

Global Carbon Highlights

18/1/22

Prices movement	Dec 31st	Nov 30th	Changes %	Sentiment
EUA Dec-22	€80.65	€75.37	+7.01%	↑
EUA Dec-23	€81.57	€75.37	+7.71%	↑
EUA Dec-24	€82.69	€76.55	+8.02%	↑
GEO	\$8.23	\$9.04	-8.96%	↓
N-GEO	\$14.49	\$15.13	-4.23%	↓
TTF Feb-22	€72.00	€91.65	-21.44%	↓

In December, the global compliance markets achieved record-high prices. The EUA Dec-22 contract peaked at €91.19 (Dec-21, €90.75). While the Chinese spot CEAs peaked in the last week of 2021 at \$9.79. The elevated carbon prices predominantly were driven by volatile energy prices and market participants' needs to meet their regulatory obligations.

The voluntary global market recorded a notable 65% increase in issuances and retirements of voluntary emissions reductions (VERs) than in 2020. And nothing suggests that the trend is slowing down going into 2022. Concluding 2021, another noteworthy trend for the voluntary carbon markets is an expected consolidation of the supply of carbon offsets. This argument is backed by the UK-based carbon procurement platform Abatable. Highlighting that the 1,380 project developers registered, 39% of carbon offsets come from the top 20 developers, whilst the top five developers produce 19% of the issued volume.

Voluntary Markets

Exchange Traded

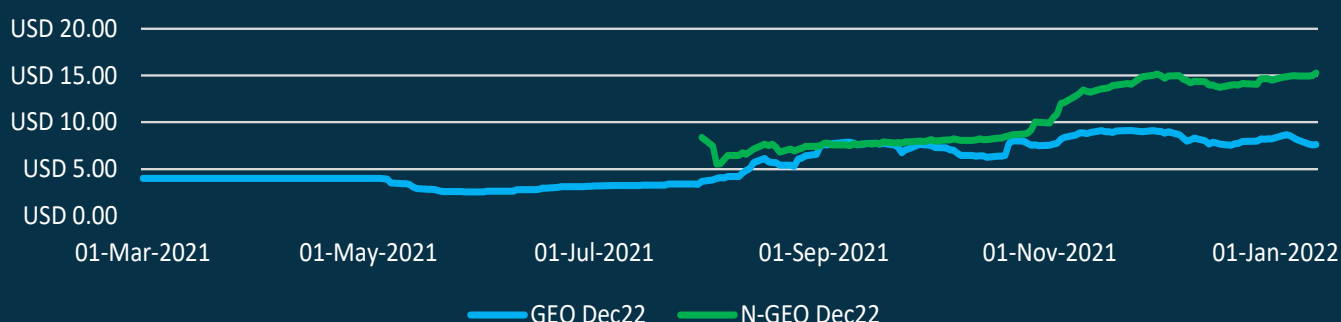
The recognition of voluntary emissions offset contracts continues to gain momentum at the start of 2022. The CME GEO futures and Nature-Based Global Emissions Offset (N-GEO) futures recorded over 40k traded contracts since their launch in early 2021, equivalent to 40m offsets.

Voluntary carbon offsets have gained more traction in the crypto space. XELS, a Tokyo-based firm has become the latest carbon company to list on a crypto-based exchange, promoting its plans to launch a blockchain-based platform this month for registering and trading non-fungible tokens (NFTs) backed by voluntary offsets. Also, crypto group Klima DAO extends its reach with a Brazilian partnership that tokenizes carbon credits from REDD projects in the Amazon to extend its reach beyond the cheap, catch-all units it has targeted so far.

Over-the-Counter Traded

Voluntary emissions reductions (VERs) issuances and retirements ended in 2021 around 65% higher than 2020 levels, showing the contracts gaining traction. The growing demand for these voluntary markets shows the appetite of businesses to go beyond any governmental requirements and developing a company driven drive for more sustainable practices. Making carbon voluntary carbon emissions contracts part of corporate ESG goals is expected to be a major driver of this market growth.

Price - CME GEO and N-GEO

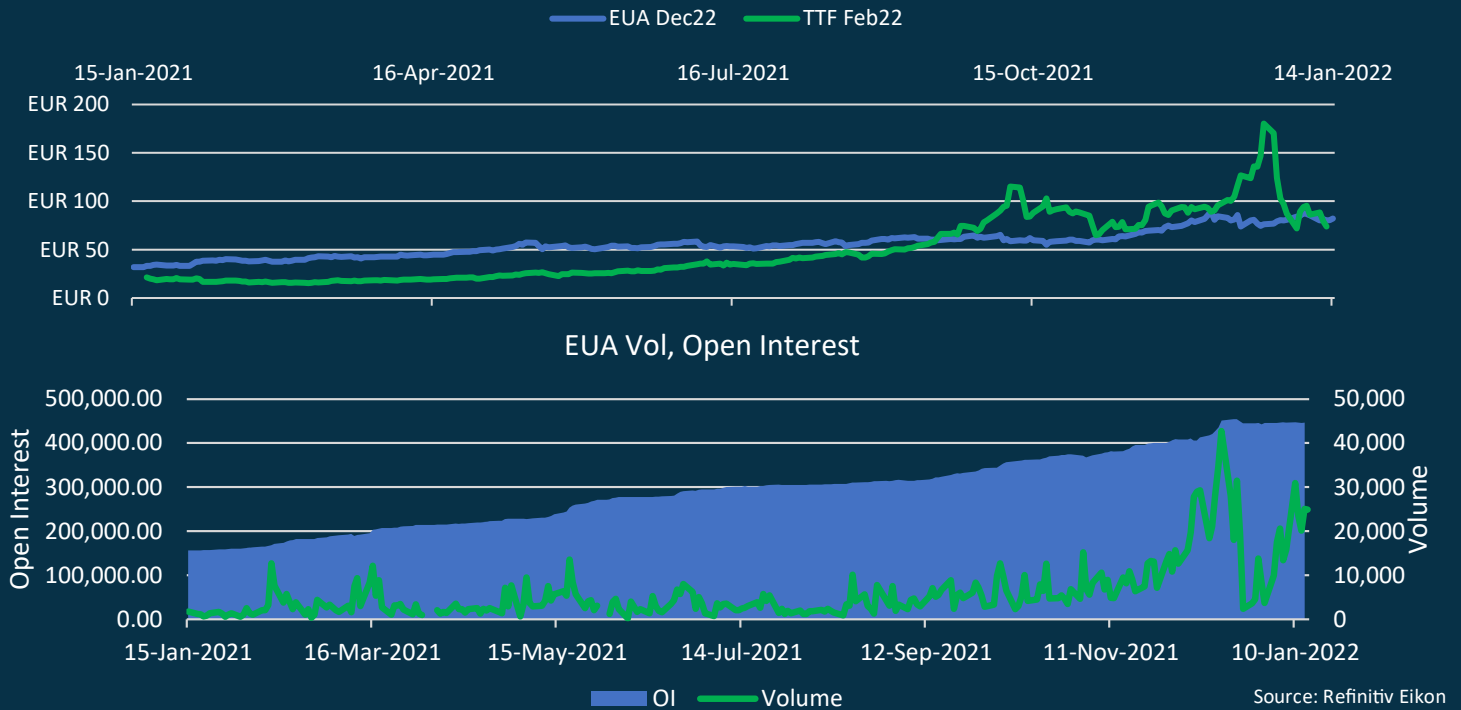


Source: Refinitiv Eikon

EU ETS

EUA prices continued an upward trajectory with the Dec-21 contract pricing at €79.38, 142% gain year-to-date on expiry. The week starting the 20th of Dec, EUAs demonstrated significant price movements due to a large sell-off of EU natural gas, where TTF Feb22 peaked at €183.75 and since then dropped 100% by the end of 2021. The drive of this drop was a considerable number of LNG cargos headed to Europe, driving sharp price drops in natural gas, contributing to more uncertainty in the European energy market. The new year kicked off the EUA market with the benchmark contract (Dec-22) adding 7.6%, moving up to €83.53 on the 3rd of Jan 2022, from the closing price in 2021.

Despite low gas storage in Europe, the Netherlands imposed operation limits on its existing coal-fired power plants over the next three years. Which mean coal-fired power plants can only utilize a maximum capacity of 35% from the 1st of Jan 2022 to meet their emission reduction goal. Resulting in more pressure on other energy generation sources in Netherlands.

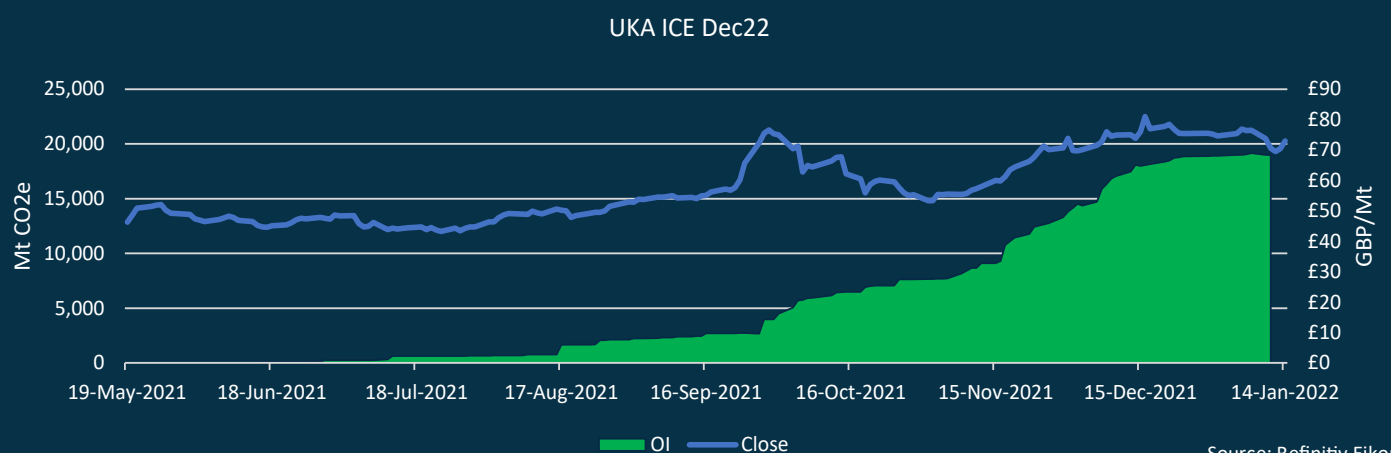


UK ETS

The UK Emissions Trading Scheme (UK ETS) went live on the 1st of Jan 2021, replacing the UK's participation in the EU ETS. Under the Ireland/Northern Ireland Protocol, electricity generators in Northern Ireland remained within the EU ETS. Similar to EU ETS, the UK ETS will cover energy-intensive industries, i.e. power generation and aviation (Gov.uk).

UK allowances commenced the first auction on the 19th of May 2021 hosted by the Intercontinental Exchange (ICE), which is held once every two weeks. Throughout 2022 around 80 million allowances will be auctioned. In addition, a portion of the auctioned allowances is issued free of charge.

Starting on the 10th of Jan, the week witnessed a 4% price drop of UK allowances, seeing market participants getting ready for the first auction of 2022 (the 11th of Jan 2022). Also, two UK climate campaign groups will sue the UK government over its net-zero strategy and lack of concrete policies required to meet the country's legally binding carbon budgets.



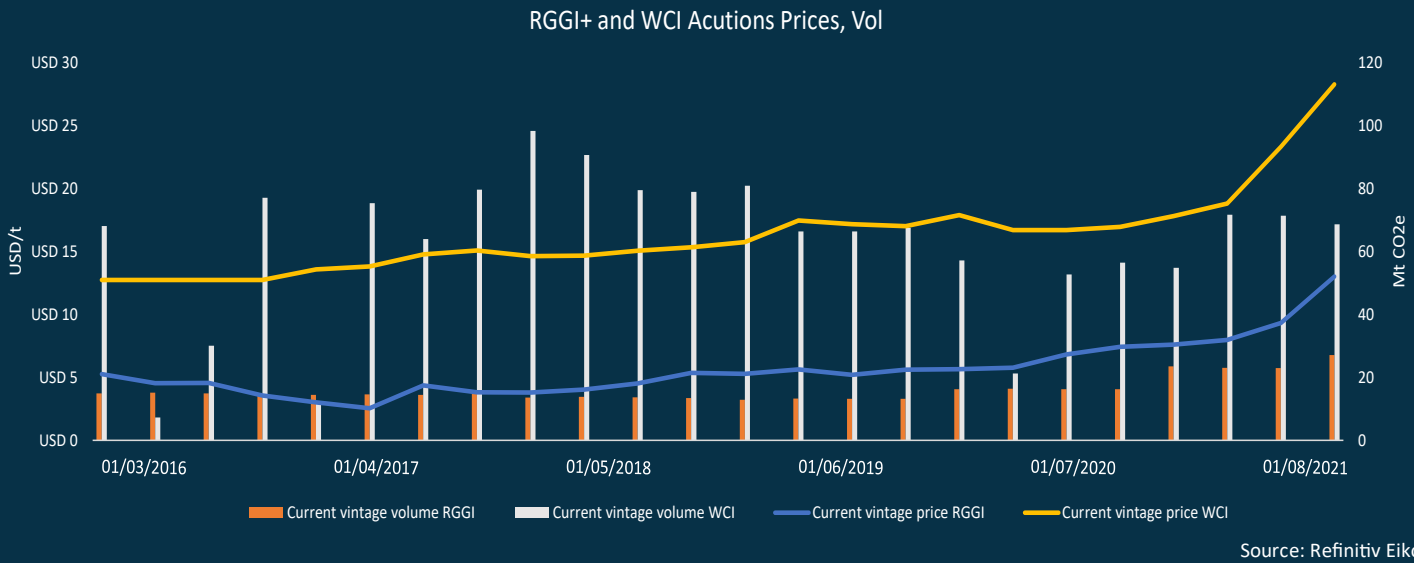
AMERICAS

Overall, California regulator ARB 's annual compliance offsets issuance marked the lowest level in seven years, 60% down over 2020 levels as the state's cap-and-trade programme tightens its credit usage threshold.

California Carbon Allowance (CCA) prices fell in the week of Dec 13th, while RGGI Allowance (RGA) values dropped from all-time highs on fewer activities due to the upcoming Christmas holiday season.

As for the supply side, Nodal Exchange, IncubEx will launch two California Carbon Offset (CCO) futures contracts in Jan 2022 and extend the vintages on some existing carbon allowance and renewable energy certificate (REC) contracts.

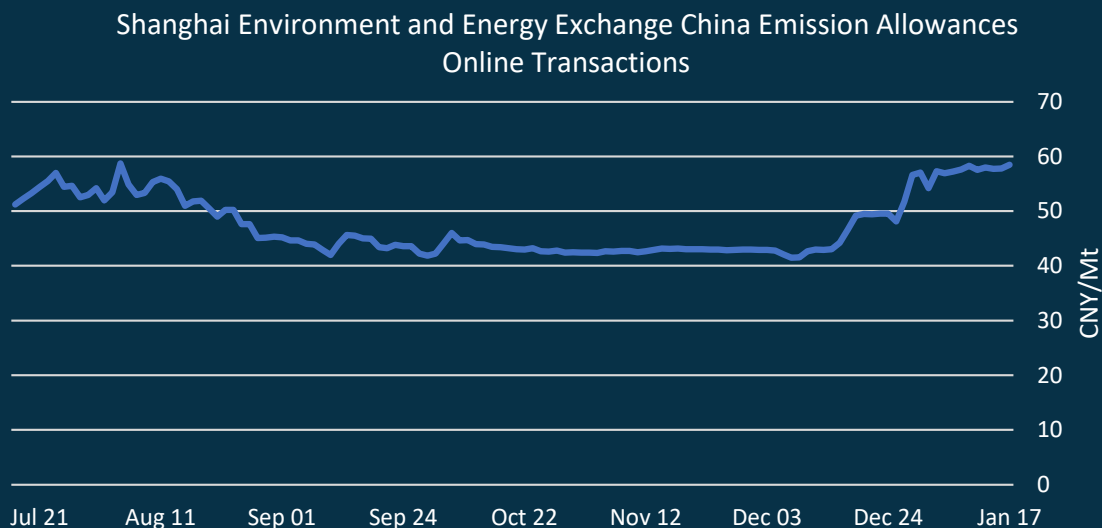
Additionally, North American carbon offset developer and supplier Finite Carbon launched a new programme in Dec 2021 to produce improved forest management practices credits in Canada.



ASIA PACIFIC

Chinese spot Carbon Emissions Allowances (CEAs) peaked at 62.29 yuan (\$9.79) on the Shanghai Environment and Energy Exchange amid a spike of trading activity to meet their compliance deadline in the last week of 2021. Around 28 million allowances being traded during that last week, 23.6 million of which were OTC block trades (Shanghai Environment and Energy Exchange). Moreover, around 3 million Chinese Certified Emissions Reductions (CCERs) traded across nine platforms in the last week of 2021.

Kazakhstan will make significant cuts in the number of free allowances issued in its emissions trading scheme over the next four years and reduce the emissions cap in the ETS next year to 125 Mt of CO2 from 169 Mt in 2021 (Kazakhstan 2022-2025 national economy plan).



Global Carbon Cut Pledges

State	Net zero target
Europe	In Law (2050)
Japan	In Law (2050)
South Korea	In Law (2050)
China	In Political Pledge (2060)
USA	In Policy Document (2050)
Indonesia	In Policy Document (2060)
India	In Political Pledge (2070)
Russia	In Political Pledge (2060)
Brazil	In Political Pledge (2050)
Iran	n/a

REGULATION

Key EU lawmakers seek more rapid Carbon Border Adjustment Mechanism (CBAM) introductions to speed up the heavy industry's exposure to carbon pricing and incentivize their clean technology investment.

Timeframe Sustainable Shipping

The latest speculations concerning the leaked EU ETS amendments highlight that the charterer is responsible for carbon emission subject to shipping activities. Also, the timeframe for including shipping activities into the ETS scheme is brought forward one year, implying that the scheme will cover 20% of shipping emissions from 2023 and 100% from 2025, earlier intended was in 2026.

Timeframe	Regulation	Description
01-Jan-19	Emissions	First reporting period for IMO data collection system begins
30-Apr-19	CO2	Deadline for shipping companies to submit final verified emission report to the European commission, and subsequently every year thereafter.
30-Jun-19	Emissions	Vessels calling at EU ports will need to carry a document of compliance with MRV regulation from this date onward.
01-Jan-20	Emissions	Global fuel 0.5% sulphur cap comes into effect.
01-Jan-20	Emissions	EEDI Index phase 2 comes into force. Vessels built during this phase will have to reduce fuel consumption between 15-20% compared to the existing fleet, known as the reference line . This phase is set to last until end of 2024.
01-Jan-21	Emissions	New emission control areas for North Sea and Baltic Sea for nitrogen oxide come into effect.
01-Jan-23	CO2	IMO set to agree on a measure for reducing greenhouse gas emissions during 2023.
01-Jan-25	EEDI Phase 3	EEDI phase 3 starts, with new vessels required to be at least 30% more energy efficient. Mepc 73 will make an exact decision on when phase will begin, potentially bringing that in 2022.

Source: Refinitiv Eikon and Lloyds List

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