

06/09/22

Prices movement	Aug 31st	Jul 29th	Changes %	Sentiment
EUA Dec-22	€ 80.03	€ 78.55	1.85%	↑
EUA Dec-23	€ 83.11	€ 80.78	2.80%	↑
EUA Dec-24	€ 88.11	€ 84.33	4.29%	↑
UKA Dec-22	£ 97.09	£ 78.33	19.32%	↑
GEO Dec-22	\$ 4.00	\$ 2.92	27.00%	↑
N-GEO Dec-22	\$ 8.80	\$ 7.57	13.98%	↑
N-GEO Dec-23	\$ 11.77	\$ 9.74	17.25%	↑

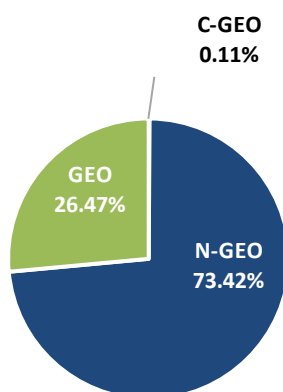
Voluntary Market

Exchange-traded future prices railed most of this month, hitting heights on 29/08/2022 on NGO Dec-22 at \$9.55 and NGO Dec-23 at \$12.62. The last week of the month saw steep decreases giving back large portions of the gains. Over the monthly period, we can see an increase in the NGO Dec-22 of +14.48% from \$7.32 to \$8.38 and for Dec-23 +21.09% from \$9.39 to \$11.37 (02/08/22-01/09/22). The total block to volume on NGO monthly was 8m tonnes. NGO open interest has decreased from 7,273 to 6,577. GEO Dec-22 increased +33.33% from \$2.94 to \$3.92 and Dec-23 increased +34.97% from \$3.06 to \$4.13 (02/08/22-01/09/22). The total block to volume on GEO for the month was 1.23m tonnes. GEO open interest decreased from 2,649 to 2,399.

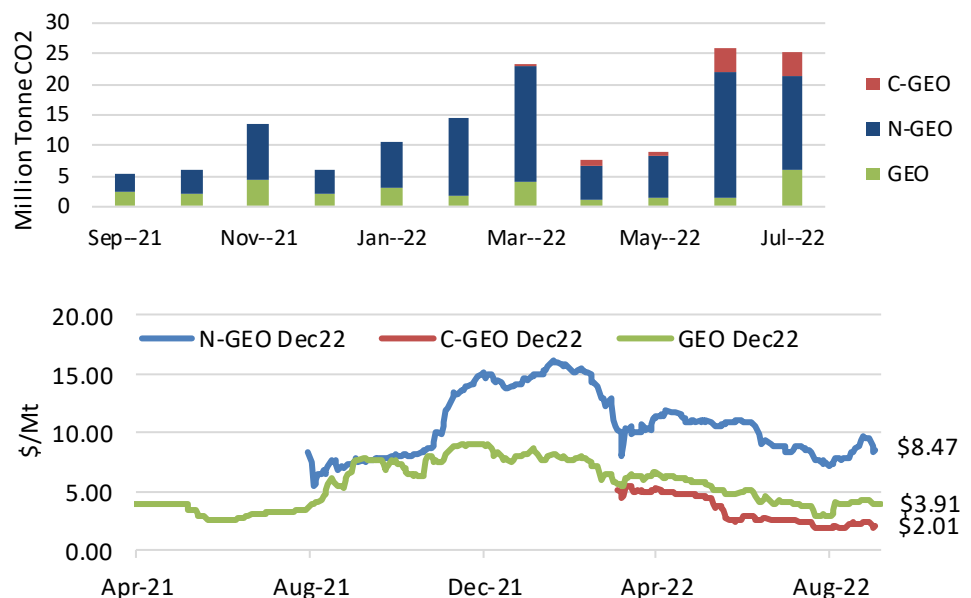
ICE launched its new range of contracts this month and saw 75,000 tonnes trade in its futures contracts.

The recent rally is arguably caused by corporate buyers returning to the market as we approach Q4 and a short supply of credits in the market. In the latter part of the month, we saw prices lower arguably due to the current macro environment and a cool-down from the recent splurge of demand and traders locking in profit capitalising on the lows over the summer periods.

Open Interest August



CME Monthly Traded CBL Futures

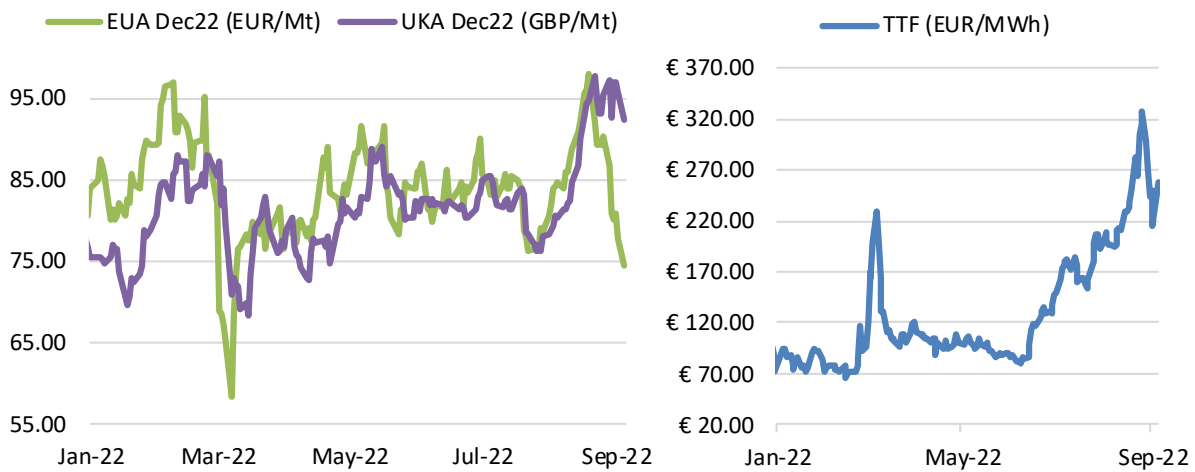


EU ETS

The resilience in the compliance market is evident despite the grim outlook for the gas and power markets in Europe. The electricity market dominated the news during the summer break. Russia's gas supply cuts have significantly damaged Europe's ability to power businesses and consumers, driving gas and power prices to astronomical highs. Further, the Russian gas company Gazprom are tightening the gas market after shutting Nord Stream 1 due to gas leaks at an undefined time. However, the EUA Dec22 contract peaked on the 19th at EUR 99.22/Mt, just shy of breaching the three-digit price barrier. Whilst on the back of the Russian supply cut, the market sold off the EUA, returning to the normal levels, with MoM price change only up 1.85%.

The decarbonisation effects on shipping are in mistrust as few shipping companies have started to prepare for the EU's proposed inclusion of maritime transportation. Initial decarbonisation effects are expected to be minimal due to high gas prices (Platts). Auction volumes for August supply decreased, which market participants eagerly expected. The market sentiment appeared to be bearish from the outset, especially with attention on the destruction of industrial gas demand—and again heavily tied to Nord Stream 1 supply news. In addition, reports that the EU successfully hit its gas storage target of 80% caused the market to ease.

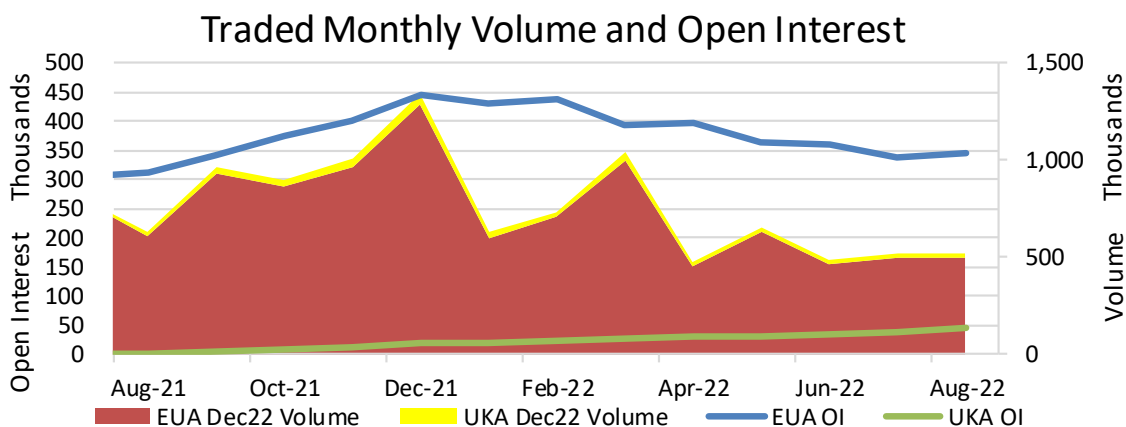
There is mounting pressure across Europe member states to look at price caps for natural gas and the EUA price as prices are getting unrealistic to bear for consumers and businesses. Whilst the European Commission seem open to capping the gas price, there is more resilience from the Commissioner on the question of limiting the EUA price as this is a less significant driver of the power market. Further to this argument, if the EUAs become a more critical cost factor in power generation, the pressure to cap EUAs might be worth reconsidering for the Commissioner (Refinitiv).



Source: Refinitiv Eikon

UK ETS

The UKA market broadly follows the EUAs until the European market has a sell-off by the end of the month due to the grim news announced by Gazprom, limiting gas supply in Europe. As a result, the benchmark Dec22 contract, in contrast to the EUAs printed a healthy gain of 19.32% MoM. In the broader news, Quantum Commodity Intelligence (2022) reported that the UKA ETS is projected to miss the country's 2030 target under the Paris Agreement.



Source: Refinitiv Eikon

Americas

The WCI auction prices in August dropped by 14.6% MoM to \$27. Whilst the reserve price stayed constant at \$19.7 in the same period. The current vintage volume in Mt CO2e dropped from 58.33 Mt CO2e to 56.96Mt CO2e, dropping 2.41%. The WCI subscription rate also fell 25.85% to 1.29.

Emitters hit a nearly 1.5-year high in their California allowance (CCA) in the last week of August. While, financial players are slightly reducing their position following the auction results above, according to data published last Friday by the (CFTC).

The California Assembly on Wednesday (31/08/22) night declined to approve a bill to increase the stringency of the state's 2030 GHG goal. Although lawmakers passed a suite of other climate and energy-related bills as the legislative session ended. Assembly members failed to reach the 41-vote threshold necessary to pass AB-2133, which would have increased the state's 2030 GHG reduction target to 55% below 1990 levels, up from the current 40% goal (Carbon Pulse).

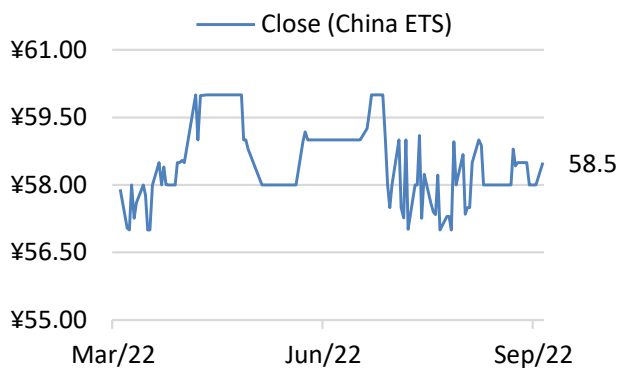
Asia Pacific

CEA prices barely moved over the month despite a rebound in trading volume over the last week. In summary, prices are up 2% to \$8.44 (02/8/22 through 05/09/22). Volumes in the last week of August saw 132,000 CEAs change hands compared to 92,000 the week before. However, with the increased volumes, the offset market saw a plunge below 100,00 units that week.

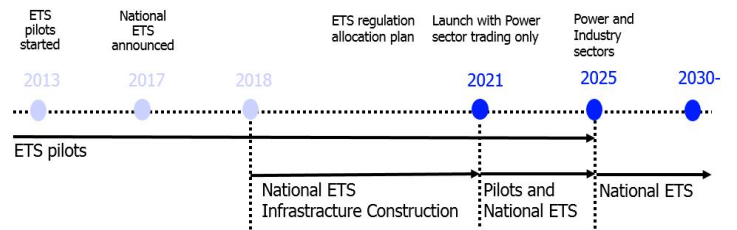
Recent regulatory updates, such as a cross-department plan to establish a unified emissions accounting system, have failed to excite the Chinese emissions trading scheme. Instead, attention is still on Beijing's final decision over post-2020 allowance allocation.

China saw a record 8% fall in CO2 emissions in the April-to-June quarter, as the economy is being dragged down by an embattled property sector and Covid disruptions, according to an analysis published this week (Carbon Pulse).

Chinese Global ETS Price

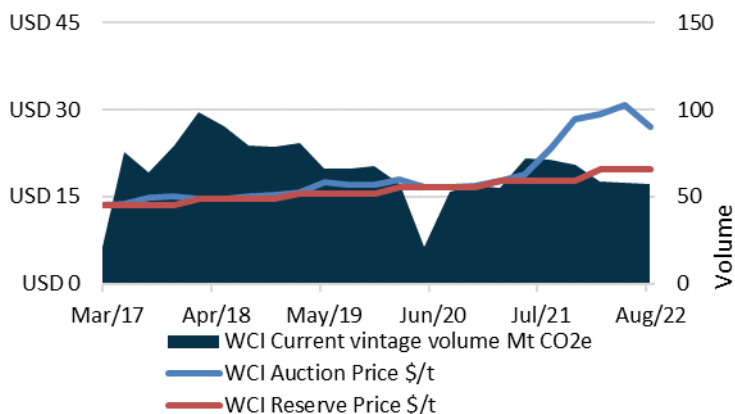


Chinese ETS Regulatory Timeframe

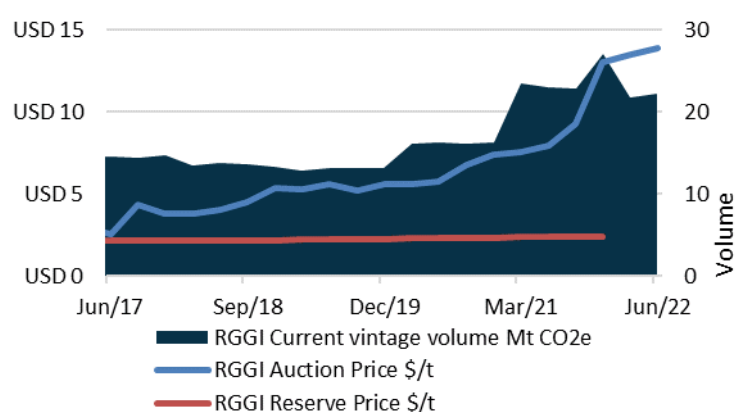


- National ETS launched first compliance period in January 2021, starts trading by June 2021
- The pilots will run in parallel with national ETS for some years (until 2025?)
- > Shanghai ETS (Trading platform for national ETS)
- > Hubei ETS (Registry)
- > Beijing (Trading center of voluntary credits)

Western Climate Initiative (WCI)



Regional Greenhouse Gas Initiative (RGGI)



Shipping emissions

The EU parliament has now approved new environmental measures, one of which is to include shipping in the EU ETS. It will now move on to 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 tonnages).

Increase the 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 the green transition of the EU maritime sector. the green transition of the EU maritime sector.



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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