

18/03/2022

## Compliance Markets

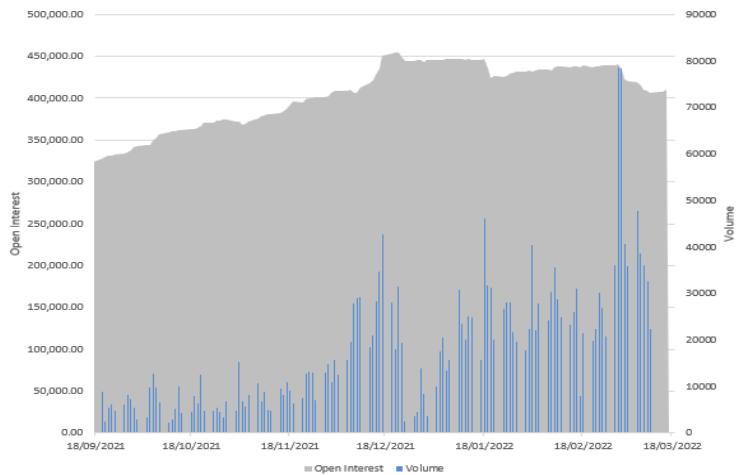
EUAs

The Dec-22 EUAs contract continued to recover strongly from the fall-out of the Ukraine/ Russia conflict. To evidence this, using Friday's settlement price of €78.89, prices are up +37% when compared to their lowest settlement from the fall-out on the 7th of March at €58.30. Trading volumes and open interest also continue to suggest positive bullish conditions. Most remarkably, however, is that the inverse correlation between EUAs and wider-energy commodities continues to be present. Technical analysis is also showing a clear resistance at €80.00. It certainly appears that fundamentals are yet to return to this market, and strong prices are perhaps just being driven by a week of moderately strong auctions and compliance buyers.

DEC22 ICE EUA Futures



EUA DEC22 Futures Open Interest/ Volume



Source: Refinitiv

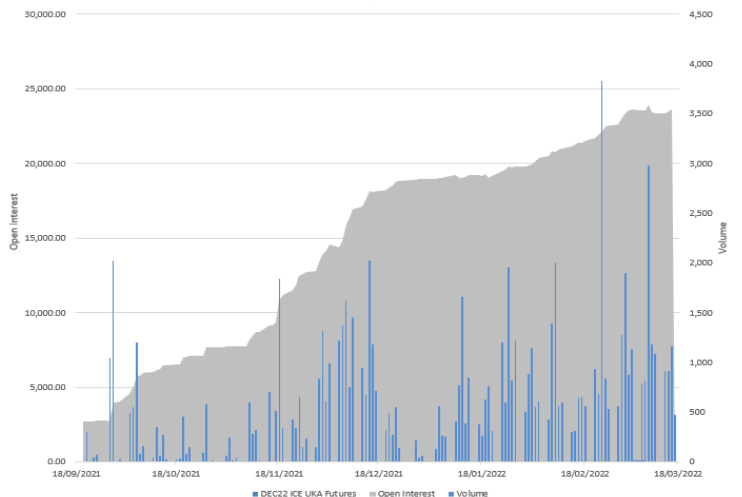
UK ETS

After a strong week of trading, the UKAs fell for the first time in seven sessions on Friday due to light trading conditions. To summarise, Dec-22 contract finished the week +2.5%, eventually setting at £80.91. The high of the week settlement price was seen on Thursday at £82.94, up +4.6%. As the UK's energy policy continues to be redrawn following the Russian export embargo for oil and gas, dirtier fossil fuel types could be drawn from to ensure energy security for the country. Fundamentals could therefore suggest further upside moves.

DEC22 ICE UKA FUTURES



UKA DEC22 Futures Open Interest/ Volume



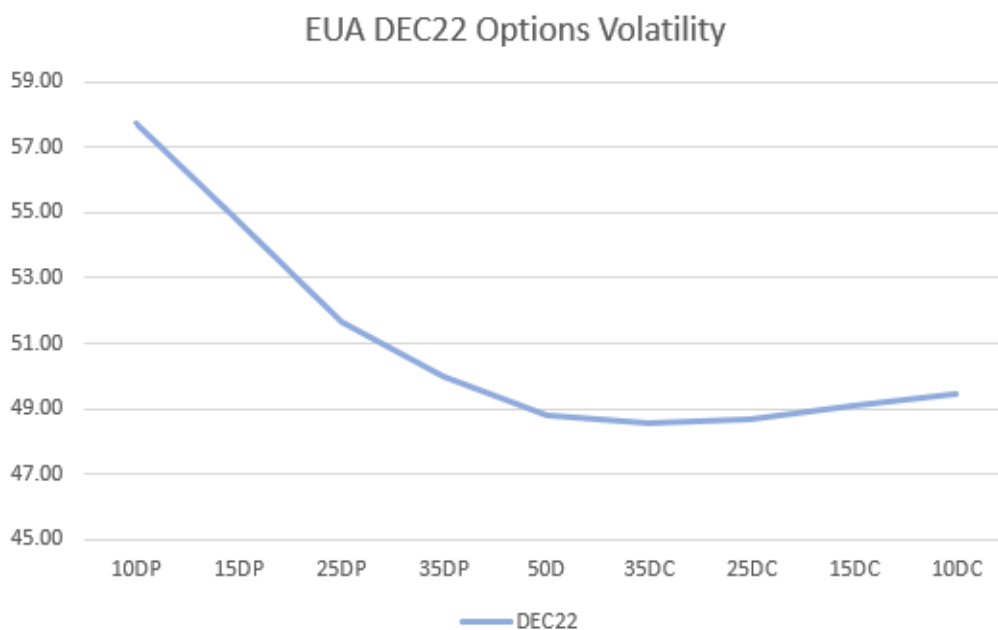
Source: Refinitiv

## EUA Options Market

Historical volatility continues to increase for both 10, 30, and 50 days. Dec-22 €35.00, €40.00, and €50.00 strikes are the most popular amongst traders this week, in stark contrast to what has been reported over the previous weeks as a clear bias towards +€80.00 calls was evident. The drop in EUAs prices and increase in volatility has evidently caused hedgers and speculators to re-think strategies. However, most notably in EUAs at present is the resurgence in open interest on €80.00 calls.

**Volatility Surface: 14/03/2022**

TERM	10DP	15DP	25DP	35DP	50D	35DC	25DC	15DC	10DC
DEC22	57.73	54.73	51.64	49.98	48.80	48.55	48.70	49.11	49.44



Source: Bloomberg



Source: Bloomberg

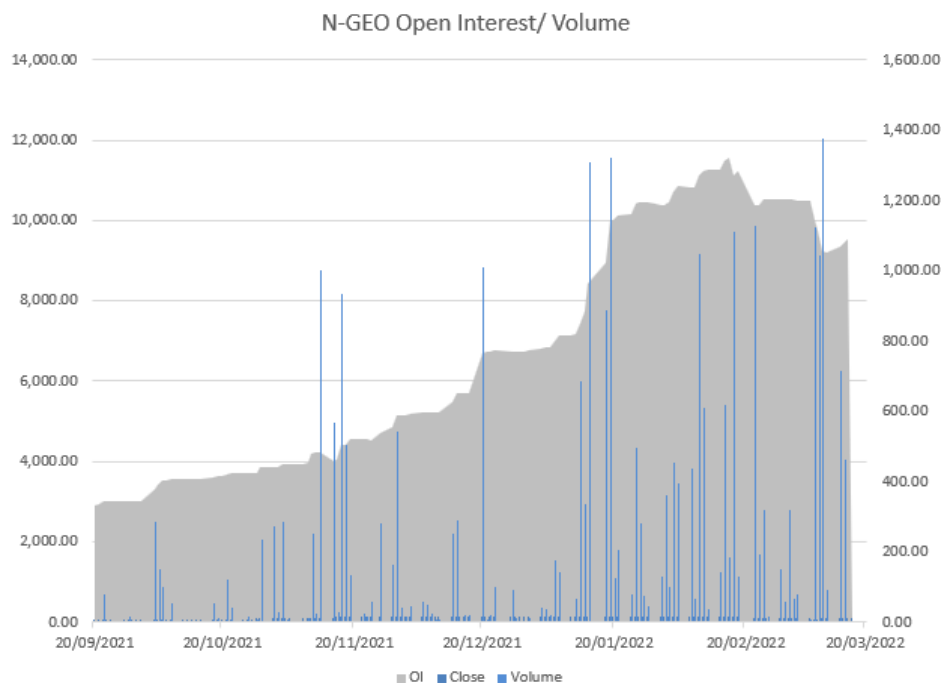
## Voluntary Markets

### Exchange Traded (CME GEO/ N-GEO)

After the slump in recent weeks, CME’s voluntary carbon contracts have seen a strong price recovery and healthy trading volumes. Using yesterday’s settlement of \$6.30, GEO Dec-22 is up +16.8% from their lowest settlement price of \$5.39 seen after the Ukraine conflict fall-out on the 8th of March. Similarly, Dec-22 NGOs are up +24% and continue to be the favoured emissions contracts offered by CME; as exemplified by the trading volumes shown in the chart below which still shows elevated levels when compared to historical activity. On the contrary, the new C-GEO contract is seeing a slow-uptake amongst market participants with little trading being seen and no block trades yet to be executed.



Source: Refinitiv



Source: Refinitiv

Block Trades on CME (w/c 14th)

A total of 5.98m tonnes were traded on CME through 72 blocks this week on the GEO/NGO contract. A prominent strategy has been spread trades on NGO; buying Dec-22, selling Dec-23. In addition, spreads on GEO Dec-22, Mar-22 has also been seen. Selling the Dec, buying Mar.

Date	GEO/ NGO	Median Price	Qty/tns ('000)
17/03/2022	GEO	N/A	N/A
	NGO	10.00	310
16/03/2022	GEO	10	1440
	NGO	10.2	4261
15/03/2022	GEO	N/A	N/A
	NGO	10	250
14/03/2022	GEO	N/A	N/A
	NGO	10.7	1165

Source: CME Direct

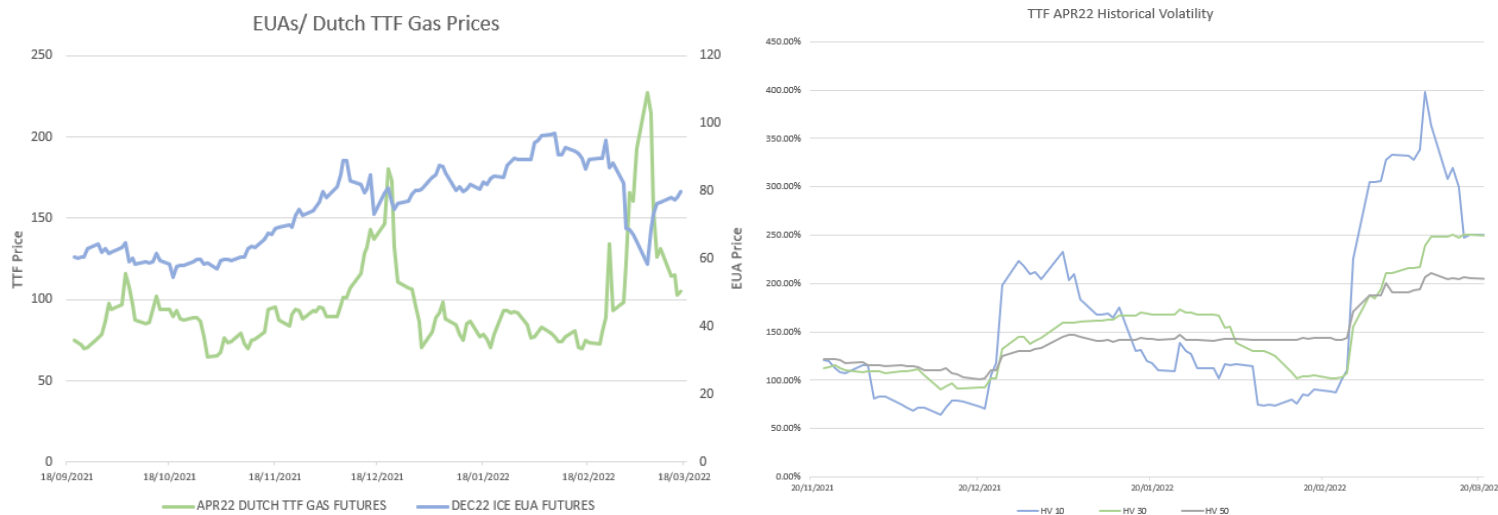
FIS OTC Projects

Below are current offset projects offered by FIS to help entities manage their emissions exposure and/ or achieve ESG strategic initiatives.

GS707, Turkey LFG, v13, 179kt, indic offer USD 5.8, spot delivery.  
 GS7538, India Solar, v20-21, 120kt, indic offer USD 7.7, spot delivery.  
 GS5614, India wind, v19-20, 70kt, indic offer 8, spot delivery.

## Correlated Markets

Although energy commodities and their scarcity given the current geopolitical situation remain of paramount importance, trading conditions appear to be cooling down somewhat; most notably in TTF Gas. The front-month contract settled down -8.3%, settling at €105.044MW/h at Friday's close. Cal-23 German Baseload Power followed a similar story the above. The contract settled at €158.25MW/h, slightly down -1.1%. Interestingly, Cal-23 API2 coal is already the best-performing energy commodity in Europe this year. The benchmark price has risen 83%, compared to 30% for Cal-23 German power, 43% for Cal-23 TTF gas and a decline of 6% for Dec-22 EUAs. The inverse correlation between these energy commodities and EUAs continues to be evident, but it is arguably only a matter of time before the producers of these power sources must comply with the EU ETS and purchase EUAs.



Source: Refinitiv

## Market News

EU countries agreed to the world's first carbon tariff this week; termed the Carbon Border Adjustment Mechanism, CBAM (European Commission).

Italian utility Enel saw a 22% surge in ETS-covered power generation in 2021 (Carbon Pulse).

The Chancellor has warned the UK faces a €70bn hit from the EU ban on Russian oil and gas (Financial Times).

The EU is considering joining the US in a Russian oil embargo (Reuters).

The UK is looking to North Sea oil and gas in order to secure domestic energy supplies (Financial Times).

Saudi Aramco are to boost oil production spending to help meet the global risk in demand (Financial Times).

Germany says it has clinched a long-term gas supply deal with Qatar (Financial Times).

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