

04/10/22

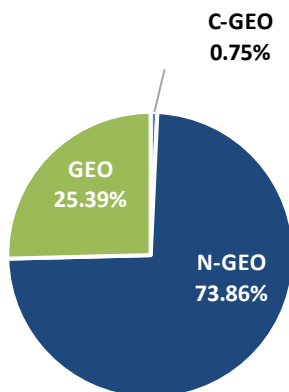
Prices movement	Sep 30th	Aug 31st	Changes %	Sentiment
EUA Dec-22	€ 66.73	€ 80.03	-19.93%	↓
EUA Dec-23	€ 69.64	€ 83.11	-19.34%	↓
EUA Dec-24	€ 74.30	€ 88.11	-18.59%	↓
UKA Dec-22	£ 75.03	£97.09	-29.40%	↓
GEO Dec-22	\$ 3.94	\$ 4.00	-1.52%	↓
N-GEO Dec-22	\$ 8.21	\$ 8.80	-7.19%	↓
N-GEO Dec-23	\$ 11.61	\$ 11.77	-1.38%	↓

Voluntary Market

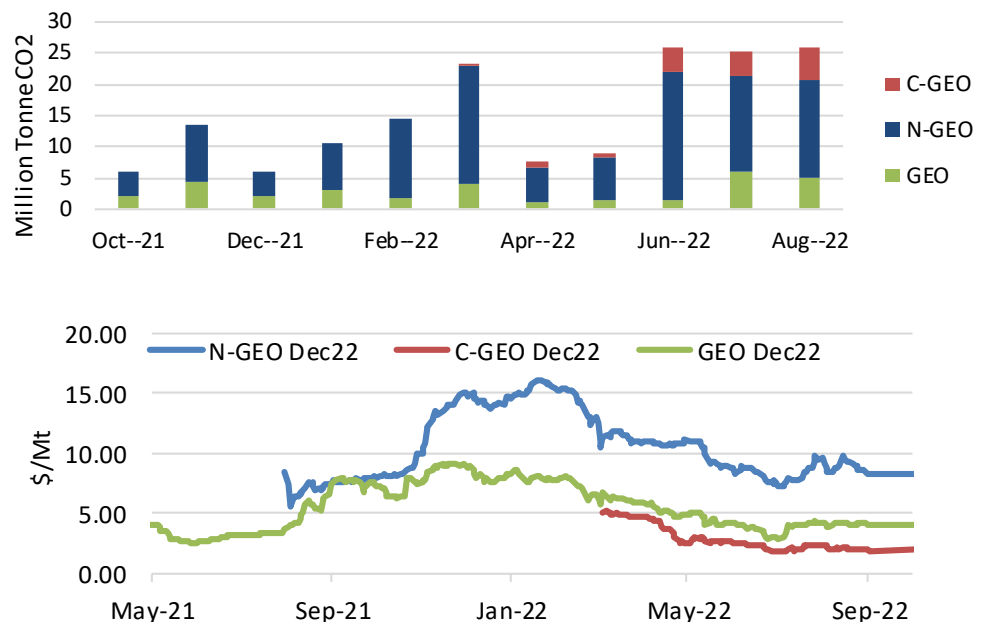
Prices in the exchange traded VCM contracts had vastly different performances throughout September. For the nature-based N-GEO contract, both Dec-22 and Dec-23 hit a high on 13/09/2022 at \$9.84 and \$13.30, respectively. A similar scenario occurred on technology credits within the GEO futures contract, which hit highs on 12/09/2022 at \$4.24 for Dec-22 and \$4.48 for Dec-23.

For the second half of the month, however, prices began to reel from these highs – mainly due to a worsening macro environment and a strong US dollar. In summary, the N-GEO Dec-22 contract decreased by -2% over the month to print at \$8.21, while Dec-23 increased by +2.1% to \$11.61; perhaps suggesting the move from traders to increase exposure further down the curve as Q4 expiry approaches on Dec-22. On GEO, Dec-22 also finished the month up +1% at \$3.96 and Dec-23 up +0.25% at \$4.14.

Open Interest September

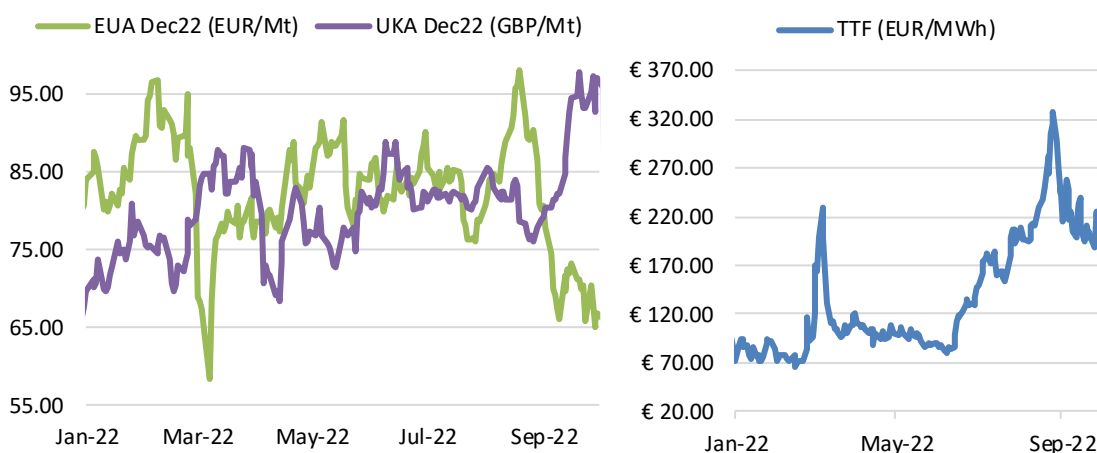


CME Monthly Traded CBL Futures



EUAs commenced the month with a noteworthy bearish movement, with a trade range between €66 - €75, considerably down from just a couple of weeks ago, where it had had an €80 handle. Prices are pulling lower as the energy crisis continues across the Eurozone. In addition, as the energy crisis continues to worsen, leading EU politicians have been calling for a suspension of the EU ETS to protect consumers. Nevertheless, the EU compliance market returned to bullish sentiment in the second week of September after the recent considerable sell-off and posted its first weekly gain in three weeks. The driving factor behind the price increases is arguably capitalising on the recent lows and fundamental aspects of the EU’s handling of the energy crisis across the bloc and their plans to soften energy prices (Reuters).

The third week of September saw the EUA market trade down to levels not seen since March 2022, when the outbreak of the Ukraine conflict caused significant volatility. The largest driver behind a decrease in EUA prices was continued rumours around the €30bn Market Stability Reserve (MSR) sale of allowances as part of the REPowerEU strategy (Reuters). However, the European Parliament’s Environment Committee (ENVI) decided on 3rd October for the REPowerEU strategy to front-load action with only €20bn worth of additional allowances (Carbon-Pulse). During the last week of trading, the EUA Dec-22 contract traded between €66 - €71.



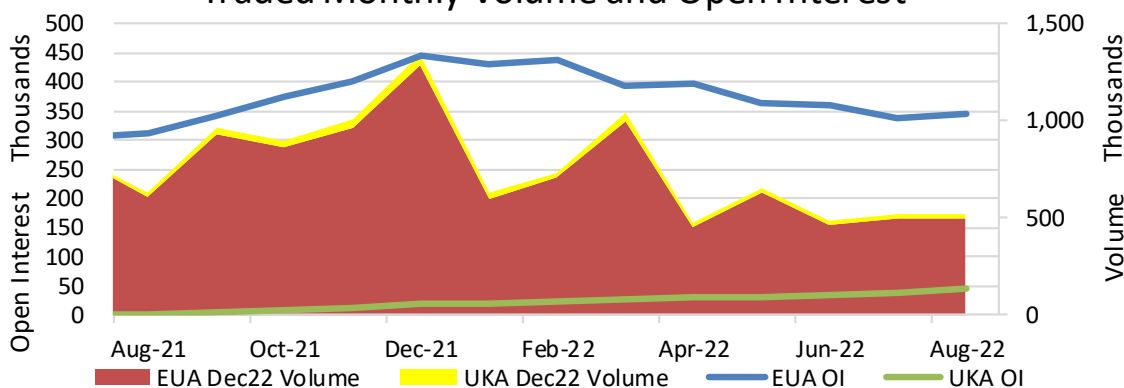
Source: Refinitiv Eikon

UK ETS

The UK ETS held up better than its EU counterpart in the first week of the month, arguably due to its different auction cycle and lesser influence from EU energy problems. It was interesting to see in the second week that the Dec-22 contract traded down significantly. Fundamentally this was due to news from EU ETS and the UK Government announcing additional allowances would be added to their auction calendar and energy policy price caps to tame soaring prices.

In the third week, in contrast to the EUAs, prices within the UK ETS continue to head downwards, driven by a worsening economic scenario in the UK and debate around how the country plans to handle their domestic energy crisis. Considering the wave of political change in the UK, prices in the UK ETS remained indecisive and managed to hold their value. However, after a new ‘mini-budget’ was announced on Friday 23rd, which included a range of tax cuts, the pound plunged to a new low not seen since 1971—setting a bearish tone for the UKA Dec-22 contract, which traded into the mid-70s. As the pound saw a slight recovery last week, the Dec-22 contract ended the month with an average settlement price of £79.41.

Traded Monthly Volume and Open Interest



Source: Refinitiv Eikon

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 the green transition of the EU maritime sector.



Name	Region & Country	Compliance	
		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

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