

## HIGH ELECTRICITY PRICES IN 2019 DUE TO PRICES OF FUELS AND CO<sub>2</sub>

**AleaSoft, February 4, 2019.** AleaSoft analyses the behaviour of the European electricity markets at the beginning of 2019 and the outlook until the end of the year.

### Brent, fuels and CO<sub>2</sub>

The price of **Brent oil** futures in the ICE market for April starts the week of February 4 with a slight trend to exceed 63 \$/bbl after being three weeks ranging between 60 and 62 \$/bbl although in general the trend is stationary. The situation in Venezuela remains a latent factor that is destabilizing the oil market. In **AleaSoft**, we consider that taking into account the slowdown in the growth of the economy, Brent will continue on the path of 60 \$/bbl in the mid-term.

**TTF gas** futures for March fell below 20 €/MWh in early February for the first time since mid-April last year. The maximum values were reached in September when they were close to 30 €/MWh. At the beginning of this year, these futures were at 22.17 €/MWh confirming a downward trend that can continue.

**API 2 coal** futures for March continue in the same way with a slight downward trend with the possibility of falling below 77 \$/t. At the beginning of October last year, they were trading above 100 \$/t. At the beginning of the year they were at 84.80 \$/t.

As we discussed in **AleaSoft** last week, this downward trend in gas and coal that has continued can influence declines in the **prices of European electricity markets** in the coming weeks when weather conditions are more favourable and temperatures rise.

On futures prices of **CO<sub>2</sub> emission rights**, for the reference month of December 2019, the last closing value on February 1 was just under 22 €/t. This year began with values above 25 €/t that fell rapidly to 22.04 €/t on January 19, then climbing to its maximum at 25.20 €/t on January 22. At **AleaSoft** we consider these 22 €/t as an equilibrium value.

### European electricity markets

At the end of January 2019, the prices of the main European markets rose with respect to January 2018. From more than 20% of the **MIBEL** market in Spain and Portugal and the **N2EX** market in Great Britain, up to 75% of **EPEX SPOT** France. Values around 65% in the cases of EPEX SPOT Germany, EPEX SPOT Belgium and **Nord Pool**. In the case of the **IPEX** market in Italy, the year-on-year increase was 38% and the EPEX SPOT in the Netherlands was 50%.

In all cases the **electricity demand** grew in January 2019 compared to January of the previous year due to the drop in temperatures that in these European countries was between 2 °C and 3 °C.

PRICE (€/MWh)									
DATE	EPEX SPOT DE	EPEX SPOT FR	MIBEL PT	MIBEL ES	IPEX IT PUN	N2EX UK	EPEX SPOT BE	EPEX SPOT NL	NORD POOL
Jan-18	29,46	34,96	51,64	49,98	49,00	56,35	36,78	38,79	32,93
Dec-18	48,13	54,90	61,87	61,81	65,15	69,76	59,65	59,63	51,56
Jan-19	49,39	61,16	62,69	61,99	67,65	68,64	60,50	58,33	53,78
Prev. Month	2,6%	11,4%	1,3%	0,3%	3,8%	-1,6%	1,4%	-2,2%	4,3%
Prev. Year	67,7%	75,0%	21,4%	24,0%	38,1%	21,8%	64,5%	50,4%	63,3%

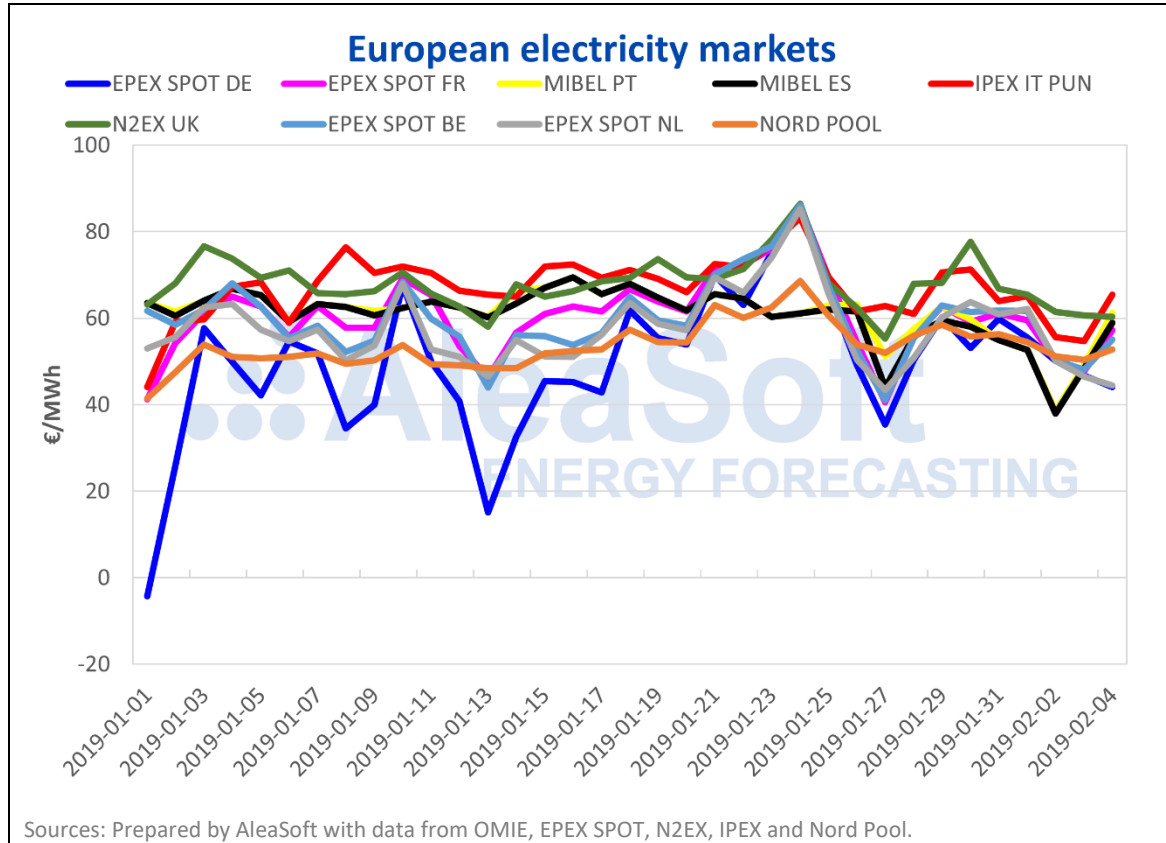
DEMAND (GWh)								
DATE	GERMANY	FRANCE	PORTUGAL	SPAIN	ITALY	UK	BELGIUM	NETHERLANDS
Jan-18	45 576	47 659	4 878	22 641	27 286	26 227	7 887	10 585
Dec-18	43 013	46 692	4 579	21 209	26 593	24 433	7 403	11 056
Jan-19	45 617	53 285	4 977	23 359	28 443	26 283	7 952	11 005
Prev. Month	6,1%	14,1%	8,7%	10,1%	7,0%	7,6%	7,4%	-0,5%
Prev. Year	0,1%	11,8%	2,0%	3,2%	4,2%	0,2%	0,8%	4,0%

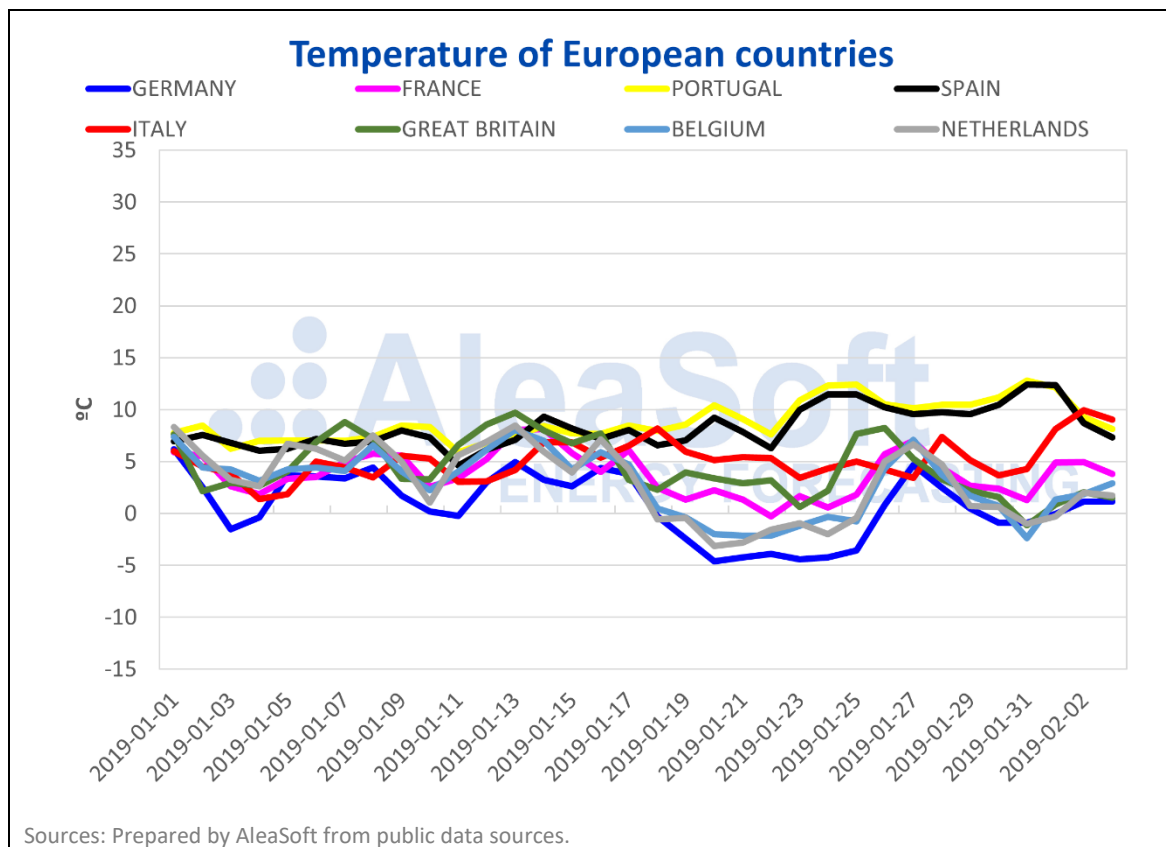
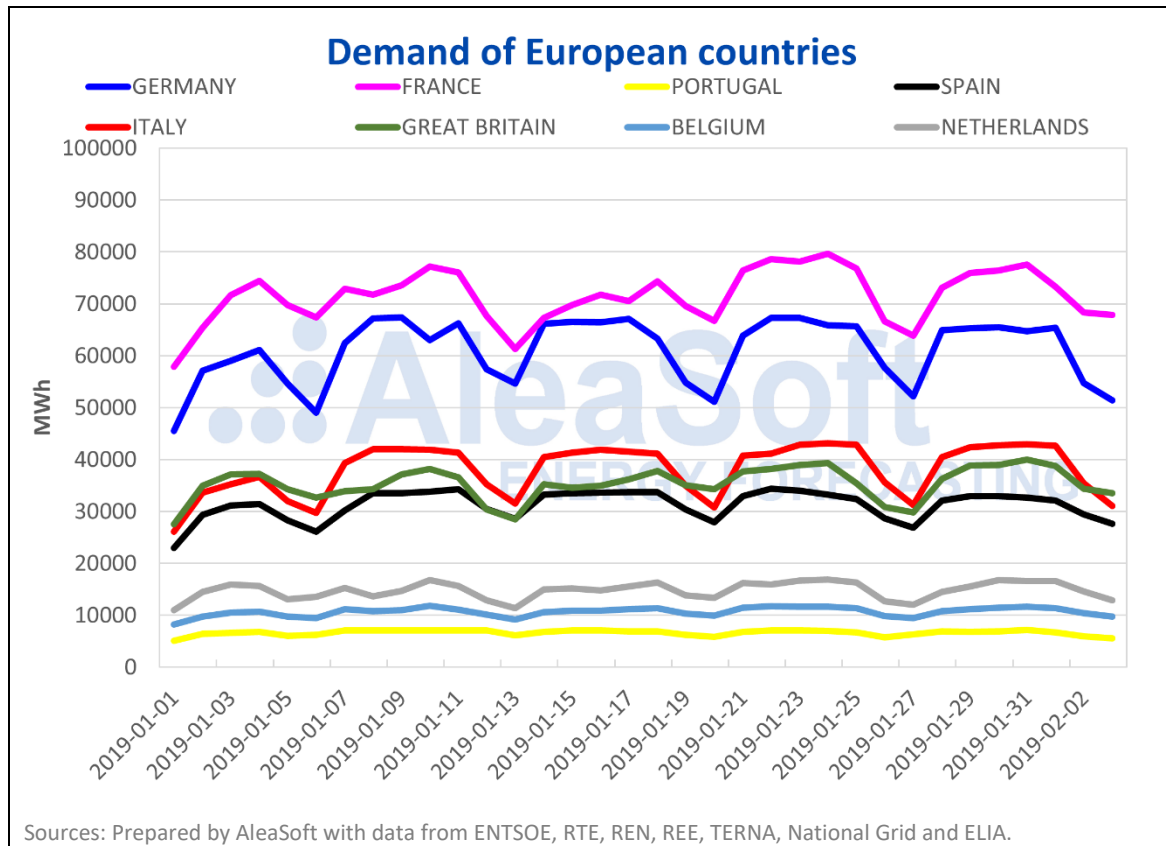
TEMPERATURE (°C)								
DATE	GERMANY	FRANCE	PORTUGAL	SPAIN	ITALY	UK	BELGIUM	NETHERLANDS
Jan-18	4,2	7,1	10,4	9,9	8,1	5,7	5,5	4,8
Dec-18	3,9	6,7	10,7	10,4	7,1	6,8	5,9	5,8
Jan-19	0,8	3,8	8,7	8,1	4,7	4,7	3,0	3,2
Prev. Month	-3,1	-2,9	-2,0	-2,3	-2,5	-2,1	-2,9	-2,6
Prev. Year	-3,4	-3,3	-1,6	-1,8	-3,5	-1,0	-2,5	-1,6

In the last week, from the end of January to the beginning of February, the prices of the European markets remained high, between 50 and 60 €/MWh, with a slight decrease compared to the average

values of January. The drop in prices in Spain and Portugal is mainly due to the high **wind energy production**. In both cases, prices fell to around 38 €/MWh by February 2.

In **AleaSoft** it is considered that, taking into account the evolution of fuels, CO<sub>2</sub> and **temperature forecasts** for the coming weeks, prices should fall to a path of around 50 €/MWh.





## Electricity futures

The electricity futures of **France** and **Germany** in the **EEX** market for March 2019 have followed a downward trend since the end of last year. In the case of **French** futures, on December 17, 2018, they closed at 60.05 €/MWh and on Friday, February 1, they were traded 9.83 €/MWh below, at 50.22 €/MWh. For its part, the futures of **Germany** for March 2019, were traded on December 17 at 54.17 €/MWh and on February 1 at 47.06 €/MWh, that is, 7.11 €/MWh lower. **Spanish** and **Portuguese** futures in the **OMIP** market have also maintained a bearish trend since the end of December. On December 17 last year the futures of **Spain** for March 2019 were traded at 59.83 €/MWh and those of **Portugal** at 59.99 €/MWh, and at the end of last week, on February 1, they were traded at 52.10 €/MWh and 51.73 €/MWh, respectively, which represents a difference of around 8 €/MWh.

The decline in electricity futures for March 2019 is common for most European markets. **UK** futures in the **ICE** market decreased by 11.31 GBP/MWh between December 17, when they were trading at 64.40 GBP/MWh, and on February 1, when they were trading at 53.09 GBP/MWh. Those in the Netherlands, also in the ICE market, dropped 11.45 €/MWh on the same dates, from 62.59 €/MWh to 51.14 €/MWh. In **Belgium**, also in the ICE market, the futures fell by 8.92 €/MWh, from 60.74 €/MWh on December 17 to 51.82 €/MWh on February 1 and those of **Italy**, in the EEX market, went down by 9.13 €/MWh, from 67.73 €/MWh on December 17 to 58.60 €/MWh on February 1.

On the other hand, the futures of the **Nordic countries** in the ICE market for March 2019 did not follow the downward trend of the rest of European markets; since the second half of December 2018 they had been stationary around 54 €/MWh and 55 €/MWh and in the week of January 28, they began to fall to 50.46 €/MWh on February 1.

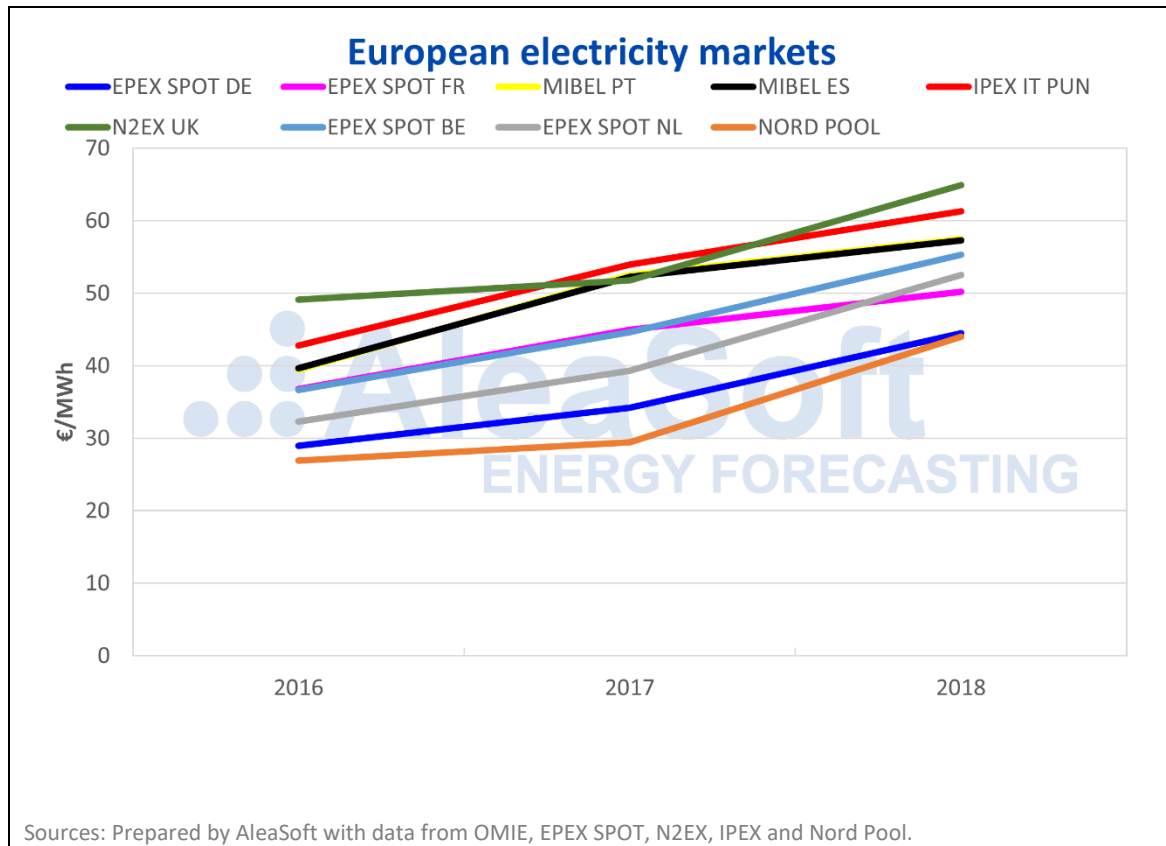
## Outlook for the European electricity markets in 2019

As shown in the following table, the prices of fuels and CO<sub>2</sub> emissions have been rising since 2016.

YEAR	BRENT	TTF GAS	API 2 COAL	CO <sub>2</sub> EUA
	\$/bbl	€/MWh	\$/t	€/t
2016	43,70	14,06	59,81	5,34
2017	54,17	17,25	83,49	5,84
2018	71,33	22,72	91,75	15,82

That led to an increase in prices in the years 2017 and 2018.





**European electricity prices** went in two years from an annual band between 30 €/MWh and 50 €/MWh in 2016 to an annual band between 45 €/MWh and 65 €/MWh, in the markets with less prices and also the more expensive ones. In these two years since 2016, up to 2018, the increase in the average annual CO<sub>2</sub> price was around 10.50 €/t, gas was at 8.70 €/MWh and coal at 32 \$/t.

For this year, fuel and CO<sub>2</sub> prices are not expected to decrease with respect to 2018. The trend will be the continuation of high European electricity market prices for this 2019.

Source: **AleaSoft Energy Forecasting**

Keywords: **European electricity markets, electricity market price, electricity demand, wind energy production, temperature forecasting, Brent oil, TTF gas, API 2 coal, CO<sub>2</sub> emission rights.**