FIS Monthly Carbon Report

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Global Carbon Highlights 05/04/22

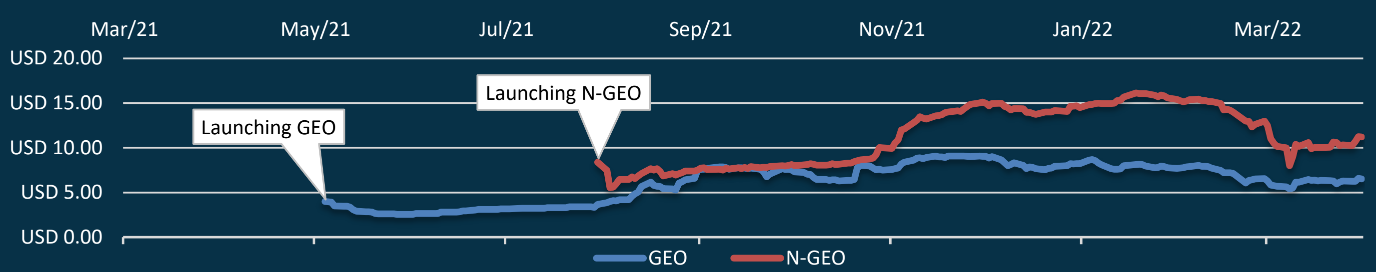
Prices movement	Mar 31st	Feb 28th	Changes %	Sentiment
EUA Dec-22	€ 76.48	€ 82.21	-7.49%	↓
EUA Dec-23	€ 78.24	€ 83.66	-6.93%	↓
EUA Dec-24	€ 80.50	€ 85.87	-6.67%	↓
UKA Dec-22	£ 75.77	£ 79.59	-5.04%	↓
GEO Dec-22	$ 6.53	$ 6.55	-0.31%	↓
N-GEO Dec-22	$ 11.20	$ 12.98	-15.89%	↓

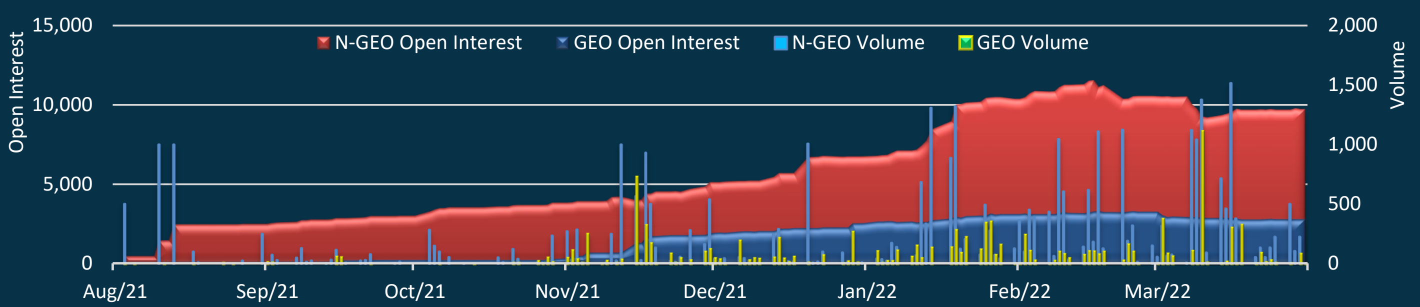
Voluntary Markets

Following the first week of March, price slumps continued in both CME voluntary contracts in wake of the Ukraine/Russia conflicts shifting investor's attention away from the voluntary carbon market to focus on managing their exposure to other asset classes. However, during the latter part of March, CME's voluntary carbon contracts saw a strong price recovery complimented by healthy trading. And evidently, the GEO Dec-22 contract closing 31st of March was up by 17.46% from its lowest settlement price of $5.39 on the 8th. Similarly, Dec-22 NGEOs were driven up by 28.57% from its lowest closing price, which remains CME's most popular emissions contract.

The voluntary carbon market suffered from the same thin trading conditions as the compliance markets. Evidently, in the third week of March, only over 1,000 lots were traded on CME, compared to the week before, trading amounted to approximately 6,000 lots (CME 2022). The newly launched CBL C-GEO future contract found little interest for the first two weeks of trading. However, the market interests started to find traction in the third week, where trading volumes amounted to 12,000 tons for the Dec-22 contract.

In the OTC voluntary offsets, there is growing interest from market participants in renewables, in comparison to little interest in nature-based offsets. However, the market seems to be avoiding large hydro projects. On the other hand, price-sensitive clients have renewed their interests in CDM CERs, though it is necessary for market participants to see the project ID to firm up interests.



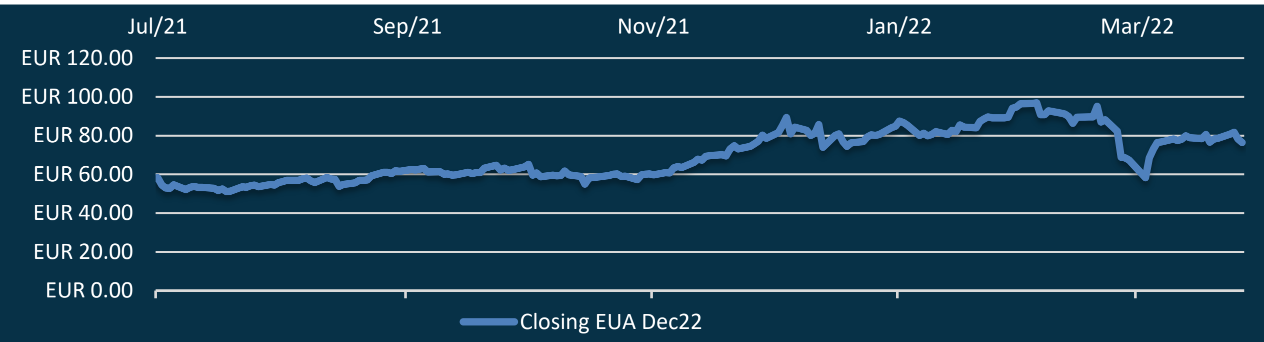


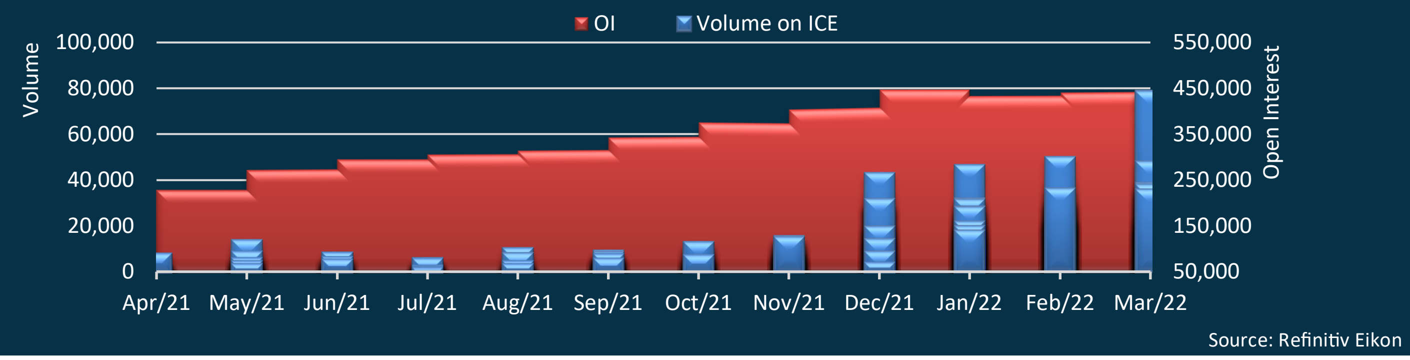
Source: Refinitiv Eikon

EU ETS

EUAs benchmark contract Dec22 recorded the largest day-on-day drop on the first day of March. The contract suffered a 16.25% loss due to widespread liquidations, triggered stop-losses, margin calls in other commodities, suspected selling by Russian investors, and a general policy shift away from climate change in an attempt to appease tensions in eastern Europe. Trading volumes have also seen new highs amidst the sell-off, jumping to 78,655 and 78,462 on the 1st and 2nd, respectively. In contrast, the previous trading volume high was 49,737. Since the Ukraine/ Russia conflict outbreak, the benchmark contract has again found a positive trend. In support of this, the last Friday of March's settlement price of €78.60, up by +25.83% compared to their lowest settlement from the fall-out on the 7th of March at €58.30. Most notably, the inverse correlation between EUAs and wider-energy commodities still remain.

By the end of March, liquidity was certainly the main talking point in the EUA market. Compared to historical levels, thin trading and extremely low volumes have been prominent features. For instance, on Wednesday (23rd), total trades on the benchmark contract were just over 7m EUAs, compared to the daily average of around 28m EUAs. A large factor influencing liquidity was the Mar-22 options expiry, as once this passed, the market quickly lost value. More noticeably, one could argue that liquidity remained poor once the options expired on the 23rd. Speculators sit on the side-lines for the time being whilst compliance entities drive the market, and due to the current state of affairs and potential energy supply scarcity, delicate attention is being paid to ensure inflated prices and energy supplies do not impact end-consumers in the EU.

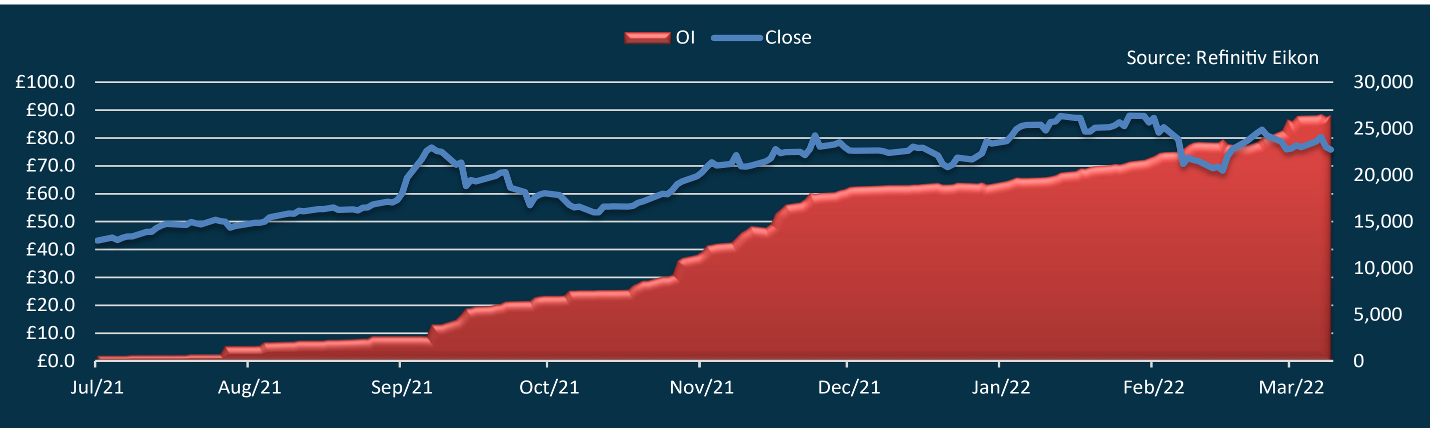




UK ETS

The continued downward pressure on the compliance market has remained present throughout March, whilst the moves in the UK ETS are significantly less than EU ETS's price swings. When comparing the UKA's performance with EUAs, UKAs are down 5.04%, beating the EUAs benchmark contract down 7.49% month-on-month (ICE closing price February 28th vs March 31st). Fundamentals remain much the same as with EUAs, especially as the UK has joined the US in banning Russian energy imports. Consequently, to compensate for the lack of Russian supply, the UK has considered reintroducing fracking for shale gas, having been banned since 2019, suggesting a potential upward price move for the market.

In light of the changing energy market in Europe, there have been talks amongst market participants about possible changes to the UK ETS. The main topic is to increase the rate of emissions cuts to speed up the UK's 2050 net-zero target and implement the shipping industry into the ETS scheme.

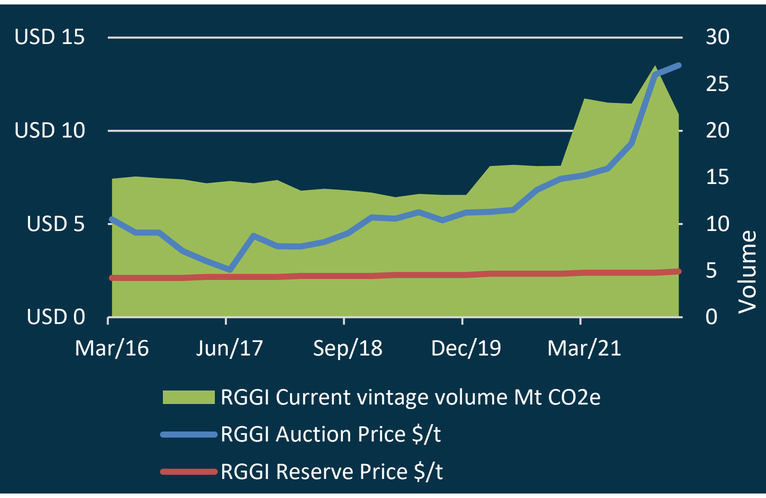


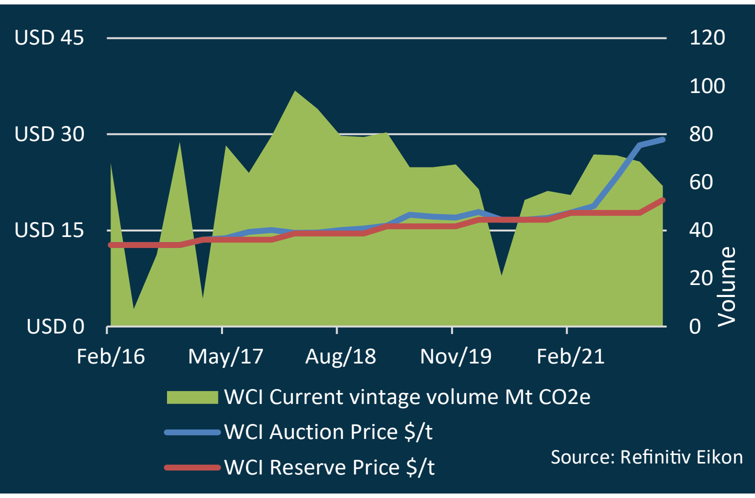
AMERICAS

In early March, attributed to a massive risk-off environment in global carbon and equities markets following the Ukraine Crisis, there was nearly a 25% crash for the Dec-22 V22 California Carbon Allowance CCA. However, due to tightening regulatory developments, the CCA market recovered later in March, reaching $31.59 on March 29th, up by 4.6% from the previous day's settlement (Carbon Pulse).

RGGI Allowance (RGA) on March 24th regained almost all their losses suffered from a plunge on March 21st. In addition, market participants observed a selling flow from compliance entities several days after Virginia Governor Glenn Youngkin published a report outlining a draft emergency regulation to sever Virginia's RGGI-linked cap-and-trade system. As a result, the Mar-22 V22 RGA contract dropped nine cents over the March 17th -23rd period and settled at $12.76, while the Dec-22 V22s also came off nine cents to $13.00 (ICE ,2022).

The Canadian Trudeau administration has researched plans to prevent Canada's carbon pricing programme from being lowered or cancelled out by its future government. According to the new 2030 government emission reduction plan published on March 29th, Canadian emissions aim for an interim target of a 20% fall below 2005 levels by 2026 and pledging 40% below 2005 levels by 2030. In addition, the plan recommitted to pushing the CO_2 price by C$15/t every year from 2023 and aims to reach C$170 by 2030. Moreover, the federal CO_2 levy on fossil fuels sees an increase of C$10 to C$50/t on April 1st (Carbon Pulse).



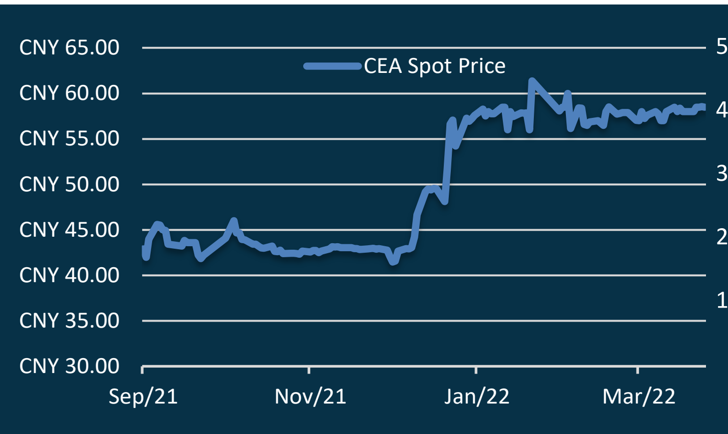


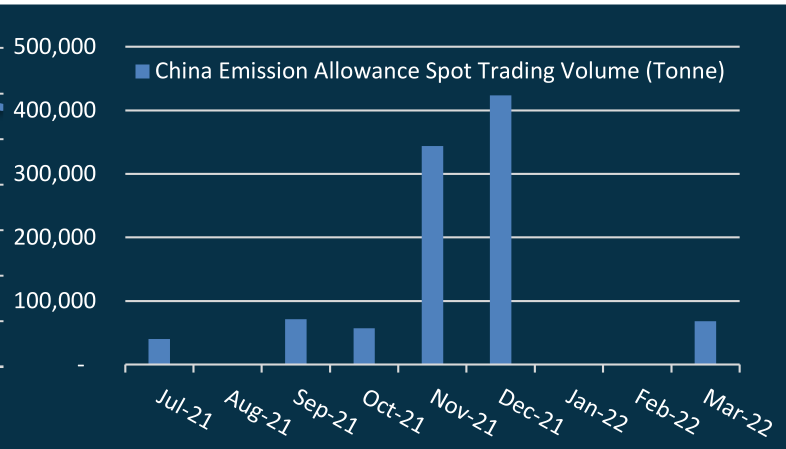
Source: Refinitiv Eikon

ASIA PACIFIC

Chinese spot Carbon Emissions Allowances (CEAs) closed on March 31st at 58.55 yuan ($9.20). Trading activity only saw 70,000 permits traded on the exchange during March's last few trading days. In comparison to the pilot program on the Shanghai Environment and Energy Exchange, trading activity was significantly higher, recording roughly 230,000 units in the same period. There are bullish signals from the Chinese government drafting a plan to make tougher than expected cuts in emissions allocation. Whilst compliance entities still can expect to have up to two years to prepare for the compliance deadline for national ETS.

Over the past month, more regions in Asia have joined the global net-zero effort. By releasing its transition plan, Taiwan has pledged to be net-zero by 2050. In this plan, Taiwan will focus on renewables and investing in hydrogen and CCUS and nature-based solutions. However, the supportive role carbon prices play in this roadmap remains to be seen. More support for the Japanese voluntary carbon market has been forecast as well. Up to four hundred companies ranging from manufacturing, power, finance, and mining have signed up for Japan's voluntary carbon emission trading scheme. In addition, regulators in Hong Kong will move to shape itself as a major voluntary carbon trading hub in Asia, acting as an intermediary between international traders and mainland China's carbon market (Carbon Pulse).



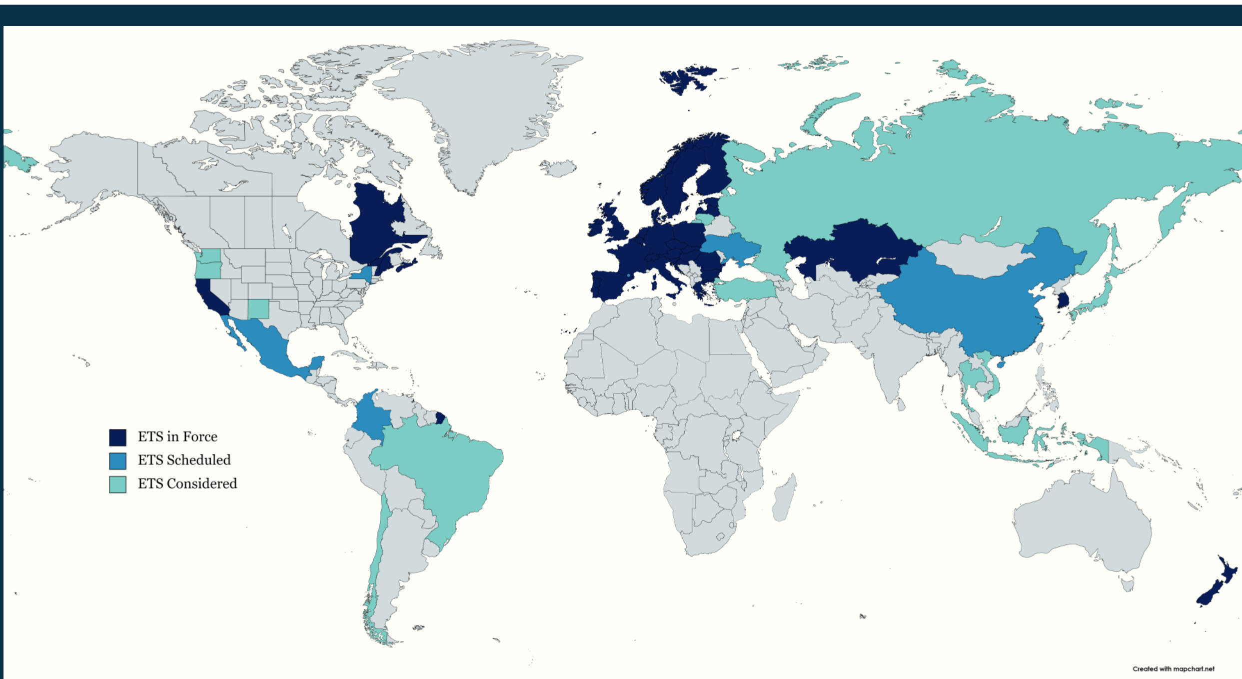


Source: Refinitiv Eikon

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 CO_2 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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