FIS

Monthly Carbon Report

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Global Carbon Highlights

01/03/22

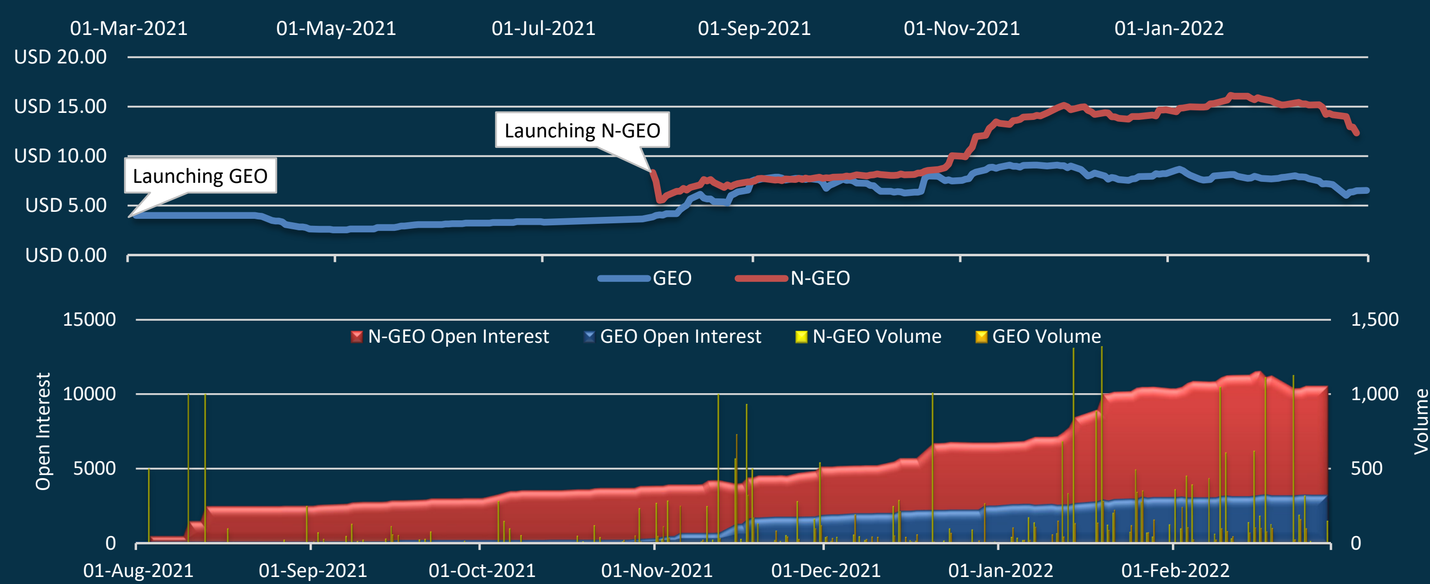
Prices movement	Feb 28th	Jan 31st	Changes %	Sentiment
EUA Dec-22	€ 82.21	€ 89.24	-8.55%	↓
EUA Dec-23	€ 83.66	€ 90.10	-7.70%	↓
EUA Dec-24	€ 85.87	€ 91.36	-6.39%	↓
UKA Dec-22	£79.59	£84.72	-6.45%	↓
GEO Dec-22	$ 6.55	$ 7.70	-17.56%	↓
N-GEO Dec-22	$12.98	$15.40	-18.64%	↓

Voluntary Markets

Early in February, CBL announced changes to vintage eligibility for its N-GEO contract, aiming to cater to demand for better quality offsets. N-GEO project vintages were previously limited to V2016-2020, but plans are now to phase in new vintages from July 2022 – expanding the range to V2016-2022. VCM participants said the announcement had led firms to start selling N-GEOs to avoid getting stuck with V2016-2017 credits that will yield less demand due to their limited fungibility (Carbon Pulse, 2022).

CME on Feb 8th announced a new futures contract CBL's Core Global Emissions Offset (C-GEO), launching on Mar 7th. This new contract includes the standardised renewables and tech-based credits from the Verra registry, excluding large hydroelectric but with the exception of run-of-river projects. The CBL C-GEO futures will start with a six-year vintage of V2016-2021, where it will commence in July each year, the old vintage will become ineligible and a new vintage will be added.

In the aftermath of the CBL announcements, the spread between CME contracts settled on Feb 28th at $3, as opposed to the spread of $0.95 on Feb 4th. Consequently, a couple of spread trades have been done throughout Feb 21st- 28th on NGO -- Selling Dec23, buying Dec22 (CME, 2022). There is evidently selling pressure on the CME voluntary contracts as the GEO contract retreated from its settlement price at the end of last week (23rd) at $6.35, a 17.7% decrease. The NGEO contract also fell 16.3% from Feb 1st settlement price to its current level, recorded at its lowest since November 2021.

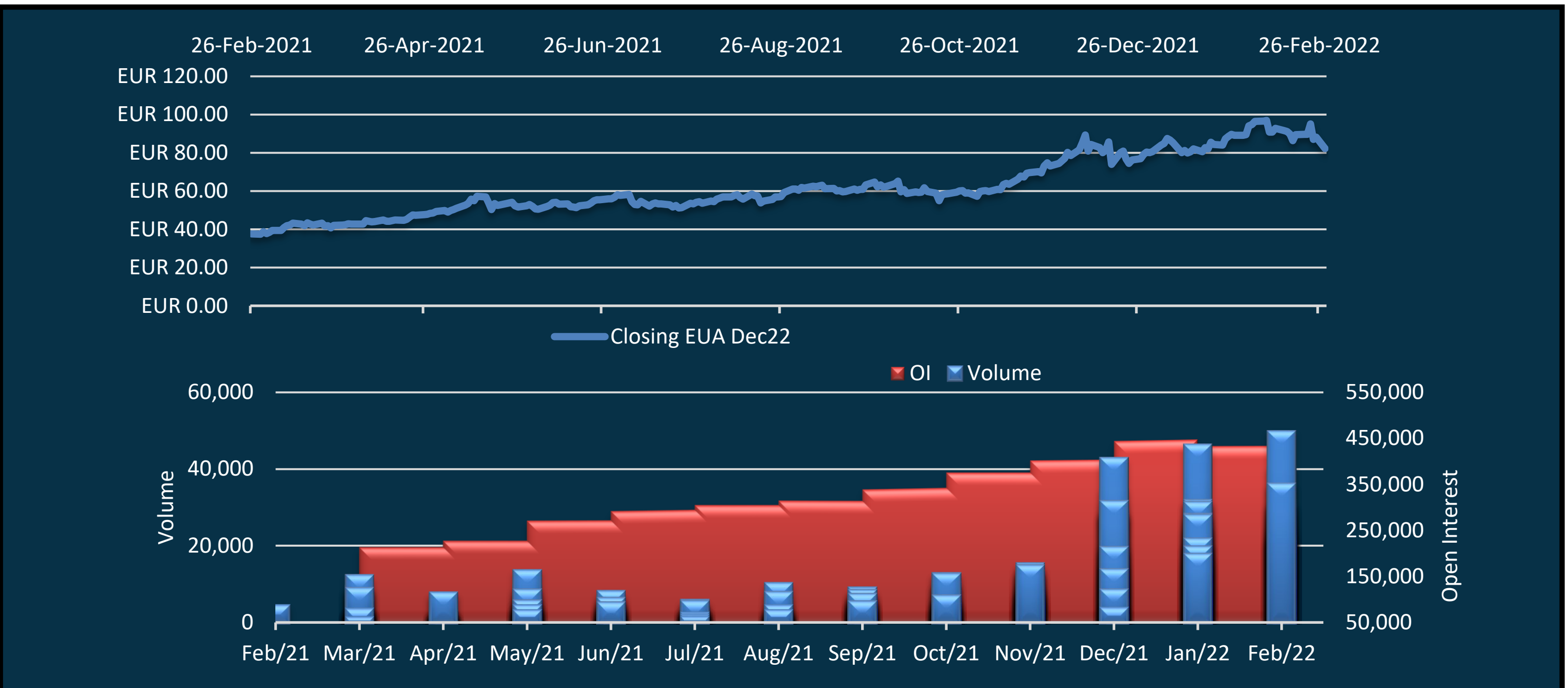


Source: Refinitiv Eikon

EU ETS

The EUA market broke its continued upward trajectory, despite reaching an all-time high earlier in the month at €98.49 (8th Feb). The benchmark contract Dec22 fell 8.55% MoM. It breached the €90 resistance comfortably and was fast approaching the €100 mark for the first time after months of price projections predicting to reach the threshold. However, in the second week of Feb, Peter Liese abruptly halted this with comments suggesting more needs to be done to control price shocks in the EUA market. Although such changes would require approval from the European Commission and the majority of member states, it has still sparked aggressive selling in the market highlighting the lawmaker's direct impact on the market. Amendments to Article29a remain of paramount importance to the ETS, particularly the clause that states if the EUA price has been three times higher than the average price for the previous two years for more than six months, additional permits could be auctioned; thus increasing supply, and easing price pressures.

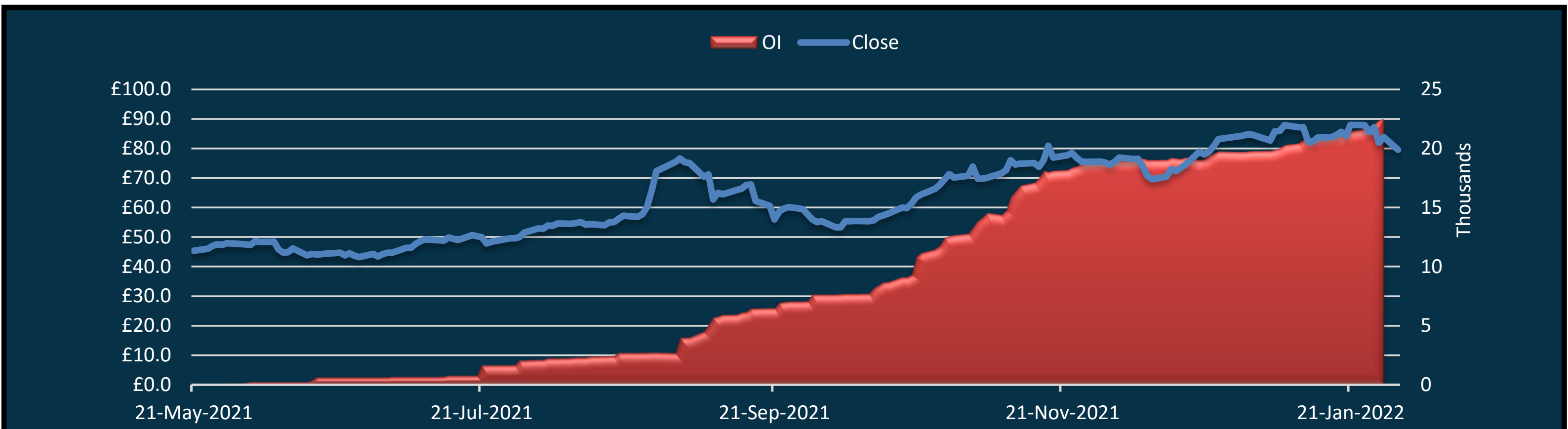
The end of Feb took a violent and tragic turn when Russian troops invaded Ukraine on 24th Feb. At the news early on Thursday morning, EUA's prices fell to as low as €86.15 and settled at €87.03; down 8.5% for the day. This is in stark contrast to the majority of other commodities that saw record price increases. It has been suggested that due to the highs seen elsewhere (i.e. TTF Gas, German Power, and Oil) EUAs were being sold to cover margin calls in these markets, as well as the involvement of speculators. Regardless, the decorrelation between carbon and energy markets has been surprising.



Source: Refinitiv Eikon

UK ETS

UKA continues to correlate strongly with EUAs, reaching new price records for the benchmark contract Dec22, peaking at £88.15 on the 18th of Feb. The benchmark contract fell 6.45% MoM. UK energy markets have seen the regulated energy price cap rises by 54% (S&P Global Platts, 2022) due to soaring natural gas prices. With coal almost entirely phased out from the UK energy mix, reliance on gas remains prominent. The UKA also showed a similar pattern as EUAs in the last week of the month. In the light of geopolitical risk, prices soared mid-week and were £88p from a new price record. Whilst the price retracted following the news concerning the Russian invasion in Ukraine further underpinning the decorrelation with wider energy markets.

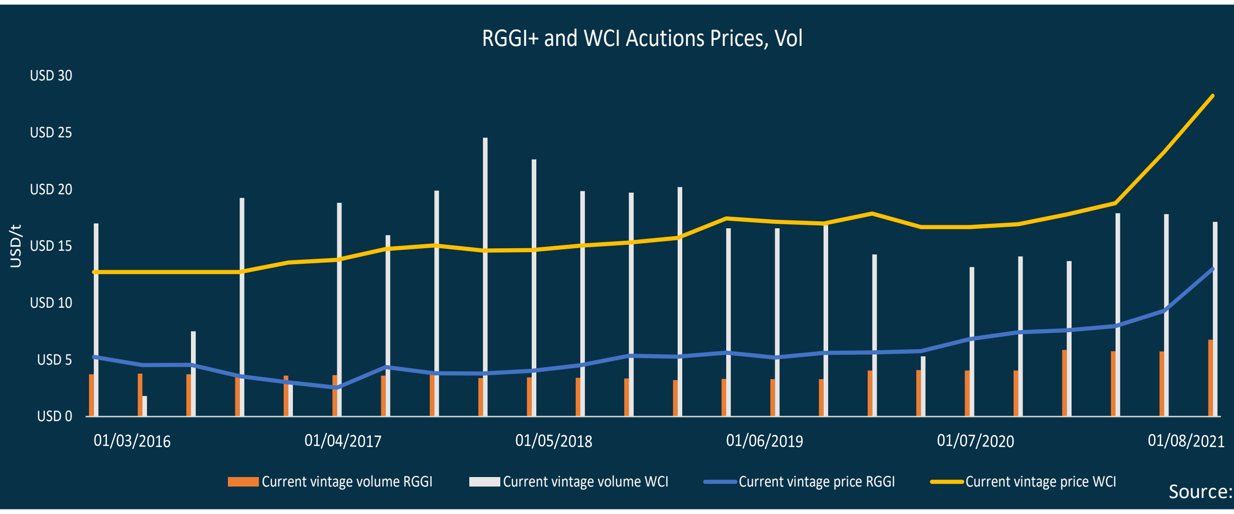


Source: Refinitiv Eikon

AMERICAS

California Carbon Allowance (CCA) values plummeted to the lowest level since Oct 2021. The Feb-22 V22 CCA contract declined 2.1% – over the Feb. 10th-16th period to settle at $27.36, while the Dec-22 V22s dropped 52 % over the week to end at $28.40, the lowest for a CCA benchmark contract since Dec 3rd 2021 (ICE, 2022). As CCA prices fell over the majority of the w/c Feb 14th, RGA values also came off on very thin trading before stabilising. As a result, the Dec-22 V22 RGA contract dropped to $13.99 on Feb 14th – the lowest since Jan 2022 (ICE, 2022).

RGGI prices have been said to have a lack of market drivers in recent weeks due to the uncertainty of Virginia's participation withdrawing from the power sector of the carbon market. The Virginia Republican-controlled House of Delegates on Feb 15th passed legislation (HB-118) to withdraw its participation in the state's RGGI-linked cap-and-trade regulation and auction system. However, the bill may face obstacles in the Democrat-controlled Senate.



Source: Refinitiv Eikon

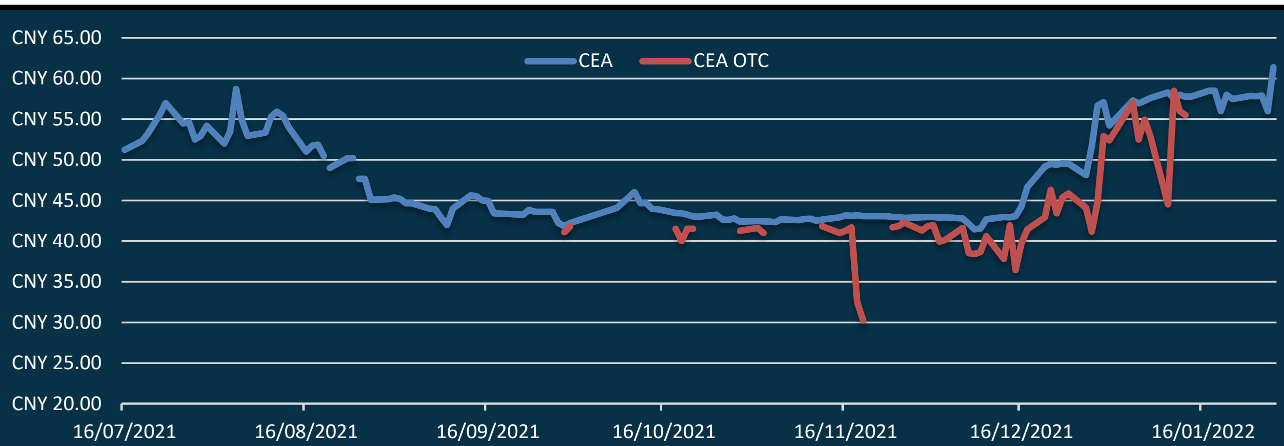
ASIA PACIFIC

According to an officer in the Shanghai Environment and Energy Exchange, some Chinese institutional investors and financials may be granted access to trade in China's national ETS in the second half of 2022. After the end of the first compliance cycle on Dec. 31st 2021, trading volumes have dropped sharply in the market, hoping for the inclusion of more non-compliance participants to be able to inject some liquidity to the market. However, the time frame remains unclear as to when non-compliance participants can open their trading accounts.

China's 2021 Carbon Pricing Survey was taken amongst hundreds of stakeholders throughout November 2021, 76% of them being carbon emitters. Moreover, 70% of survey respondents expect China to achieve peaks in carbon emission between 2026 to 2030, while only 16% of them expect China to fail its commitment to the emission peak before 2030. According to China Carbon Forum (2021) the average price expectation of CEA is CNY 49/t (USD 7.75/t) in 2022, increasing to CNY 87/t (USD 13.75/t) in 2025 and CNY 139/t (USD 21.98 /t) by the end of 2030.

Spot Carbon Emissions Allowances (CEAs) nearly reached a record high price level, bearing in mind that it is still very thin trading volumes as traders await regulatory clarity. CEAs closed on Feb 10th on the Shanghai Environment and Energy Exchange at 60 yuan ($9.44), up 4 7% compared to two weeks ago to reach their second-highest point since the scheme started, only beaten by the highest closing price (61.38 yuan) on Jan 28th 2022.

India's power ministry has launched a green hydrogen policy to boost decarbonisation on Feb 17th. This policy is the first stage to boost green hydrogen demand in key industrial sectors, including refining, fertilisers and steel, contributing to India's climate pledge to reach net-zero emissions by 2070.

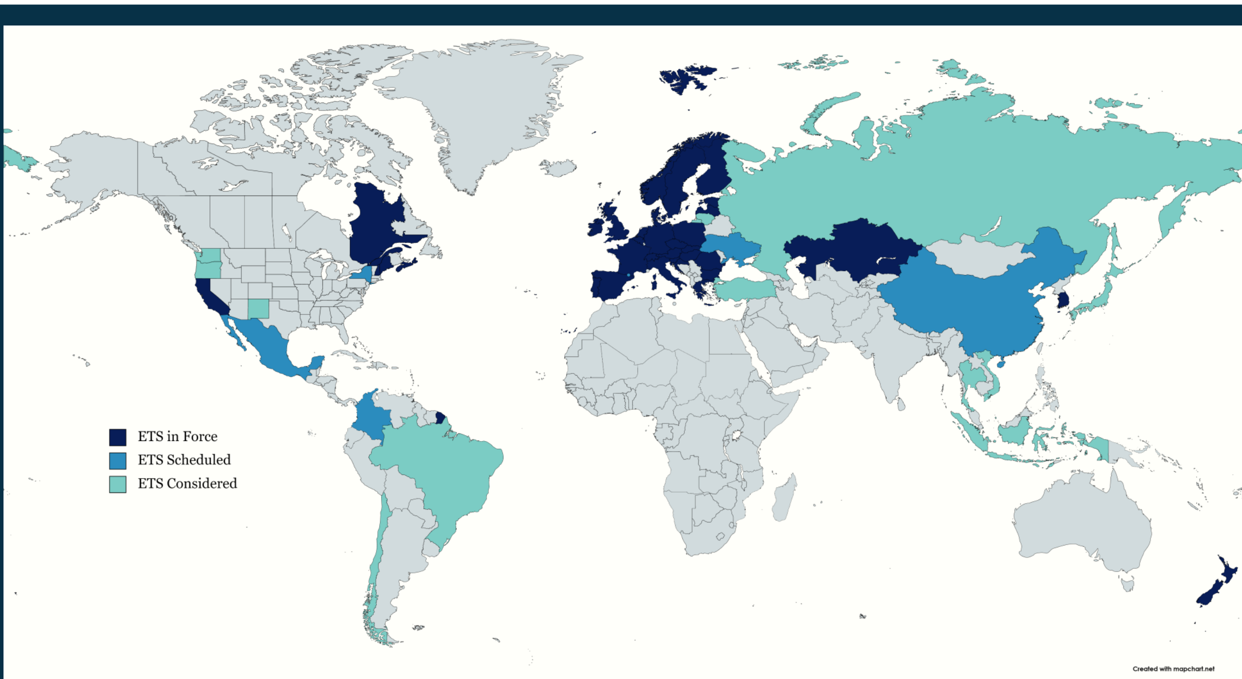


Source: Refinitiv Eikon

Regulation

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

- 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. Owners and operators argue that charters 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.
- The World Shipping Council has opposed changes to the European Union's emissions trading system and proposed applying regional carbon prices.
- 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.
- Peter Liese put forward mid-Feb that the EU ETS needs amendments to Article29a. The current clause states that if the EUA price has been three times higher than the average price for the previous two years for more than six months, additional permits could be auctioned, thus increasing supply.



Source: Refinitiv Eikon and Lloyds List

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