

02/08/22

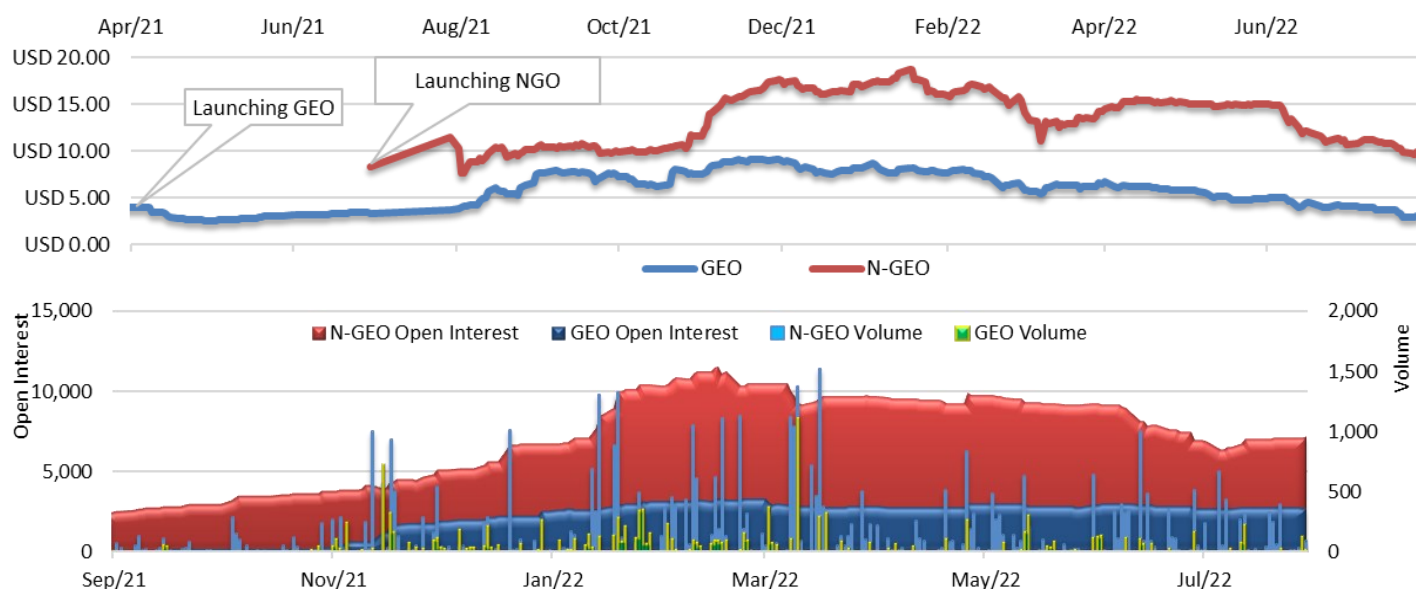
Prices movement	Jul 29th	Jun 30th	Changes %	Sentiment
EUA Dec-22	€ 78.55	€ 90.16	-14.78%	↓
EUA Dec-23	€ 80.78	€ 92.94	-15.05%	↓
EUA Dec-24	€ 84.33	€ 99.00	-17.40%	↓
UKA Dec-22	£ 78.33	£ 84.99	-8.50%	↓
GEO Dec-22	\$ 2.92	\$ 4.14	-41.78%	↓
N-GEO Dec-22	\$ 7.57	\$ 8.78	-15.98%	↓
N-GEO Dec-23	\$ 9.74	\$ 11.24	-15.40%	↓

Voluntary Market

Exchange-traded futures prices have come off significantly on CME. CME NGO Dec 22 prices have dropped by – 15.98% over the month and settled at \$7.57 on the July 29th, while the open interests has increased to 7,215 (6,984 on June 30th). Meanwhile, CME NGO Dec 23 prices have lost by – 8.60% over the July 1st -29th period and lastly settled at \$9.74 and overall open interests has decreased to 5,040 (5,225 on June 30th)

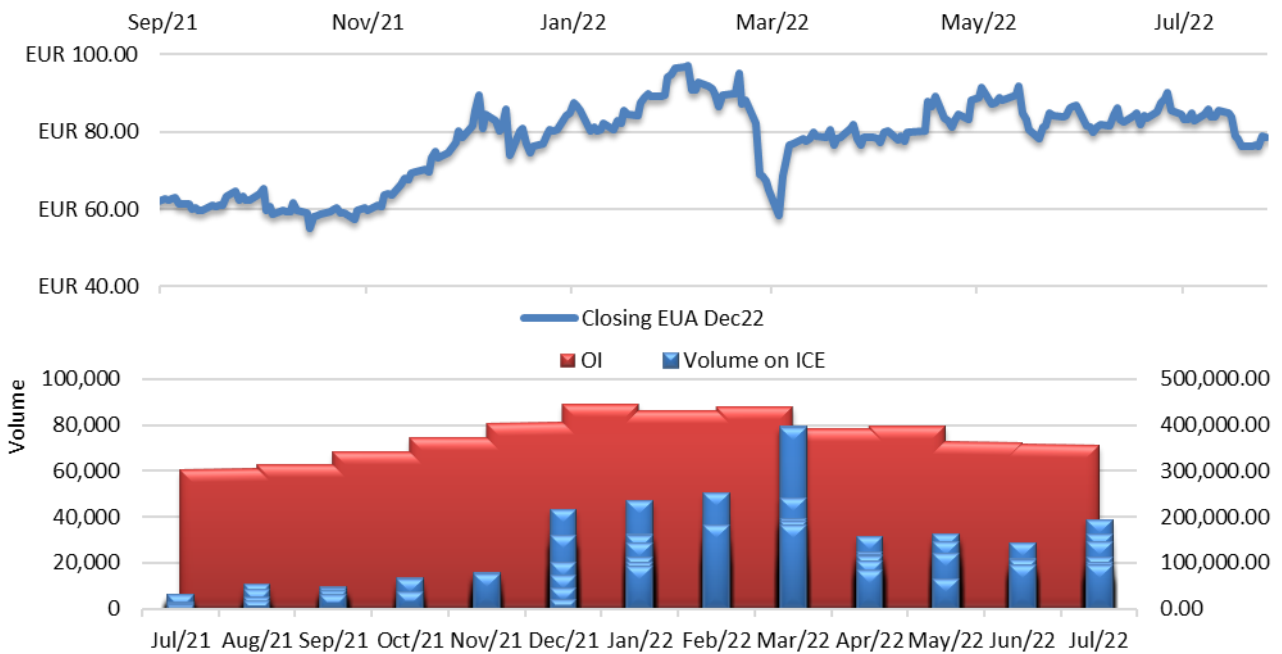
There were 36 blocks trades and totalled 4.66 mil tonnes of NGO and GEO have been blocked between July 1st to July 29th. Significant drop of prices has been interpreted as a reaction to market fear of recession and current high inflation (Carbon Pulse).

The IC-VCM has initiated consultations on July 27th on the draft Core Carbon Principles (CCPs). The consultation process will end on Sep 27th. CCPs will outline what carbon crediting programmes and credit type will be tagged with quality indicators - 'CCP approved' and addressing issues on additionality, alignment with environmental and social safeguard, etc. The final version of the documents will be expected in Q4 2022(Carbon Pulse).



EU ETS

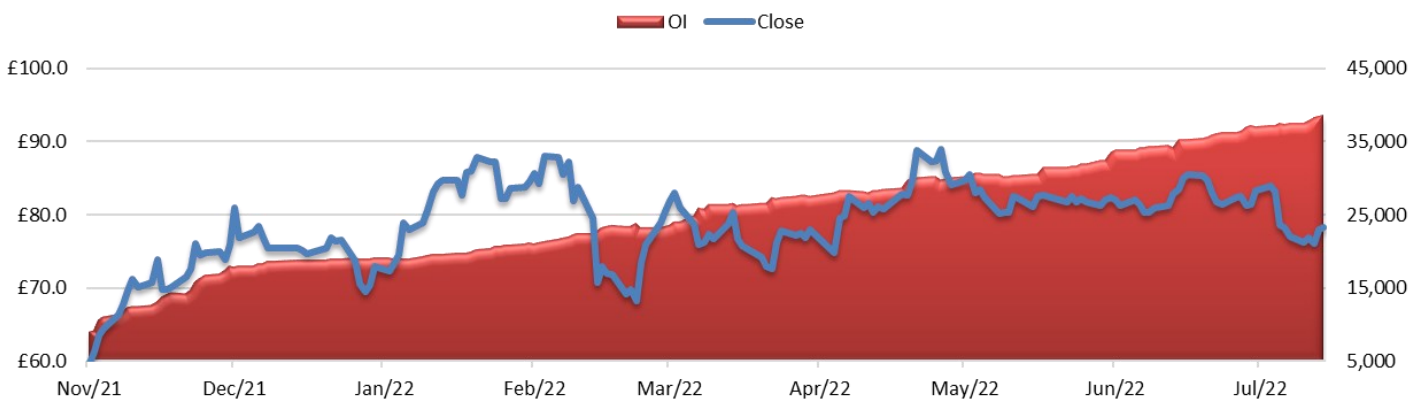
The EUA benchmark contract Dec22 has lost 14.78% M-on-M closing the month at €78.55. In the 1H of July, the market moved upward to €85.65 due to an anticipated no auction on the 13th of July. However, in the latter part of the second week of July, the EU Parliament debated the current proposal of selling off ~250m MSR-held allowances to fund the REPowerEU initiative, combined with a volatile gas market. In the subsequent week, the EUA Dec-22 contract incurred its biggest weekly fall since March 2022. This price drop was caused by the resumed gas flow into Nord Stream 1 on the 21st of July and the fundamental bearish signals of EU strategy publication of cutting 15% gas demand, with carbon following TTF losses. The muted trend continued for EUAs, heavily tied to gas prices, especially with the news/confirmation of the 15% gas reduction target for EU member states. The gas reduction means the member states will reduce their gas demand by 15% compared to their average consumption in the past five years, between the 1st of August 2022 and the 31st of March 2023, with measures of their own choice (European Council 2022).



Source: Refinitiv Eikon

UK ETS

The UKA market, similar to its big brother EUAs lost ground this month, and the benchmark contract Dec22 dropped 8.50%, closing the last trading day at £ 78.33. In light of the continued volatile power market, driven by elevated prices for energy-producing commodities, the UK government is exploring options to ensure environmentally friendly and secure electricity in the future. The consultation will run until the 10th of October, closely looking especially at the wholesale power market (Carbon Pulse).



Source: Refinitiv Eikon

North America

California fossil gas generation output reached 5-year high as total power demand rises. The increased power consumption contributed to CO2 emission rise of 7% YoY in 2021 in the area (CAISO,2022). However, the increased CO2 emission had little bearing on California Carbon Allowance (CCA) prices. The lowest settlement price for Dec-22 V22 CCA of \$27.97 since March 22 2022 has been seen on July 25th. The price drop coincides with speculator's net long position drop. Speculator's CCA holding positions have been declined for a third week in a row (CFTC,2022). In the last week of July, there was 4.5 mln V22-23 CCA futures and options has been trimmed by the speculators. Nevertheless, compliance entities increased their holdings by around 968,000 in V22-23 CCA futures and options over the last week of July.

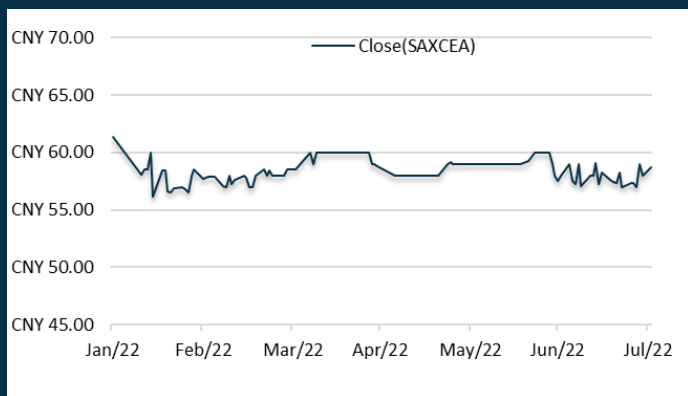
As for RGGI allowances (RGAs), RGA prices continue with the price drop amid broad market bearish sentiment. Compliance players reduced their net holdings to 31.7 mln in RGA futures and options while speculators increased their net position over the July 20th to 26th period. Market is waiting for the clarity of whether the Pennsylvania's auction volumes at Q3 sales will be removed.

Asia Pacific

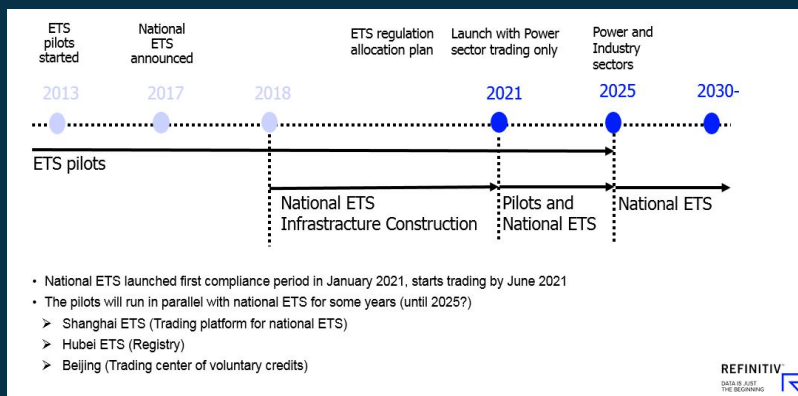
China's ETS still traded in poor liquidity and small price movements in July. Spot Carbon Emissions Allowance (CEAs) price traded in a narrow range amid lukewarm market sentiment (Carbon Pulse). CEAs settled at 58.96 yuan (\$8.76) on 28th July with only 1.3% increase from previous week (Shanghai Environment and Energy Exchange). Market participants are making little moves, despite China's highest court has expressed intention to complement current regulations. Moreover, the type of voluntary carbon projects developed in China has been expanded. China's Hainan province will develop five pilot blue carbon projects over the next two years (Carbon Pulse).

India PM Narendra Modi may decide to launch a national carbon trading platform on Aug. 15 to enhance efforts to meet the country's climate commitments (Carbon Pulse).The government may also release guidelines for obligatory sectors, including the steel, carbon intensive cement, thermal power generation, and fertiliser sectors (Mint news)

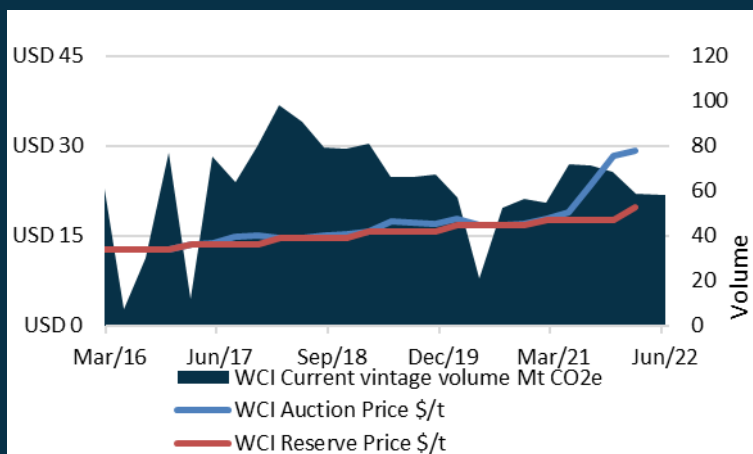
Chinese Global ETS Price



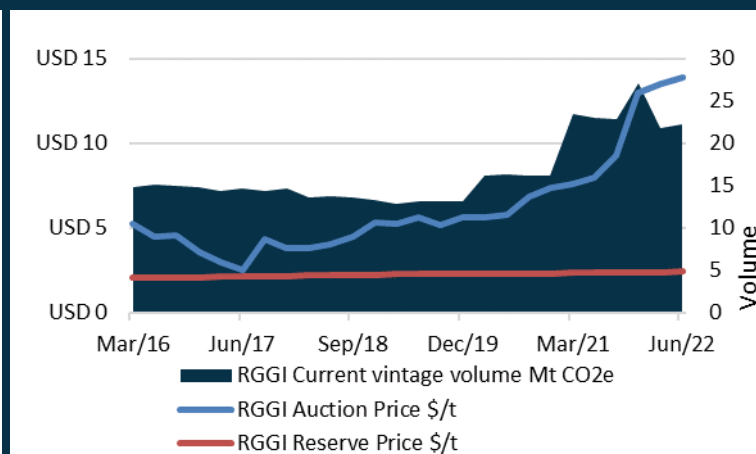
Chinese ETS Regulatory Timeframe



Western Climate Initiative (WCI)



Regional Greenhouse Gas Initiative (RGGI)



Shipping emissions

The EU parliament has now approved of new environmental measures, one of which is to include shipping in the EU ETS. It will now move onto negotiations with member states to finalise the new legislation.

The main features of this new regulatory package are:

Shipping to be included in the ETS by 2024 (vessels above 5000 gross tonnage).

Increase 2030 greenhouse gas reduction target from 61% to 63% from 2005 levels.

Revenues from ETS to be used exclusively for climate action in EU and member states.

Internal EU shipping (EU port to EU port) – 100% emissions coverage by 2024

External EU shipping (loading or discharging in an EU port) – 50% emissions coverage by 2024, 100% from 2027.

75% of the revenues from the trading of allowances in the EU ETS will be put into an Ocean Fund to support



Compliance			
Name	Region & Country	Start Year	Percentages economywide emissions covered by ETS
EU ETS	Euro 27	2005	40%
UK ETS	United Kingdom	2021	30%
NZ ETS	New Zealand	2008	50%
RGGI	US	2009	10%
WCI	Noth America	2013	California 75% & Quebec 78%
SK ETS	South Korea	2015	75%
China ETS	China	2021	40-75%

Voluntary Markets

- CME Global Emission Offset Futures (GEO)
- CME Nature - Global Emission Offset Futures (NGEO)
- CME Core - Global Emission Offset Futures
- (CGEO)
- ICE Nature-Based Solution Carbon Credit Futures

Compliance Markets

- ICE EUA Futures & Options
- ICE UKA Futures & Options

Source: Refinitiv Eikon and Lloyds List

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