020 as a bearish fundamental picture for gas, combined with an expected downtrend in carbon and coal futures, will maintain significant pressure on prices.

**GAS DOMINANCE**

The share of gas jumped in 2019 to more than one-tenth of the German electricity mix, up from 8% in 2018, while coal generation slumped from 13% to below 10%.

Correlation between German power, considered to be the continental European benchmark, and gas prices also significantly increased as a result.

ICIS analyst clean spark spreads that measure the profitability of German gas-fired power plants given carbon prices indicated that those of 50% efficiency were firmly in the money for 2020 delivery, as calculated in December.

In contrast, clean dark spreads, the same measure for hard coal assets, showed that German coal plants of 41% efficiency dropped out of the money for 2020 baseload power delivery at the end of 2019.

This indicated that gas should continue to increase its share of the power mix at the expense of coal in 2020. The two compete in the wider European electricity generation mix.

Gas should retain both its strong and bearish influence on power markets, especially those in countries with relatively high shares of gas-fired generation and installed capacity.

“The share of gas jumped in 2019 to more than one-tenth of the German electricity mix, up from 8% in 2018”

The Netherlands, one such country, should also see a gas supply boost with RWE’s 1.3GW Claus C gas-fired plant set to emerge from a mothballed state this year.

In the UK, oversupply on the NBP gas market has suppressed any momentum on the power curve due to the fuel’s dominant position in the UK generation mix.

The average NBP Day-ahead price for 2019 was 34.70p/th, 43% lower than the average price in 2018, similarly the power baseload Day-ahead averaged £43.70/MWh, 25% less than the 2018 average. The UK is expected to continue with its coal phase-out plans in 2020 with the expected closures of two coal-plants in March.

Sustained losses on the NBP may pressure UK producers to close coal plants ahead of schedule. The year will be important for UK market reform.

The much-anticipated capacity market return will be a key theme, with three auctions expected to be run in the first quarter of 2020. The government is also expected to release its recommendations for the sixth carbon budget in September 2020.
Germany will aim to reboot its wind capacity growth after both onshore and offshore installed capacity additions fell to multi-year lows. Onshore capacity additions in Germany as a year-on-year growth percentage hit their lowest rate in 2019 since before 2000.

The industry will hope that onshore wind tenders planned for 2020 in Germany will return to full subscription after a lack of interest in the technology plagued those held in 2019. A lengthy permit process and legal blocks have deterred investors.

Meanwhile, installed renewable capacity in the Netherlands is set to climb from 11GW to 14GW by the end of the year, which is likely to keep prices under pressure as well as reduce net imports, ICIS Power Analytics forecasts showed.

One more round of the government’s procurement scheme, the SDE+, is expected to offer up €2bn for future renewable projects in March, before the scheme evolves to become the SDE++.

In the UK, the government has boosted its targets for offshore wind capacity, aiming for 40GW by 2030 (up from the previous target of 30GW), which will likely require an expansion to the contracts for difference (Cfd) scheme.

Across the board, the share of renewable generation in the generation mixes of northwest European markets rose in 2019. In Germany wind overtook lignite in Germany for the first time as the largest single generation source.

Looking ahead, renewable power production in the region is likely to continue to rise next year due to expected new capacity builds and the pressure of climate targets. Increased renewable capacity has a bearish impact on power prices.

**FRENCH NUCLEAR**

Nonetheless, flexible capacities such as nuclear reactors will remain integral to balancing the European grid at times of low renewable supply. There are no current supply concerns for French and Belgian nuclear facilities.

Availability levels in the two countries, particularly in France, are a key regional power price driver. Data from French grid operator RTE showed that the country’s nuclear availability will be above the 2015-2019 average from March until the end of 2020.

Looking ahead, renewable power production in the region is likely to continue to rise next year due to expected new capacity builds and the pressure of climate targets. Increased renewable capacity has a bearish impact on power prices.

**FRENCH NUCLEAR**

Nonetheless, flexible capacities such as nuclear reactors will remain integral to balancing the European grid at times of low renewable supply. There are no current supply concerns for French and Belgian nuclear facilities.

Availability levels in the two countries, particularly in France, are a key regional power price driver. Data from French grid operator RTE showed that the country’s nuclear availability will be above the 2015-2019 average from March until the end of 2020.

Traders are however, often wary of French nuclear availability forecasts on the long-term. For example, in the event of significantly warm temperatures in the summer months, reactors may be forced offline due to water cooling shortages or other safety reasons.

This has led to dramatic reactor closures and subsequent price spikes in previous years. A degree of risk is consequently priced into these power products with accurate weather forecasts only available for nearer-dated power products.

For example, the February baseload contract in Germany has slumped to trade almost flat to the Q2 ’20 product towards the end of January.

This was due to a significantly bearish temperature outlook pulling down the near-end while traders have maintained a degree of risk on contracts for delivery in the summer.

The February product is typically assessed at a strong premium to all summer products in most European power markets due to winter heating demand.
Similarly, in the event of a continuation of above-average temperatures across Europe seen this winter, potential low hydro stocks during the summer may pose a supply risk for key hydroelectric power producing countries such as France and Austria that could ramp up the pressure on German exports to plug regional tightness, supporting prices across Europe.

While current hydro levels are relatively bearish for power prices, if the unseasonably warm weather continues and rainfall dies down, summer contracts may gather strength.

In Austria, hydro accounts for more than 50% of power production while in France hydro is a key generation source after nuclear. Continental interconnection is likely to improve with three new links expected to come into operation along the French border in 2020, boosting flow capacity.

Works on 600MW Savoie-Piemont Line 1 and the 600MW Savoie-Piemont Line 2, both of which link France to Italy, are scheduled to be completed in June 2020.

They are expected to be fully operational by the third quarter. The 1GW ElecLink project, linking France to the UK, is also aiming to be commissioned this year however is facing permitting issues.

WEAK CARBON AND COAL
Bears on the coal market will feed further pressure into coal-intensive power markets such as Germany and eastern parts of Europe.

The Rotterdam coal 2020 product shed approximately $25/tonne between January and December 2019 to expire below $57/tonne. The outlook for the Cal’21 contract is also bearish.

ICIS analysts also forecast weakness for carbon emission allowance (EUA) prices in 2020. According to forward models, the benchmark front December EUA will slump from its traded price of €24.50/MWh for much of January to below €23/tCO2e throughout the remainder of the year. Carbon is expected to then regain strength in 2021.

Lower carbon prices should significantly pressure markets in Europe where high levels of coal, lignite or gas is burned. Producers must purchase allowances to emit carbon. Markets such as Germany, Europe’s largest power generator and exporter, where the three fuels combined account for approximately half of electricity production will see additional weight on prices as a result.

“Onshore capacity additions in Germany as a year-on-year growth percentage hit their lowest rate in 2019 since before 2000.”

The Austrian OTC market is likely to continue to mature in terms of the stability of its delivered price spreads to markets such as Germany and France in the flow-based market coupling region (FBMC).

The average exchange traded Austrian premium to Germany slumped in 2019, relative to the final quarter of 2018 following a split between the two markets.

Traders will be monitoring Austrian hydro levels closely that could turn bullish if significantly warm weather arrives in the summer quarters of 2020. A new Austrian coalition formed in January 2020 that includes the Green party for the first time outlined substantial renewable expansion plans in its agreement document that may lead to significant clean energy investment in the country.
Further east, financial pressure on lignite and coal-fired capacity as well as changing import and export patterns represent the key themes for the Czech Republic and Slovakia in 2020. Czech incumbent CEZ is due to decommission over 1GW of coal-fired capacity this year.

This will theoretically reduce the Czech Republic's direct exposure to the carbon market. However, EUAs will remain a key market driver as even with the drop in installed coal capacity, coal and lignite power plants will account for more installed capacity than any other source of generation by 2021, outstripping the country's 4GW nuclear fleet by some way, ICIS analyst forecasts indicate.

While the Czech Republic has previously remained a net exporter of power, ICIS analysts forecast flows to Slovakia to drop by around 2TWh during 2020 compared with the previous year. By the following year, Slovakia is then expected to become the net exporter of the two markets.

In Poland, spot prices will come under pressure due to upcoming integration with cheaper neighbouring markets and an expected boost of hourly and long-term transmission capacity.

In January, a single intraday coupling mechanism was implemented on the Polish-Swedish border, enabling traders to adjust short-term positions and avoid the more expensive balancing market.

Additionally, in the second quarter of this year, Poland is expected to initiate day-ahead market coupling with Germany and the countries part of the 4MMC scheme, comprising the Czech Republic, Slovakia, Hungary and Romania.

Romanian power liquidity could be boosted this year as various regulatory changes and market coupling initiatives are likely to pave the way for greater liberalisation and integration. Participants are currently awaiting clarification to an ordinance issued by regulator ANRE stating that electricity “transactions are now allowed on non-regulated markets”.

This may imply that physical electricity trading can now be performed outside of state-run exchange OPCOM, previously banned in 2012. If the ban is lifted, liquidity on broker screens would be revived. Furthermore, power companies also expect to boost profits as the controversial 2% tax on gross margins was scrapped by the new government at the beginning of January.

THE BALTIc STATES
Clarity on electricity trade with Russia is likely to dominate power markets in Lithuania, Latvia and Estonia. Latvia aims to reopen commercial trade via the Latvian-Russian border once Lithuania imposes an import ban on Belarusian flows following the start-up of the Astravets nuclear power plant in Belarus.

The Lithuanian-Belarusian border is currently the only entry point for the Baltics to trade Russian or Belarusian power. The first 1.2GW Astravets reactor is expected online this year, though Lithuanian authorities have made several attempts to prevent it being commissioned as they consider it unsafe. After the Baltics have completely synchronised to the continental European network in 2025, the three countries plan to completely cut physical and commercial flows from Russia and Belarus.

CARBON

After a volatile 2019 with the EU allowance (EUA) price going as high as €30/tCO2e, carbon entered a new market environment in 2020 with a fundamental tendency on the bearish side. While the market was significantly undersupplied in 2019 due to market stability reserve cuts to the auction volume, ICIS analysts expect EUAs to trade flat or slightly oversupplied in 2020.

Additional EUA auction volume and fuel switching levels from coal to gas are likely to put sustained downward pressure on the front December EUA price.

In addition to the regular auction volumes, the market could be looking at extra volumes from:

- UK installations following Britain's exit from the EU,
- undistributed derogation volumes,
- the Innovation Fund
- and remaining EFTA volumes.

This adds up to an extra 184m auction allowances reaching the market in 2020 in addition to regular auctions. Overall, 2020 total allowances are 34% higher than 2019, which is a significant increase for the market to absorb compared to last year.

As for policy, upcoming legislative proposals on key issues such as the EU 2030 target could generate some upside, most likely in the second part of 2020. Depending on the ambition level of the proposals, policy developments could provide some support in the EUA market and to some degree help mitigate the bearish fundamental picture.
Ambitious 2030 renewables targets mean the Baltic States will focus on securing additional renewable generation capacity in the coming years. In Lithuania and Estonia, smaller pilot auctions under a new design were launched at the end of 2019 and auctions for higher generation amounts are scheduled for later in 2020.

Latvia is not currently planning to hold renewable auctions, as the ministry of economics will focus on cancelling payments to overcompensated producers under the old support scheme.

Robust hydropower stocks in the Nordics at the start of the year could keep a lid on Baltic power prices in the first half of the year, although forecast dry and warm weather would most likely lend support to regional prices.

**SOUTH AND SOUTHEAST EUROPE**

Southern European markets will feel the pressure of bearish gas fundamentals and high LNG imports in 2020. Spain and Italy that boast multiple LNG terminals will feel particular price pressure.

Increased interconnection availability between Italy and neighbouring markets should also pressure prices. While, France is historically the second largest power exporter to Italy after Switzerland the expected completion of a new 1.2GW cable in the first half of 2020 would turn it into the largest. Another 80MW interconnector between Austria and Italy is also due to come online in 2020.

In Spain, renewable tenders may be altered to award capacity based on generation costs instead of investment costs, which could boost interest in fresh renewable ventures. Already, solar is expected to grow from 7.8GW of installed capacity in 2019, according to Spanish grid operator REE, to 9.5GW by the end of 2020, according to ICIS analysts.

This additional 1.7GW would have a bearish impact on the market. The significant shift from coal-fired to gas-fired generation seen in 2019 is expected to continue due to high LNG imports likely to crush the value of Spanish gas.

Meanwhile, Bulgaria is expected to take further steps towards full market liberalisation and integration in 2020, while also providing a clearer strategy for achieving its 2030 targets.

Despite mounting pressure from new EU environmental standards and high carbon prices, Bulgaria maintains a firm stance that it will keep its coal-fired generation fleet online for as long as possible. Clarity is also expected by mid-2020 on the procedure to find a strategic investor to build the 2GW Belene nuclear project.

In Greece, exchange HEnEX will likely launch a financial power futures trading platform in 2020, with day-ahead and intraday markets also due to go live. The introduction of derivatives trading would provide Greek suppliers with a means to hedge forward positions, acting as a replacement for scrapped NOME auctions.

The latest Greek renewable auctions held in December awarded a total of 105.5MW worth of solar projects, which was less than half the original auction specification. The results document published by RAE said that the remaining 182MW of solar and 1.5MW of wind capacity will be auctioned in 2020. RAE intends to cut red tape to help ensure that future application procedures are fully subscribed in order to meet climate targets.

At a time when some regional neighbours remain adverse to the green transition, Greek authorities have been pushing for an earlier-than-expected lignite phase out, committing to shut down all of the existing fleet of 14 plants by 2028. This year should see 546MW leave the grid due to the decommissioning of the Amyntaio power plant.

**COAL**

The Rotterdam coal Cal ‘21 took over as front year on 2 January at $62.70/tonne, at a more than $6/tonne premium to the final traded price of the Cal ‘20 at the end of December. It is difficult to imagine this premium lasting long into the year, with cheap gas displacing coal for power generation, industrial use and heating in various parts of the world. Another key factor is that China – the world’s largest coal producer, consumer and importer – is close to completing a restructure of its mining sector, closing older, smaller coal mines and growing capacity at large, more efficient ones. Mining production reached a five-year high last year according to official data, and this was with a swathe of safety inspections that followed a series of accidents at mines. Assuming that improved safety standards reduce Chinese mining accidents and inspections in 2020, falling import demand could add additional bearish impetus to the seaborne market.
CRUDE OIL

Indicators suggest that 2020 could be a bullish year for crude with several factors holding potential to drive up the futures market.

The US – currently the world’s largest crude producer – and China – the world’s largest crude importer – have agreed to phase one of a trade arrangement which should see a rise in demand for crude. However, a disintegration in the fragile trade relations could trigger a sell-off later in the year.

The International Maritime Organization’s (IMO) 2020 regulations on maritime fuel that came into force at the beginning of the year will restrict sulphur content to 0.5%.

This has changed the dynamics of the physical crude oil market and added some support for Brent crude futures.

The crude market will also be closely monitoring the Organization of the Petroleum Exporting Countries (OPEC) and its allies for any future decisions on oil production cuts.

The first meeting of the year is scheduled for March and may see the group decide to extend or deepen the 500,000 barrels per day (bbl/day) cuts agreed upon in December 2019.

If implemented, any further reduction would have a significant bullish market impact. However, US shale oil output is likely to remain strong in 2020 and would dampen the price impact of potential bullish OPEC activity.

As ever, traders will be wary of potential geopolitical conflict and its impact on oil markets. Libya’s production plans are likely to remain strained due to a civil war while Iran and Iraq are suffering significant domestic tensions.

The killing of a senior Iranian general by the US in January has heightened the perceived risk of conflict in the region and the risk to oil transit through a key global chokepoint, the Strait of Hormuz.

With several bullish risks on the horizon as well as seemingly improved US and China relations offering price strength, power, gas and carbon market participants will be eying crude futures closely for signals on longer-dated products.

Sentiment from the oil markets can often trigger moves on European energy contracts.