FIS Monthly Carbon Report

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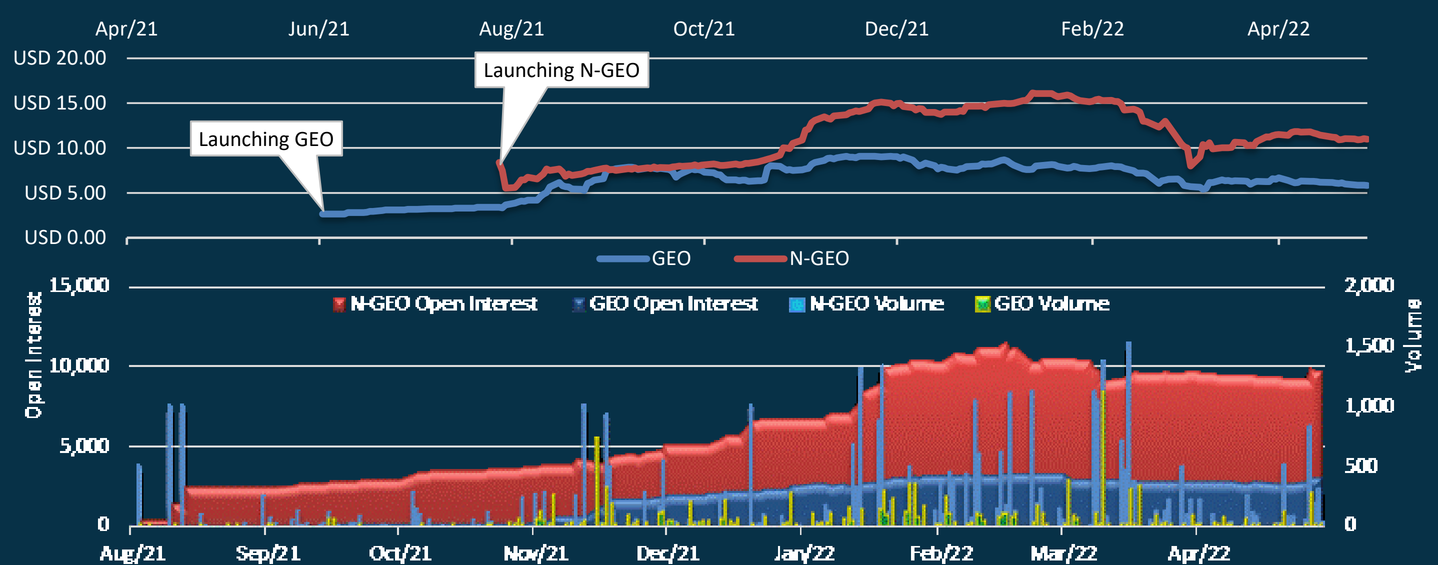
Global Carbon Highlights 03/05/22

Prices movement	Apr 29th	Mar 31th	Changes %	Sentiment
EUA Dec-22	€ 84.45	€ 76.48	9.44%	↑
EUA Dec-23	€ 86.82	€ 78.24	9.88%	↑
EUA Dec-24	€ 89.76	€ 80.50	10.32%	↑
UKA Dec-22	£ 80.75	£ 75.77	6.17%	↑
GEO Dec-22	$ 5.84	$ 6.53	-11.82%	↓
N-GEO Dec-22	$ 10.96	$ 11.20	-2.19%	↓

Voluntary Markets

In early April, the exchange-traded voluntary carbon market continued to post a strong recovery in terms of price and open interest levels following the sell-off in March. The trading volume was light the week before the Easter holiday. Conversely, in the post-Easter week commencing from April 19th, trading volumes and sideways price action have been seen in the CME contracts, caused by a shorter trading week following the Easter weekend. Only 50 lots NGO Dec-22 and 250 lots NGO Dec-23 had been traded in blocks. Dec-22 GEO prices decreased 1.8% after settling at $5.99 on the 22nd. For Dec-22 NGO, prices also dropped by 4.5% and settled at $10.90. Typically, a week of light trading follows a week of large trading. In the last week of April, activity in the voluntary market began to pick up—for CME contracts block trades, there were 340 lots of DEC-23 NGO, 1276 lots of Dec-22 NGO and 250 lots of Dec-22 GEO that changed hands.

As for voluntary OTC offsets, a total of 79.23m tonnes of offset credits spread across 75 separate projects were issued in April on the Verra registry. Notable credits include VCS 902 Kariba REDD+ Project for 33.66m tonnes and VCS 536 for Turkish Hydro for 2.64m tonnes.



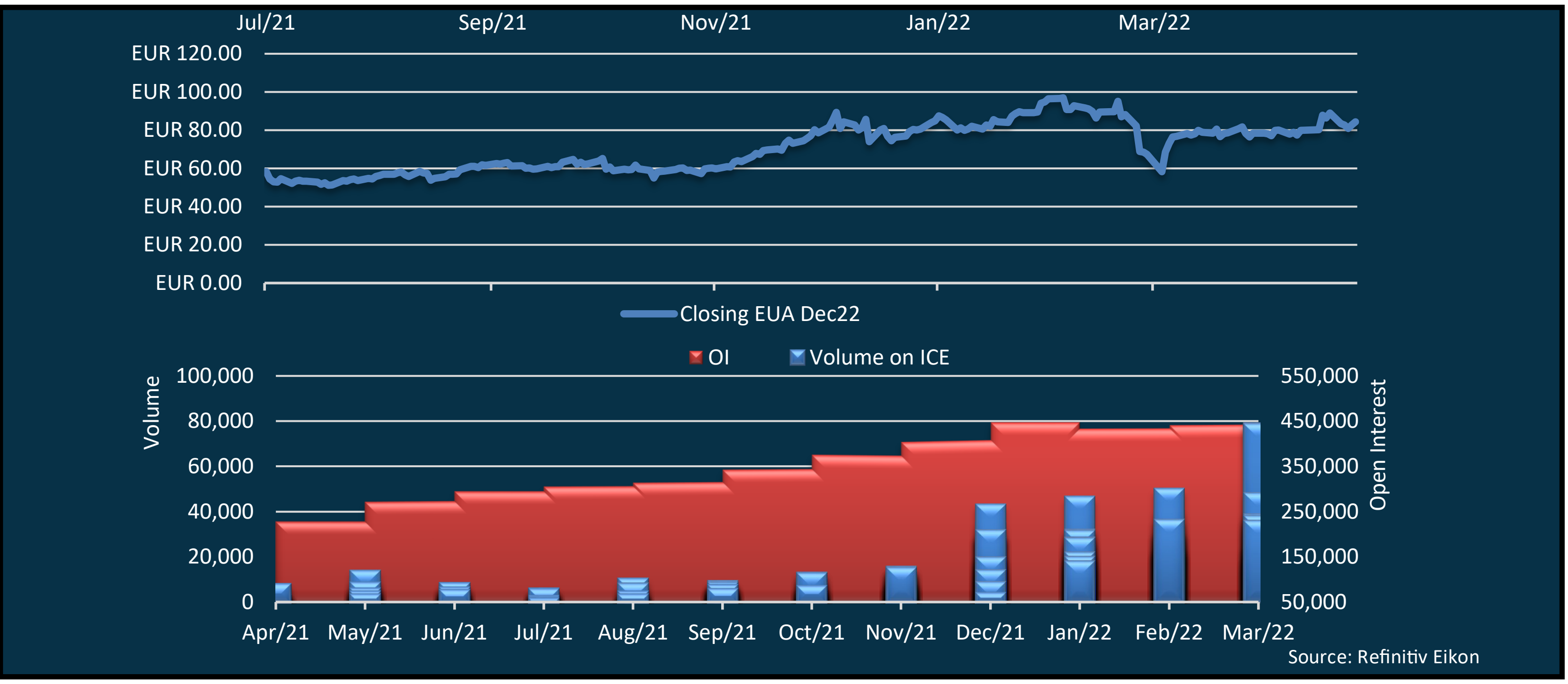
Source: Refinitiv Eikon

EU ETS

The EU compliance market continues to trail behind energy markets. As a result, total traded volume in the first week were seemingly low compared to the last week of March, WoW decreasing by 37.16%, whilst prices remained range-bound between €75-€80. In addition, MoM the recorded open interest fell by 20.49%. However, conditions picked up considerably on April 7th following a strong auction as the Dec-22 contract cleared a premium of €0.71. This strong auction activity transcended into the futures market, and prices jumped 1.3% and printed a closing price at €80.09 on Friday April 8th.

The second week followed the same trend with a weak start but finished strongly and the inverse correlation between EUAs and energy commodities remains. Energy markets reacted strongly to reports that Russia is considering accepting payment for natural gas in euros, a potential reversal from Moscow's demands for payments to be made in Roubles to counter the West's sanctions for the invasion of Ukraine.

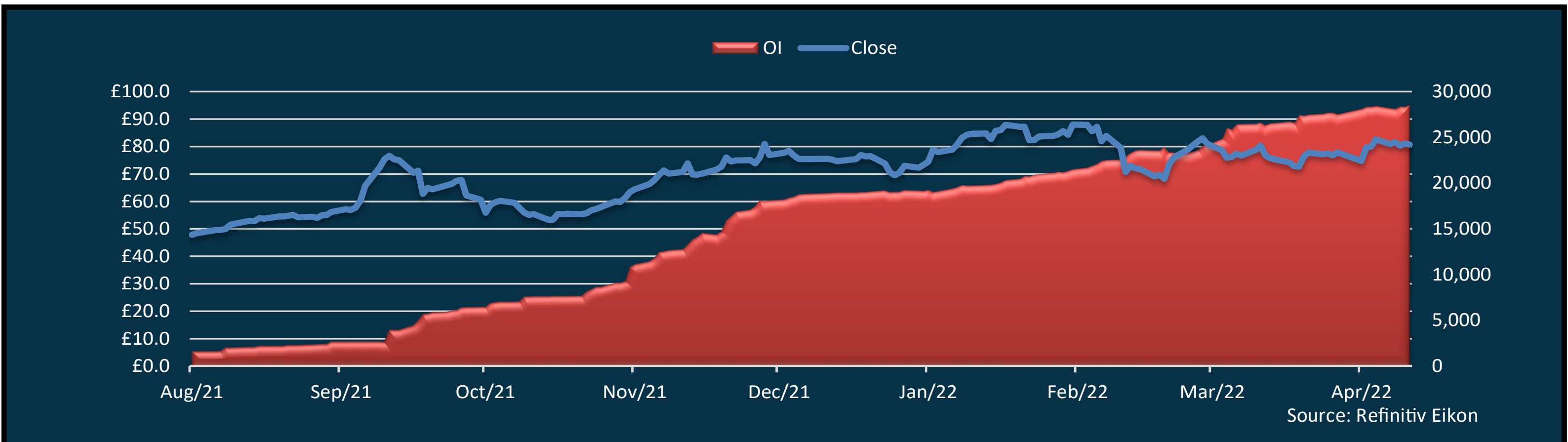
On Wednesday (20th), the market drastically changed its outlook; following a technical break-out above €80.58, the contract soared +9.5% to €87.82. This €7.62 gain was the Dec-22 contract's second-biggest ever increase, after the €10.21 rally following the price recovery after the Russia-Ukraine conflict news. Besides technical indicators, fundamental factors are also thought to have contributed to the spike, such as the European Parliament's industry committee (ITRE) vote on ETS reforms and late buying by industrials ahead of the April 30th deadline for EU ETS compliance entities to give up their allowances for 2021 emissions.



UK ETS

Price moments in the UKA market continue to correlate with its big brother the EUAs, positively impacting the futures prices trading on ICE. The UK's ETS is evidentially still in its infancy, but regulatory developments are progressing, bolting into its emission reduction requirements. Most notably, the first week of April saw the UK's new energy strategy launch, with plans for nuclear and offshore turbines featuring heavily to boost energy independence (Reuters).

The most noteworthy regarding market movements is the new high seen in open interest on the Dec-22 contract of 28,350 on April 26th. As expected, the UKA market followed EUAs gains on April 20th, up 4.82%. After opening the day before, prices fell 3.12% following the Easter break.



ASIA PACIFIC

Australia

The scheduled Australian Federal Election on Saturday 21st May 2022 could have significant ramifications for the future carbon policy of the worlds large emitters. The recent whistleblowing on the nascent Australian carbon emissions trading scheme and the withdrawal of Federal Government support has focused attention on the environment as an issue in this upcoming election.

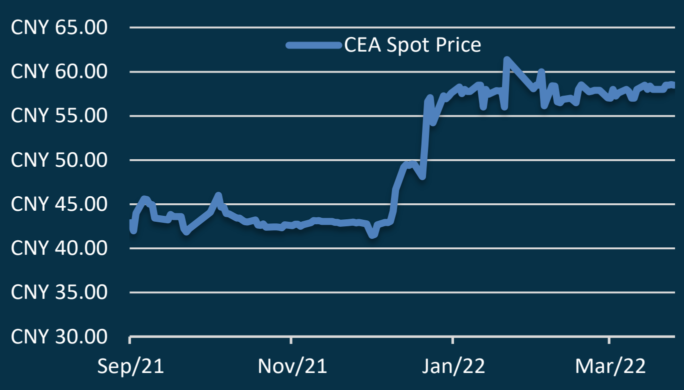
The opposition Labour and Green parties have heavily criticised the incumbent's handling of the situation, as well as their lacklustre targets for carbon emissions reduction. The Coalition government has made a commitment to net zero by 2050, with a plan for emissions reduction by 35% by 2030 announced at COP 26, but it had no plans to update any international climate pledges.

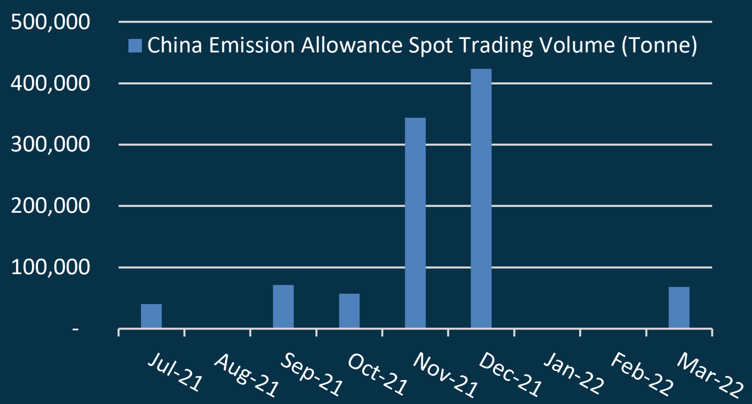
On the other hand, the Labor Party's commitment of 2030 target for a 26-28% reduction in emissions on 2005 levels is much more in line other major international commitments. The Green Party goes even further, committing to net zero by 2035 and net negative by 100 million tonnes by 2050.

China

Spot Carbon Emissions Allowances (CEAs) closed on April 28th at 59 yuan ($8.95), down by 1.7% from the previous week (Shanghai Environment and Energy Exchange). CEOs have been reminded has remained? trading rangebound and in light trading volumes in April as traders await new policy signals.

The nine regional carbon exchanges in China announced on April 25th that they would unite to streamline the local offsets by launching a unified offsets scheme. This unified offset scheme aims to connect the local offsetting schemes. However, details of how this unified market would work in practice remain visible.





Source: Refinitiv Eikon

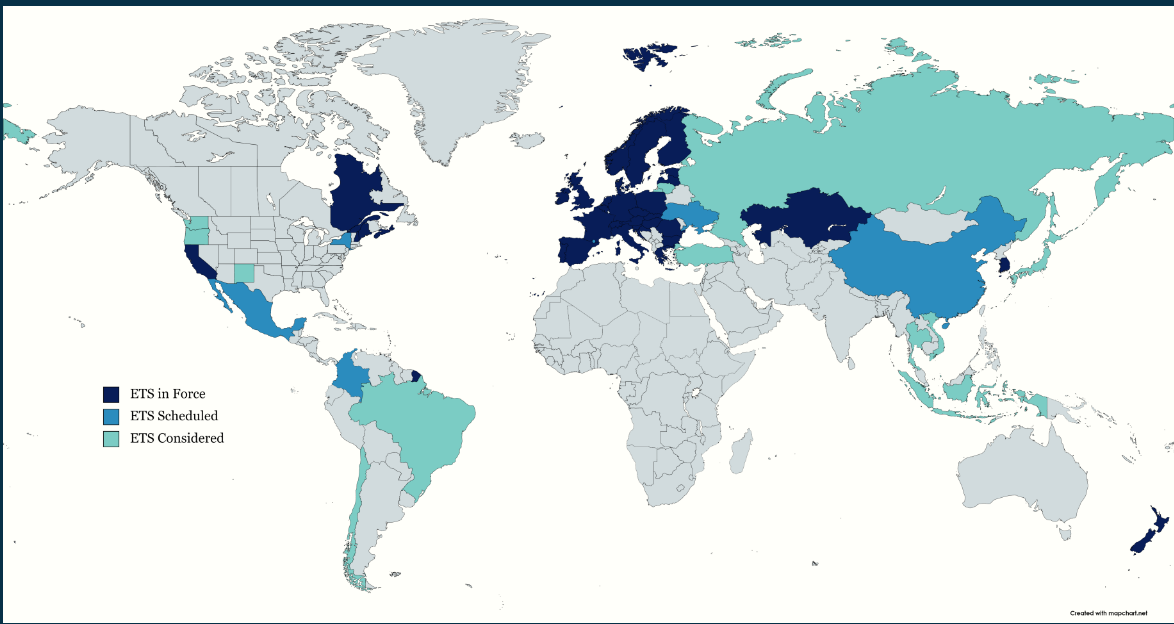
Regulation

- 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.

Regulatory Net Zero Target

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 Map



Source: Refinitiv Eikon and Lloyds List

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