KYOS Energy Analytics

# Insights in European energy markets

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*Authors: Elyas Kazmi & Luiscarlos A. Torres Sánchez*
*KYOS Energy Analytics*

**The European energy markets remained tight and volatile last month. On gas, forward TTF prices increased despite the summer season driving consumption down as no heating is needed. In addition, we observed more gas injection into storages, which are currently filled with 115 TWh above June 2021 levels.**

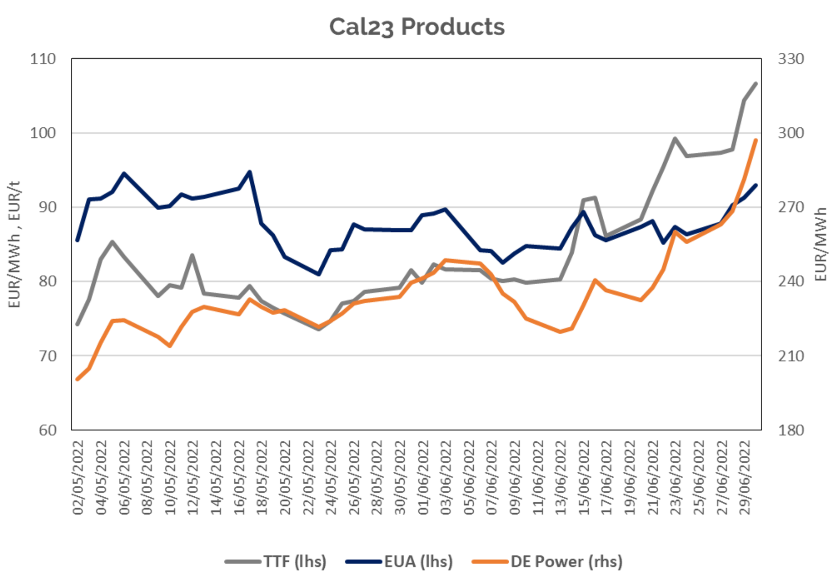
The main reason for the high gas price is that the Russian supply risk partially materialized, with the flow at the Nordstream 1 pipeline cut by 60% since mid-June. On top, a fire accident at the Freeport terminal in Texas reduces substantially US LNG exports to Europe for at least the next 3 months. With that, the supply security situation becomes critical enough for many government bodies as well as energy corporates to launch energy saving campaigns to the general public in order to raise awareness and prevent a crisis the coming winter.

The biggest supply risk is priced in the French market, where the Q4-22 baseload power contract is currently trading above 750 EUR/MWh. In fact, fundamental drivers are supportive on the power side: the June heatwave drove hydro stocks down in southern Europe and the Alps, plus the French nuclear availability remains very low (-10 GWh/h y-o-y).

On a brighter note, the renewable capacity growth is encouraging. Wind and solar additions in H1-2022 are higher than previous years across many markets, notably in Spain, Germany and Poland. However, the strategy of several European countries who are facing an energy supply crunch is clear: rely on non-Russian coal. Needless to say, this decision is not in favor to reduce emission targets.

Among others, Germany approved to return 10.4 GW of coal, lignite and oil plants back to market for grid reserve purposes. The Netherlands canceled the cap on coal power stations to operate at no more than 35% of their maximum capacity and France is drafting a decree to reopen the 600 MW Emilie Huchet coal plant for the winter season. Getting coal to its final destination comes however with logistical challenges: a shortage of coal barges along rivers in Northwestern Europe is being observed . A considerable share of those barges were moved to Eastern Europe for the shipping of Ukrainian agricultural products.

It is clear that carbon market players understood that coal consumption will continue to increase until at least the end of the coming winter. With that, it is unlikely that EUA prices will fall below 80 EUR/t.




*Source: EEX, KYOS Energy Analytics*

**More information:**
**info@kyos.com**

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