

Global Carbon Highlights

31/05/22

Prices movement	May 31st	Apr 29th	Changes %	Sentiment
EUA Dec-22	€ 83.82	€ 84.45	-0.75%	↓
EUA Dec-23	€ 86.70	€ 86.82	-0.14%	↓
EUA Dec-24	€ 90.99	€ 89.76	1.35%	↑
UKA Dec-22	£ 82.00	£ 80.75	1.52%	↑
GEO Dec-22	\$ 4.80	\$ 5.84	-21.67%	↓
N-GEO Dec-22	\$ 11.03	\$ 10.96	0.63%	↑

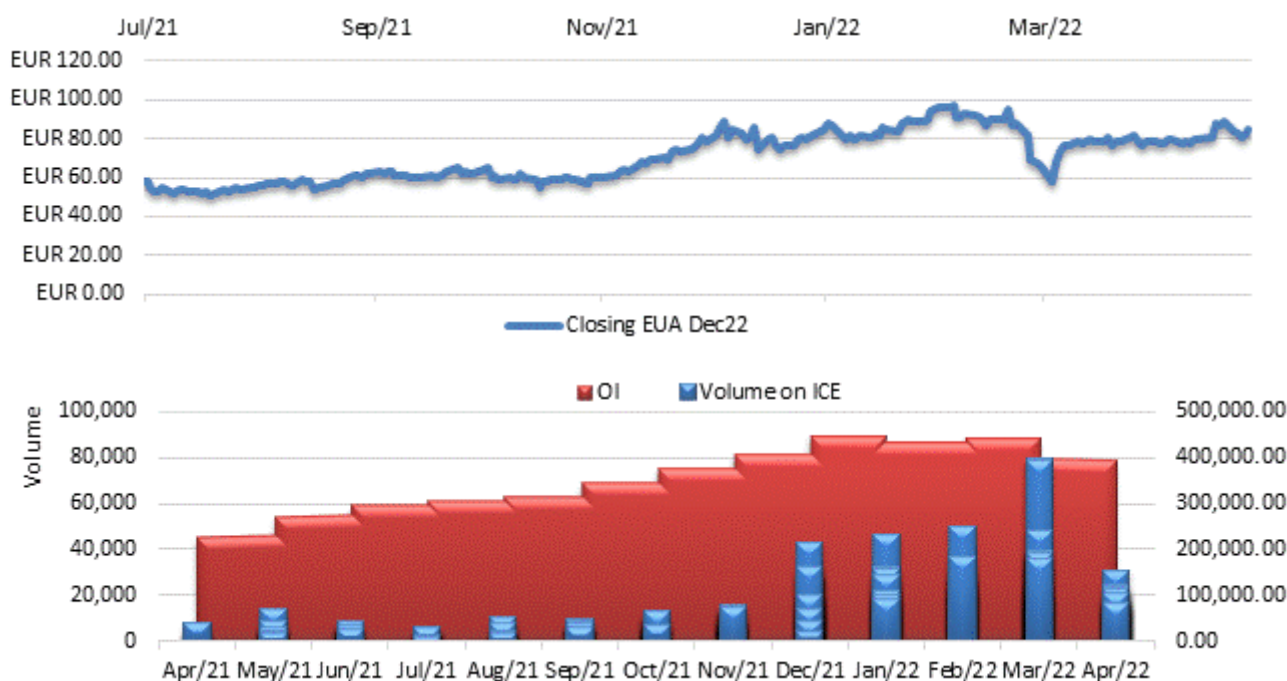
Voluntary Markets

CME exchange-traded voluntary carbon contracts lost some ground over the past month despite positive trading volumes. Arguably, this is due to an overall weaker economic climate being seen in most countries. As a result, the voluntary carbon market has also become a victim to the negative outlook gripping markets. Nature-based credits continue to be favoured by market participants, and NGO Dec-22 contract settled at 11.03 which is 0.63% up from April \$10.96. Liquidity continues to strengthen on Dec-23 NGO and decrease on Dec-22 NGO. In summary, market demand for nature-based projects continues to be healthy and demand a higher-premium while technology-based voluntary credits lost some ground over the past month.

EEX will launch four contracts for voluntary carbon products on June 17th. The products will be listed first on the North American Nodal Exchange and by EEX in Europe later in 2022. The four products are: CORSIA, NBS, Carbon Removal and a product called Global Emission Reduction, which is a basket of voluntary carbon credits (Bloomberg).

Investment Fund VanEck will launch the first ETF on the Australian Securities Exchange that will track ICE Global Carbon Futures Index, which is based on global carbon futures prices like EUAs, UKAs and RGGI (Financial Review). Indonesian Rimba Raya REDD+ project may face a complete halt in offset issuances for the scheme until the government has finalised its new carbon market policy (Carbon Pulse).

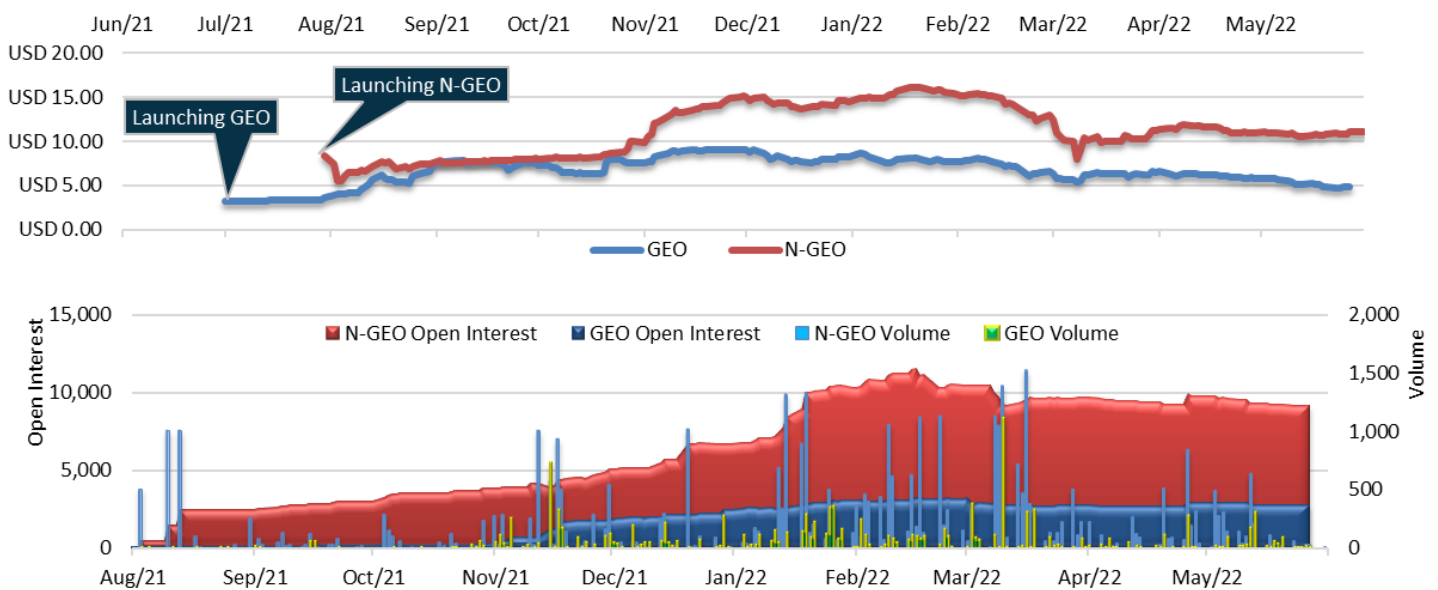
Verra also made fundamental rule changes which immediately halted the tokenisation of retired offsets on the basis that the offsets retirement is widely recognised as not realising the credit's environmental benefits (Carbon Pulse).



EU ETS

EUA prices for May had an impressive +10.23% increase on the benchmark Dec-22 contract, amid a shorter trading week where the contract settled at €91.54 on May the 6th. The first week was trading with bullish sentiment due to strong auction and a key technical threshold being breached, creating a ten-week high at €91.99. The second week dominated the news due to ENVI Committee vote on numerous amendments to the EU ETS. Some of the key changes included a steeper emissions target of 67%, increasing from 61%, and a speedier introduction of the shipping industry into the ETS with 100% of emissions covered from intra-European routes from 2024, and finally, speculator curbs for spot contracts (European Commission). The market initially responded positively to these announcements; however, a further announcement by the EU quickly changed things.

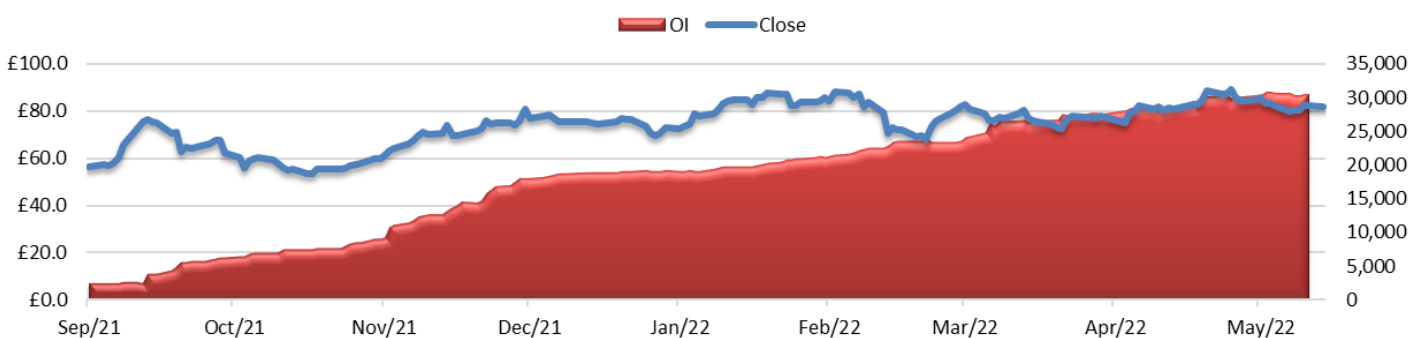
The 'RePowerEU' proposal to increase the supply of EUAs to bring in €20bn from the Market Stability Reserve (MSR) in a bid to reduce the blocs' reliance on Russian energy commodities met with a fierce sell-off. In addition, regulatory influence in the market clearly affected the ETS. A further announcement restored faith and confidence back into the ETS, as the additional EUA sales would be spread out over four years. Prices reacted positively and gained more than €3.00 on the Dec-22 futures contract. No auction calendar from Thursday (26th) caused more support for EUA futures, with the Dec-22 contract eventually settling on the 27th of May at €84.20; up +7.7% WoW.



Source: Refinitiv Eikon

UK ETS

Similarly, to EUAs, Dec-22 UK Allowance prices rose to an all-time high of £89.40 alongside quiet trading before settling 4.9% higher at £88.80 on May 6th. Following its correlation with EUA prices, the UK ETS wiped off £3.89 WoW from the Dec-22 contract, a 2.6% decrease. Notably, hitting the market this week, the UK government sets to announce the Cost Containment Mechanism trigger price for August at £117.00. The average UKA price during May, June, and July must remain above this level for regulators to increase the supply of allowances to the auctions. In the second half of May, the ETS fared a lot better, largely unaffected by the news coming from the EU. However, prices did decrease slightly. The Dec-22 contract lost -£2.35 after settling on May the 20. One key headline in the end of May was the UK government retook 400,000 carbon permits that were initially handed out for free to emitters in 2021 after it was found that their output was lower than expected. Resulting imposed modest cuts in pollution for futures years. In addition to this, it was also report that the UK government issued £27m in EU ETS non-compliance fines (Carbon Pulse)



Source: Refinitiv Eikon

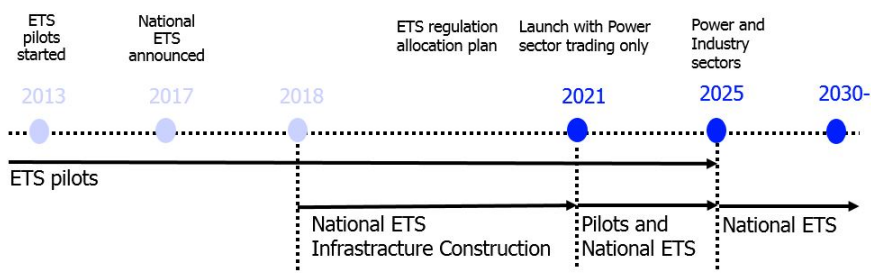
ASIA PACIFIC

China

Chinese spot Carbon Emissions Allowances (CEAs) closed at 59 on May 31st (Shanghai Environment and Energy Exchange). Additionally, low volumes and unchanged prices have been seen in the China's national emissions trading market for the past few months as the traders wait for the final version of the CEAs allocation plan for 2021 and 2022, including the proposal of 7% allocation level reduction and the combination of the two years in one single compliance cycle (Carbon Pulse).

Australian Carbon Credit Units (ACCU) spot prices jumped by around 20% on May 13th following the Labor Party's victory at the Federal Election over the weekend. The relatively low ACCU price was largely driven by the current massive oversupply issue of ACCU. The oversupply was attributed to policy changes announced by the federal government in March 2022, allowing carbon projects to exit their contracts with the Emissions Reduction Fund, in order to take advantage of the more lucrative spot market and therefore boost supply. The Labor Party's victory does not necessarily guarantee an increase in demand for ACCUs and would potentially alleviate ACCUs oversupply issues (Carbon Pulse).

Quad countries – Japan, Australia, India and the US will support high quality carbon markets and help the Indo-Pacific Region to implement Article 6, including launching plans for cooperation on clean hydrogen and ammonia, methane reduction in the LNG sector, Carbon capture, utilization and storage (CCUS) and a clean energy supply chain and green shipping and ports (Carbon Pulse).

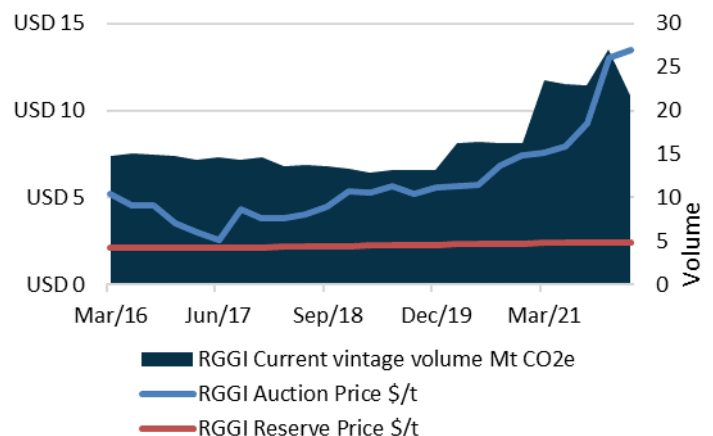
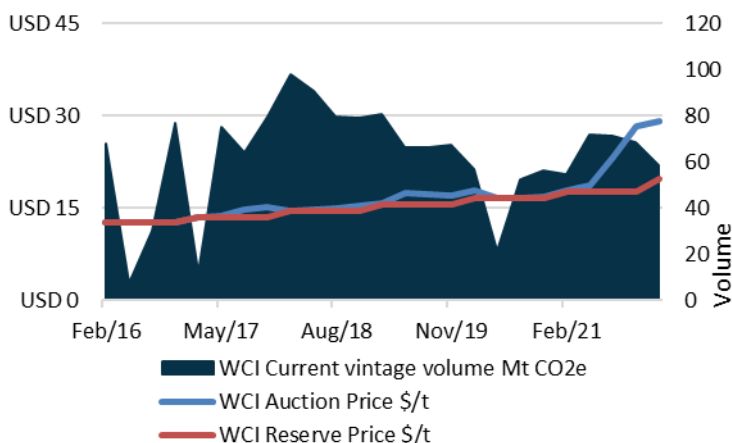


- National ETS launched first compliance period in January 2021, starts trading by June 2021
- The pilots will run in parallel with national ETS for some years (until 2025?)
 - Shanghai ETS (Trading platform for national ETS)
 - Hubei ETS (Registry)
 - Beijing (Trading center of voluntary credits)

Americas

Regulated entities boost CCA position up to 7.8 million before the Q2 2022 WCI auction, whilst slashing their RGGI allowance futures and options net long position to under 25.8 million, the lowest figure in the recent three weeks (US Commodity Futures Trading Association).

Brazilian pollution levels rank sixth in the world (Climate Watch). The Brazilian government invited sectors to set their own emissions goals under Paris Agreement pledge (Carbon Pulse). Moreover, Brazil President Jair Bolsonaro has signed a decree to launch a national carbon market (US News). However, critics claim that this measure is far too vague and fails to address the issue of explosive deforestation in the Amazon rainforest, while deforestation accounts for almost half of Brazil's climate pollution (Climate Observatory).



Tradable carbon markets

Compliance:

- ICE EUA Futures & Options
- ICE UKA Futures & Options
- ICE Nature-Based Carbon Credits

Voluntary

- CME Global Emission Offset Futures (GEO)
- CME Nature - Global Emission Offset Futures (NGEO)
- CME Core - Global Emission Offset Futures (CGEO)

Regulation

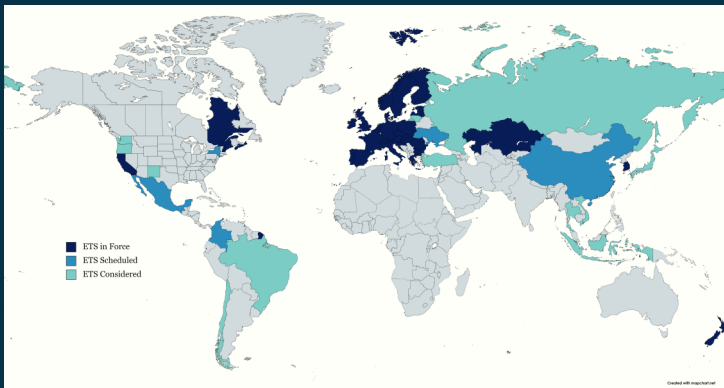
Despite intensifying regulatory landscape and reduction targets, global shipping emissions rose by 4.9% to 833m tonnes of CO2 emissions in 2021.

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.

Emissions Target Map



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

Source: Refinitiv Eikon and Lloyds List

Contact

Theodore Goulios
 TheoG@freightinvestor.com
 +65 6535 5189

Fan Huilian
 HuilianF@freightinvestor.com
 +44 7729118251

Kieran Batterbury
 KieranB@freightinvestor.com
 +44 7543223444

Written by Erik Bye and Fan Huilian

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