

## Global Carbon Highlights

01/02/22

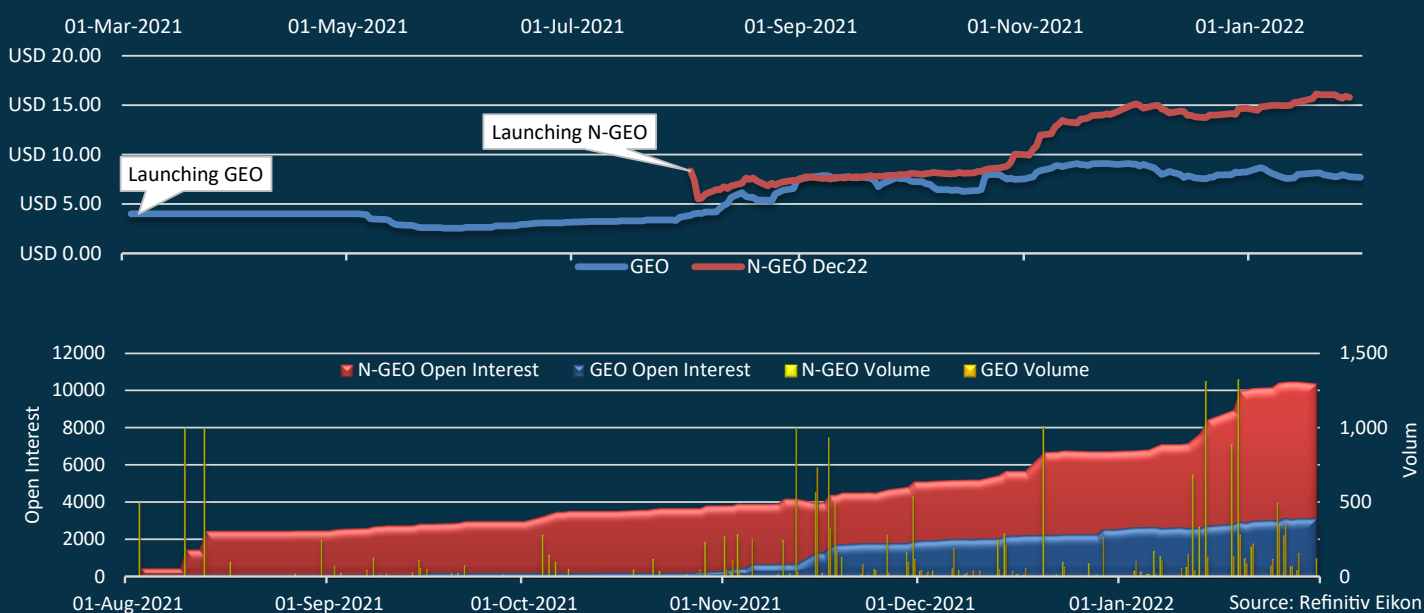
Prices movement	Jan 31st	Dec 31st	Changes %	Sentiment
EUA Dec-22	€ 89.03	€ 80.65	9.41%	↑
EUA Dec-23	€ 89.88	€ 81.57	9.25%	↑
EUA Dec-24	€ 90.92	€ 82.69	9.05%	↑
UKA Dec-22	£84.70	£74.60	11.92%	↑
GEO	\$ 7.70	\$ 8.23	-6.88%	↓
N-GEO	\$15.40	\$14.49	5.91%	↑

In January, the Russia-Ukraine tension caused significant uncertainty concerning gas prices, of particular concern to Europeans as Russia supplied the continent with around 43% of its natural gas in 2021 (Eurostat). The post-COVID economic bounce back has resulted in more energy intensive activity around the world and therefore higher power demand. Low electricity generation from wind farms due to calm weather conditions boosted demand for alternative electricity generation and demand for natural gas. Furthermore, unexpected maintenance for five French nuclear generators reduced the supply of baseload, putting even more pressure on other more carbon intensive power generation resources.

The Chinese ETS trading volume was down 96% in the third week of January. Following a two-week government lenience period (Jan. 1st -14th), whereby carbon emitters finalised their 2019 and 2020 ETS compliance. The government has yet to complete its allocation and offset rules going forward. Spot Carbon Emissions Allowances (CEAs) closed on Jan 20th on the Shanghai Environment and Energy Exchange at 58 yuan (\$9.15), only up 0.4% from the previous week.

## Voluntary Markets

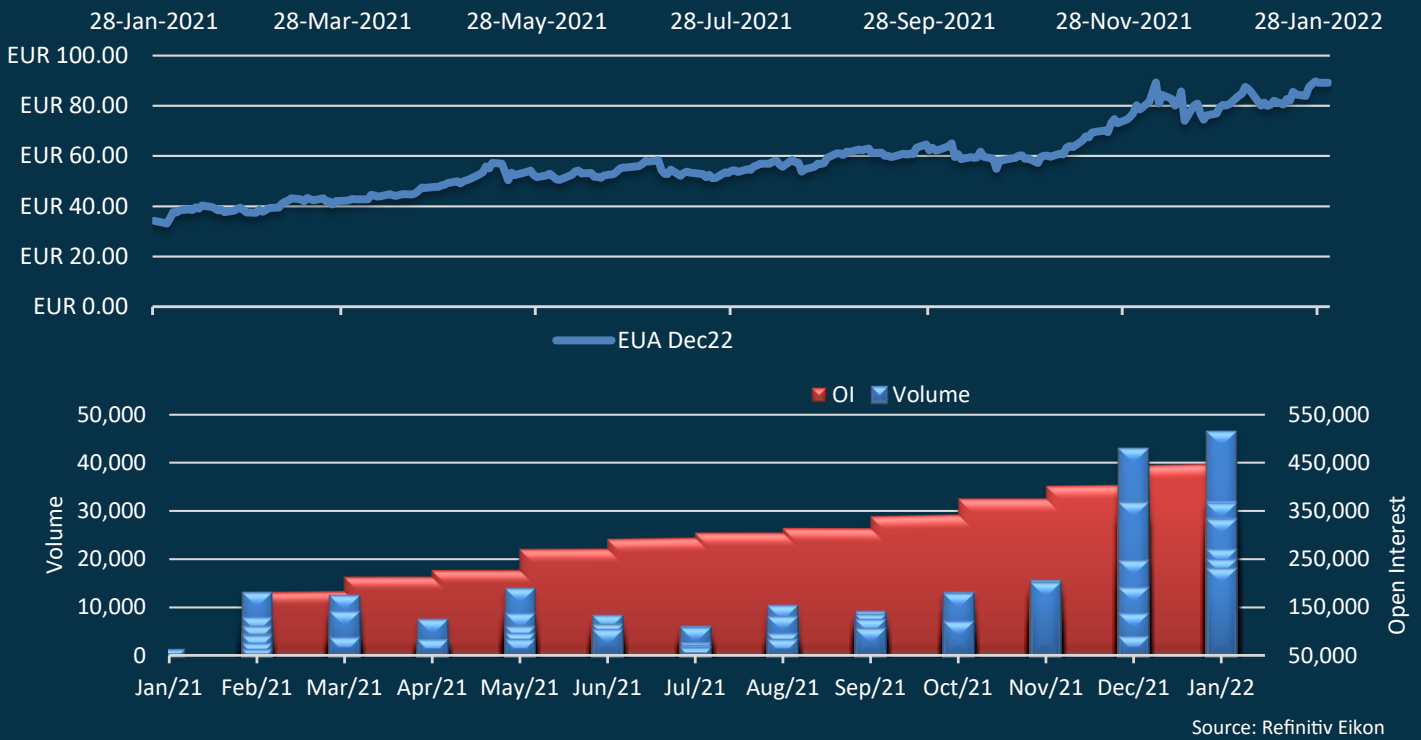
GEOs and N-GEOs reached new peaks in the week of Jan. 17th -20th on heavy trading volume as market participants said commodity trading houses and funds were joining fossil fuel companies in snapping up both standardised and project-specific units. A very heavy 2.7 mln N-GEO futures traded on CME over this period, whilst 823,000 tonnes traded on CME Group for CBL's GEO futures. Moreover, CBL noted that almost two mln nature-based credits traded during the week, with transactions focused on project-specific credits (CME).



## EU ETS

The benchmark contract EUA Dec-22 jumped € 3.50 to € 85.59 – the highest since Jan the 10th - after receiving the highest number of bids in nearly a year (116 auction bids) on Jan the 20th, forcing unsuccessful bidders into the secondary market. However, EUAs fell back to € 84.02 on Jan the 24th as threats of a Russian attack loomed over Ukraine. However, the benchmark contract gained as much as 5.6%, reaching a three-week high at €88.10 on Jan the 25th driven by a colder weather outlook in the upcoming days and was further driven by an unexpected rally of the US equity market on the morning of Jan the 25th.

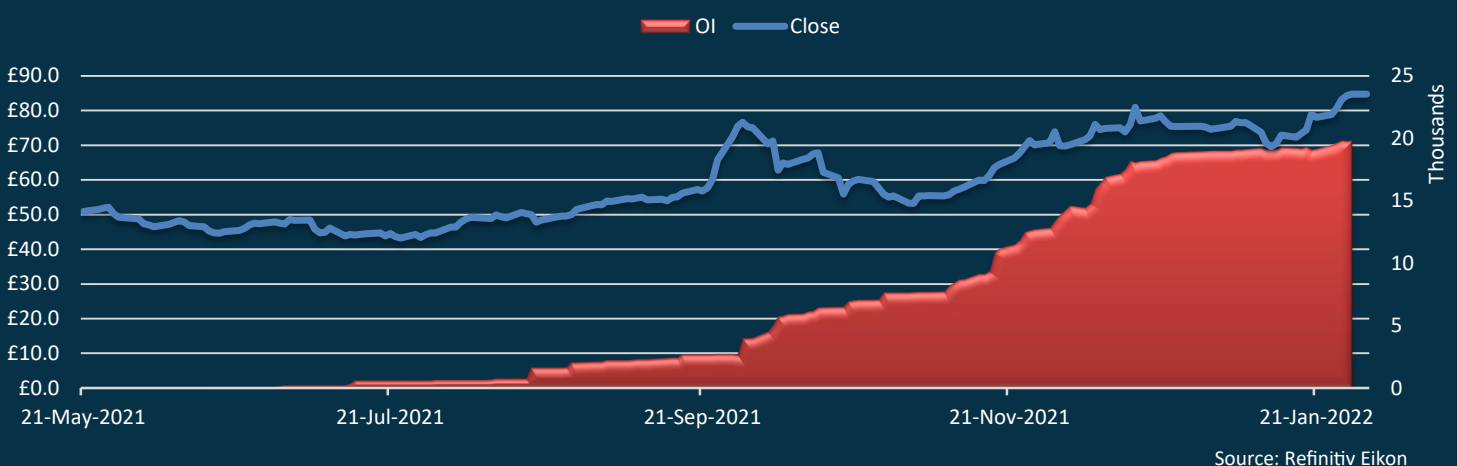
Moreover, European governments are under immense pressure to protect households from sky-high heating and power prices in the wake of the region’s gas crisis. However, the resulting relief programmes still have the potential to dampen carbon pricing signals and put EU climate targets at risk. Overall, the EUAs Dec-22 MoM increased by 9.41 % in January with the uncertainty of the Ukraine situation and EU actions toward higher power and gas prices.



## UK ETS

Trading in UK Allowances picked up on Jan 24th, with a total of 1.2 mln UKAs Dec-22 being traded on ICE. The contract settled 1.1% higher at £78.86.

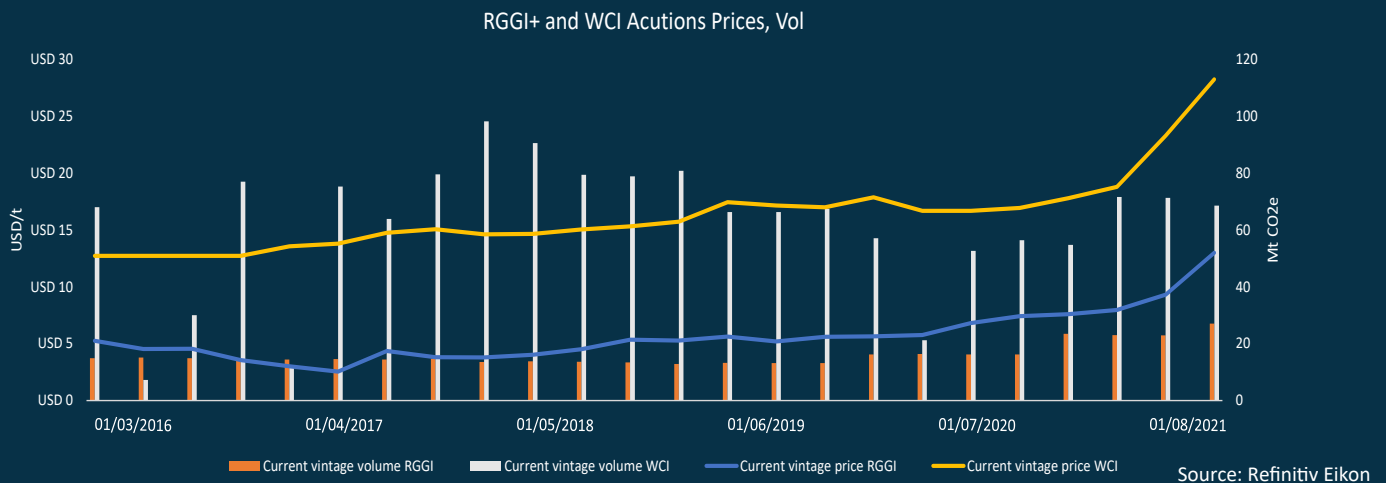
The Dec-22 contract has gained 9.05% MoM to £84.70, before settling at £78.90. The UKA Dec-22 contract was traded at a premium of €9.37 to the corresponding EUAs, since the peak on Dec 30th 2021.



## AMERICAS

California Carbon Allowance (CCA) values retraced for the second week straight over the latter half of January. Due to traders view on a bearish macroeconomic picture and a potential pre-auction, RGGI Allowances (RGAs) have stagnated even as new Virginia Governor Glenn Youngkin began trying to withdraw the state from the power sector scheme. The Jan-22 V22 CCA contract dropped 1.2% during the Jan. 13th -19th period and settled at \$30.26, and the Dec-22 V22s fell to \$31.28 (ICE). Brokers have reported less interest from funds, since observing compliance entities were waiting to step in and purchase allowances if prices kept on sliding.

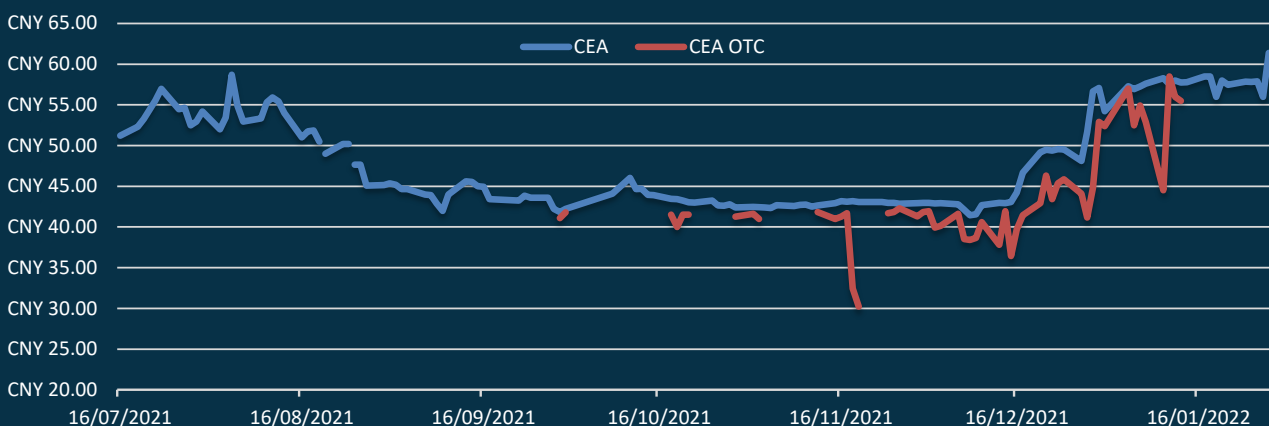
Furthermore, US President Joe Biden proposed the \$1.8 trillion Build Back Better (BBB) Act on Jan the 19th, an avenue to see its \$555 billion in climate and clean energy spending advance ahead of another troubled social spending package (Carbon Pulse). Brazil Ministry of Mines and Energy (MME) is considering adopting a compliant cap-and-trade programme that covers more than just the power sector and gradually phases out free allowance allocation (Carbon Pulse).



## ASIA PACIFIC

Analysts have estimated that China ETS was likely oversupplied by 7% or more. Therefore, the new plan made by China’s Ministry of Ecology and Environment (MEE) would equate to a cut of at least 360 million Carbon Emissions Allowances (CEAs) per year from 2020 levels (Carbon Pulse). The Chinese ETS continues to open up as the Guangzhou Futures Exchange to joined forces with Deutsche Boerse, and the subsidiary EEX continues to cement its position, pointing towards its objective to offer several products related to China ETS, which will allow foreign players to access the China ETS. However, trading on the major exchange in the China ETS in Shanghai is limited to spot deals only. The Chinese government is concerned that opening the market up to futures dealing could boost speculation, potentially pushing the domestic carbon price to unaffordable levels for emitters.

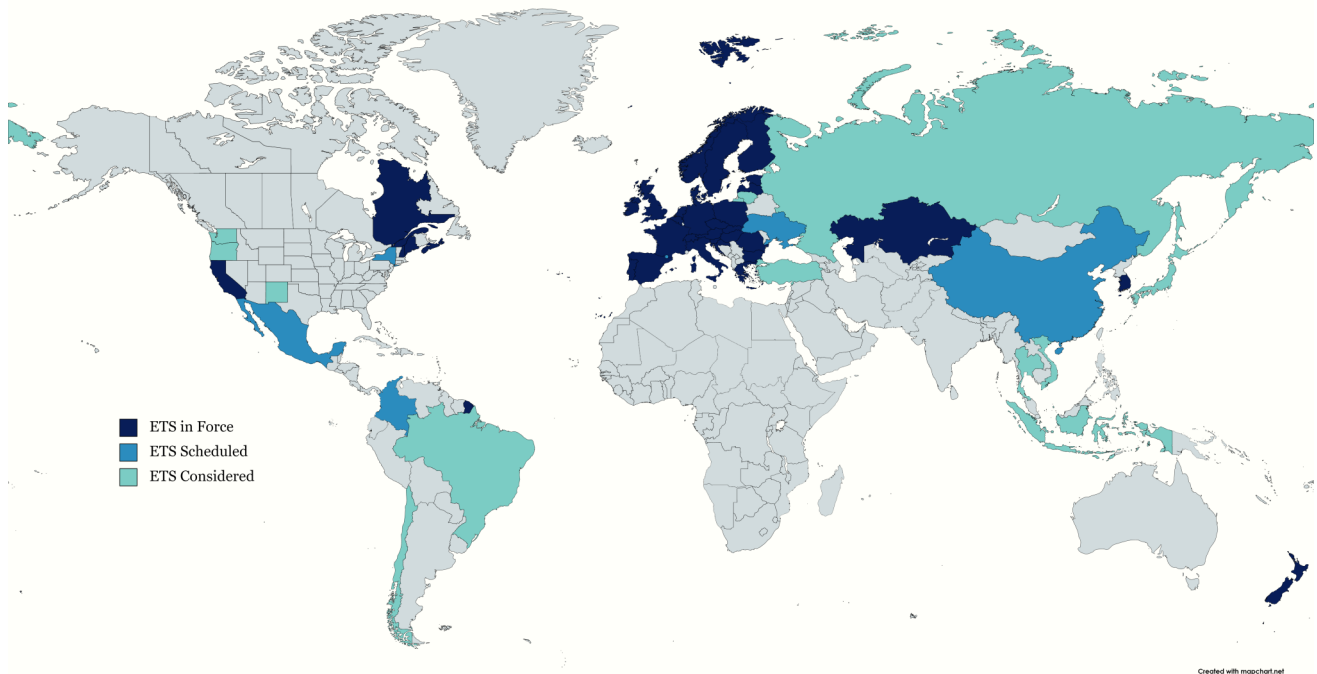
China will cut by more than 8% the number of CO2 permits per MWh of generated electricity for coal-fired power plants in the national ETS. Smaller coal plants will see a 12.4% reduction in their benchmark to 0.858 tCO2/MWh, while non-traditional coal plants will receive a 15.8% cut to 0.965 tonnes. New Zealand spot carbon allowances (Spot NZUs) reached the NZ\$74.95 (\$50.43) level for the first time on Jan 21st as sentiment remains bullish and permit holders are reluctant to part ways with their units. Spot NZUs, which rose by over 81% throughout 2021 is already up by NZ\$6.88 or 10.1% in the first three weeks of 2022.



## Global Carbon Cut Pledges

- Despite intensifying regulatory landscape and reduction targets, global shipping emissions rose by 4.9% to 833m tonnes of CO2 emissions in 2021.
- There is uncertainty as to who will pay for the cost of the EU ETS. Some argue that charterers should not bear all the costs since shipowners are responsible for a ship's design and technology. At the same time, charterers control their fuel, speed and route, and operators make operational decisions. Although it looks likely that charterers will bear the brunt of most of the cost
- The World Shipping Council has opposed changes to the European Union's emissions trading system and proposed applying regional carbon prices.
- The phased introduction timeframe for including shipping into the ETS scheme is likely to be brought forward one year, with the scheme mandating 20% of shipping emissions to be covered from 2023, rising to 100% in 2025.

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



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