



Carbon Weekly Report

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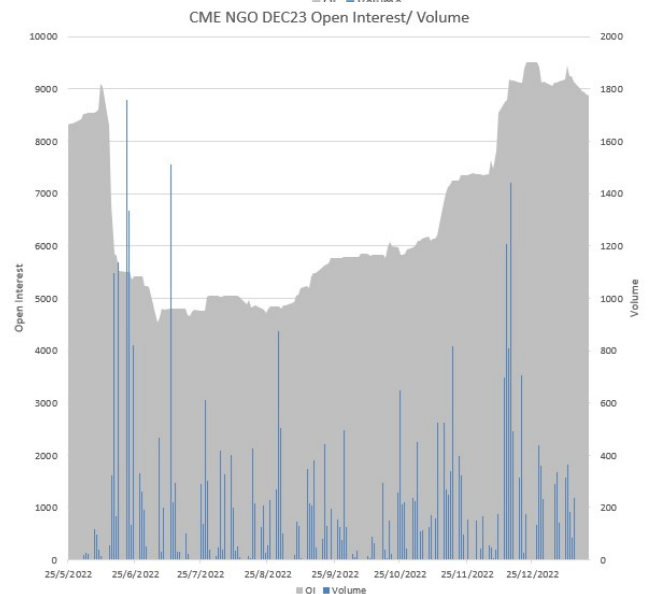
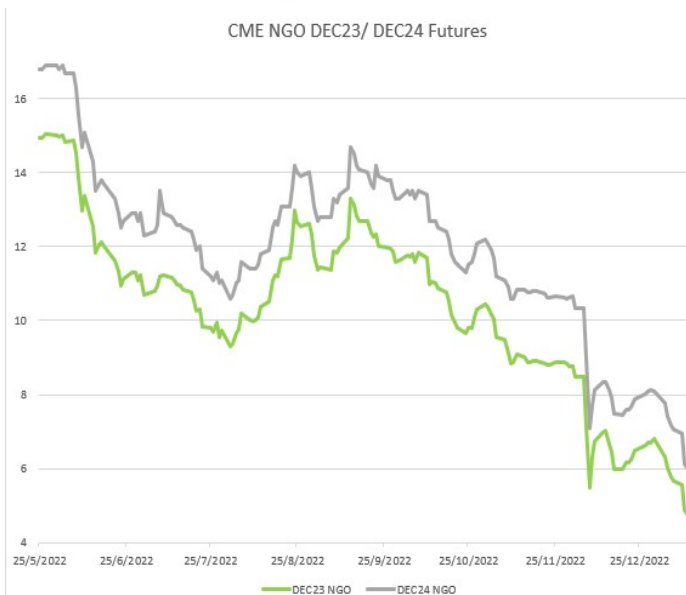
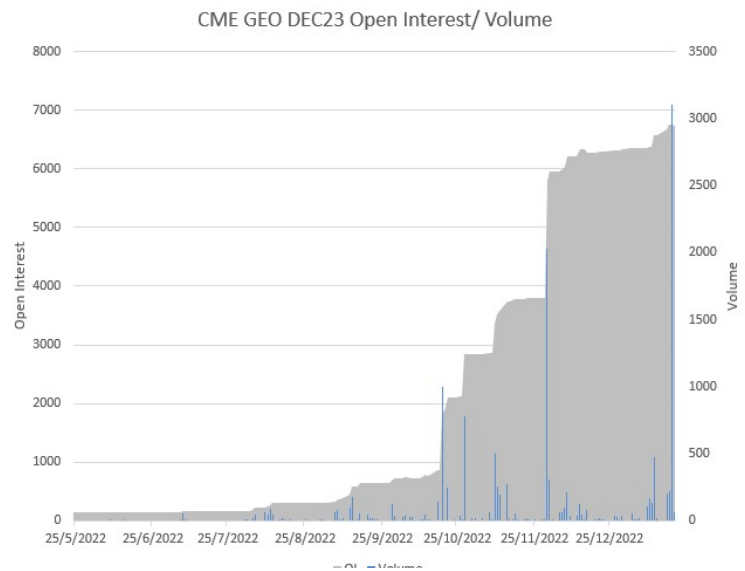
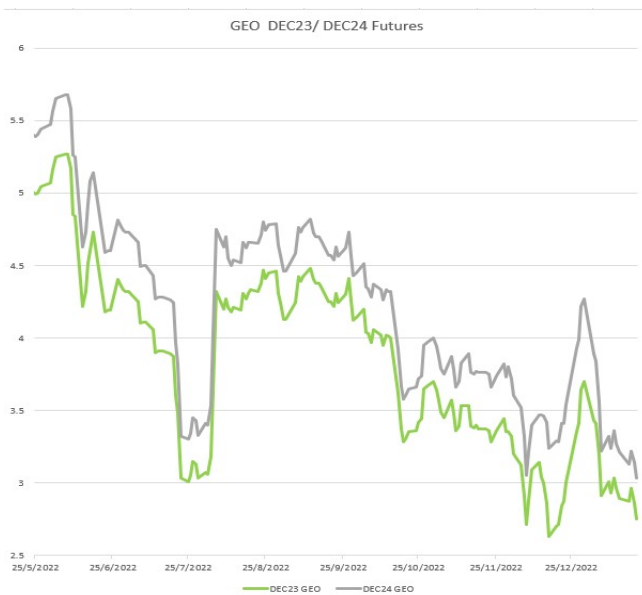
23/01/2023

Voluntary Markets

CME Futures

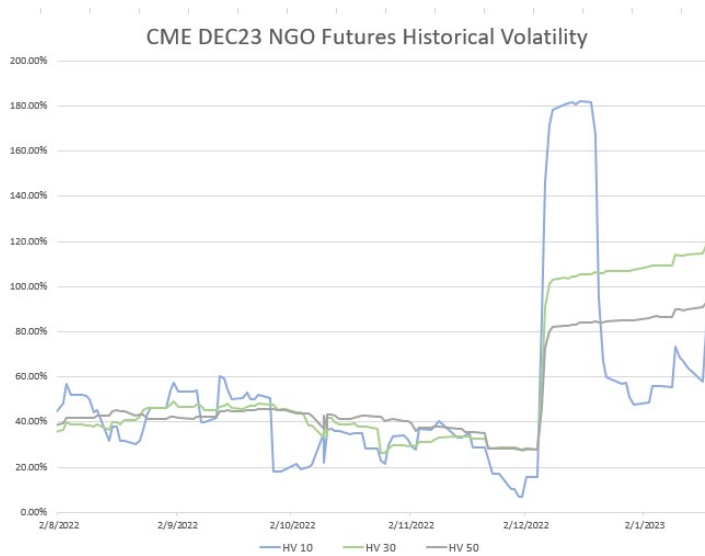
(Thursday): Dec23/24 spread traded in blocks at -1.17 and -1.15 300kt and Dec24/25 at -1.48 in 150kt. Simple Moving averages of the DEC 23 50 day is 7.12 and RSI is 25%, technically (and arguably fundamentally) this contract is oversold and shorts would/should be closing positions. Since liquidity remains an issue the use of spreads seems to be a useful option. Later in the session some outright trading was seen with Dec 23 trading at 4.50 and Dec 24 trading at 5.50 and then 5.60 in block size. Overall volumes traded in the DEC 23 was 740 lots and DEC 24 776 lots. Worth also noting COT last week showed a small positive change (which hasn't been seen for a while).

(Friday): 2750kt traded on the GEO Dec23/24 spread. The spread remains the same at \$-0.27, both Dec23 and Dec24 contracts printed \$0.08 cents lower. This was similar in size and nature to the 1st Dec 2022 2 million tons traded on the Dec23/24 spread. On the December 1st trade, the spread had widened \$0.07 to \$-0.44, On 2nd December a further 300kt was traded on the Dec23/24 spread at \$-0.40. The overnight 2750kt looks to be a trader exiting the spread after having shorted it. Open Interest on the GEO Dec23 decreased 11kt from 6764 to 6753kt. Open Interest on the Dec24 increased 68kt. Minimal changes on OI, similar to when the December 1st trades were put on.



CME NGO Historical Volatility

10 day volatility has picked up significantly from 64.4% to end the week at 103.6%
 Due to sharp volatility mid week on Wednesday and Thursday. 30 and 50 day volatility remains relatively flat with small upticks towards week end.



Source: Bloomberg

Block Trades on CME (w/c 23th)

NGO, DEC23/24, @, -1.15, 194kt (4.20/5.35)	CME, NGO, Dec23/Dec24 (4.40/5.55), -1.15, 100kt	CME, NGO, Dec-23, 3.85, 25kt	GEO, DEC-24, 3.10, 100kt
NGO, DEC23, @ 4.25, 100kt	CME, NGO, Dec23/Dec24 (4.40/5.55), -1.15, 50kt	CME, NGO, Dec-24, 4.95, 25kt	NGO, Dec-23, 4.00, 50kt
NGO, DEC23/24, @, -1.15, 50kt (4.35/5.50)	CME, NGO, Dec-24, 5.4, 100kt	CME, NGO, Dec-24, 5.35, 50kt	NGO, Dec-24, 5.00, 50kt
CME, NGO, DEC-23, 4.44, 21kt	CME, NGO, Dec-24, 5.4, 50kt	CME, NGO, Dec-23, 4.10, 50kt	
CME, GEO, DEC-23, 2.98, 40kt	CME, NGO, Dec24/Dec25, -1.48 (5.50/6.98), 150kt	NGO, Dec23/Dec24, -1.00 (4.00/5.00), 106kt	
CME, NGO, DEC-23, 4.5, 50kt	CME, NGO, Dec23/Dec24, -1.17 (4.26/5.43), 150kt	NGO, Dec23/Dec24, -1.00 (4.00/5.00), 50kt	
CME, NGO, DEC-24, 5.6, 25kt	CME, GEO, Dec23/Dec24, -0.28 (2.88/3.15), 250kt	NGO, Dec23/Dec24, -1.00 (4.00/5.00), 25kt	
CME, NGO, DEC-23, 4.5, 25kt	CME, GEO, Dec23/Dec24, -0.28 (2.88/3.15), 250kt	NGO, Dec23/Dec24, -1.00 (4.00/5.00), 100kt	
CME, NGO, DEC-23, 4.5, 193kt	CME, GEO, Dec23/Dec24, -0.28 (2.88/3.15), 250kt	NGO, Dec23/Dec24, -1.00 (4.00/5.00), 50kt	
CME, NGO, DEC-24, 5.5, 100kt	CME, GEO, Dec23/Dec24, -0.27 (2.88/3.15), 250kt		

Source: CME Direct

FIS Trades (w/c 20th)

ACCUs Spot @ 37.00, 25kt

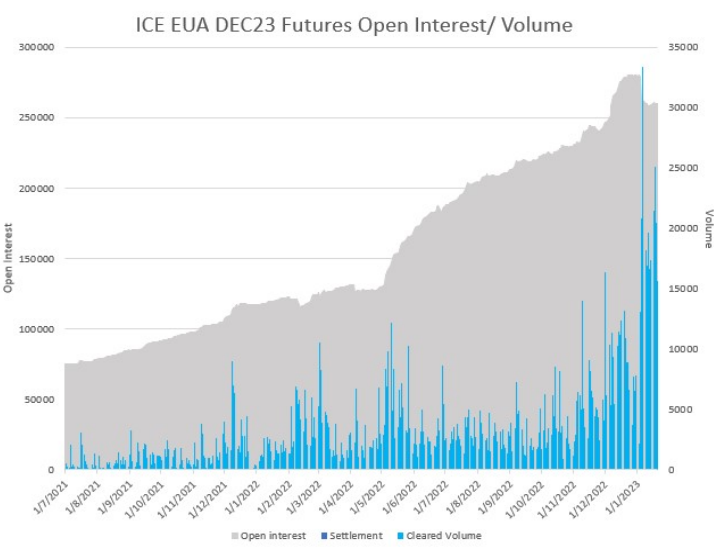
VCS934, Mai Ndombe, v16, \$4.25, 145kt

VCS1477, Katingan, v19, \$11.75, 50kt

Compliance Markets

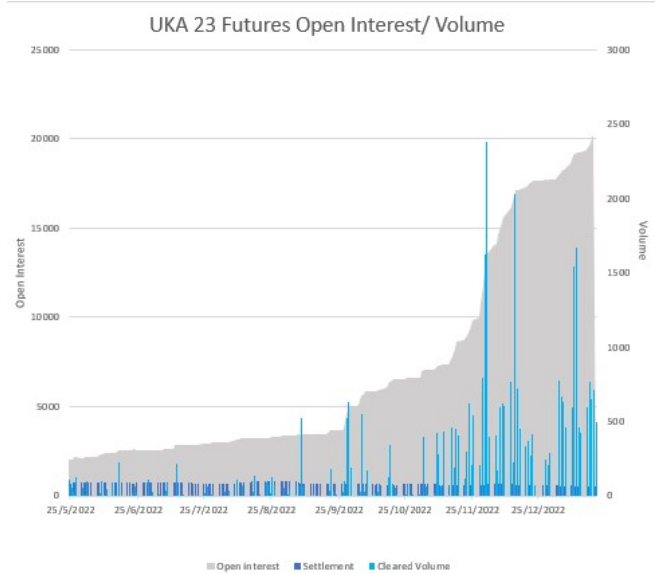
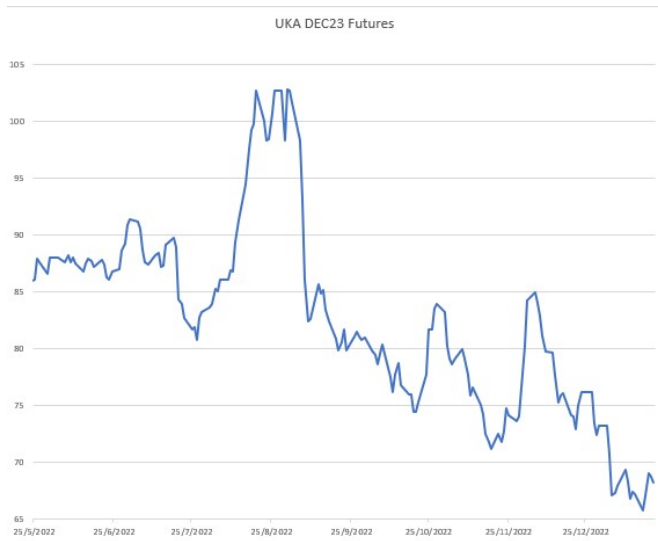
EUAs

EUA prices registered a 6.6% weekly gain as a volatile week ended with the narrowest daily range since late December, while natural gas prices wiped out the week’s losses despite having reached the height of the winter season with plentiful supplies amid mild temperatures. Dec-23 EUAs were volatile within a tight span throughout the morning, swinging between a low of €83.43 and a peak of €84.83: the narrowest range of the year to date. The move higher was underpinned by a natural gas prices staging a steady rally after early declines, as well as some bullish-oriented trading in March 2023 EUA options, where a sizeable volume of calls at a strike price of €140 was traded – well above carbon’s record peak near €100 reached last August. The market settled at €85.08, the highest settlement since Jan. 2. Total volume in the front-Dec was 15.6 million EUAs, while another 9.6 mln went through in other contracts. Some sources felt the market had been pushed higher by speculative buying, and that there was little in the way of fundamentals to sustain the move, though the market remained above €85 at the close of trading.



UK ETS

UK allowance prices ignored the rally in EUAs for a second day, with the Dec-23 contract settling 0.8% lower at £68.18 on ICE. Trade totalled 491 lots. Sources pointed out that the UK market does not have as much speculative participation as EUAs, and consequently UKA prices are more likely to reflect fundamentals.

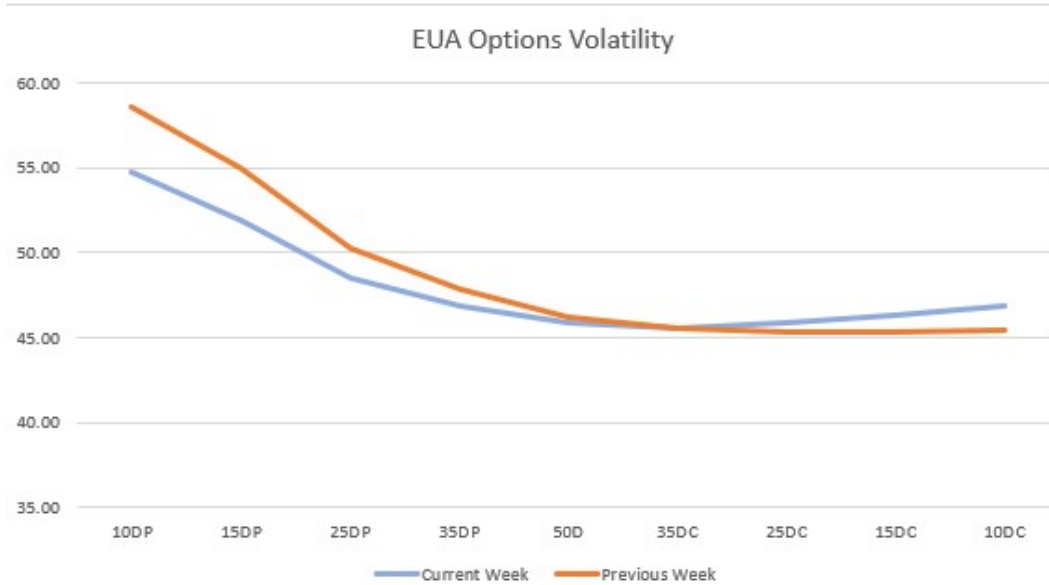


Source: Refinitiv

EUA Options Market

Settlement at €85.08 for Dec23 for the week. Put Skew decreased 6.61% and Call Skew has increased 2.97%. The benchmark contract settled 0.5% lower on the day at €79.86 on ICE. The contract posted a 6.6% week-on-week increase. There was some bullish-oriented trading in March 2023 EUA options, where a sizeable volume of calls at a strike price of €140 was traded

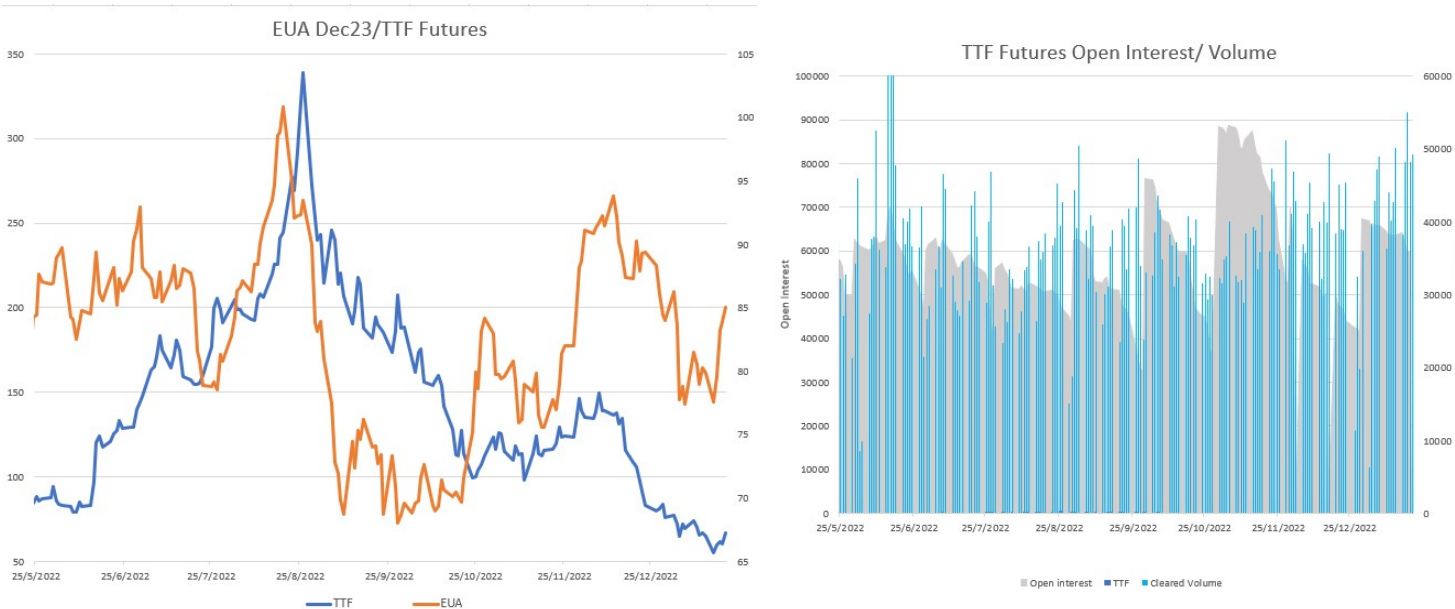
Volatility Surface: 23/01/2023									
TERM	10DP	15DP	25DP	35DP	50D	35DC	25DC	15DC	10DC
Current Week	54.72	51.85	48.50	46.87	45.87	45.59	45.87	46.29	46.80
WoW Change	-3.87	-3.05	-1.80	-1.00	-0.38	0.09	0.56	0.98	1.35
Previous Week	58.59	54.90	50.30	47.87	46.25	45.50	45.31	45.31	45.45



Source: Bloomberg

Correlated Markets

The six-week drop in natural gas prices has brought operating margins for gas-fired power plants closer to parity with coal-fired profits, but sources generally do not expect any significant gas-fired capacity to run in the near future, as Europe continues to guard its gas reserves amid the loss of Russian supplies. Sources noted that with fuel and power prices at their current levels, carbon prices were likely to see resistance at around €85 as the market assumes EUAs need to stay below levels that would make gas generation economical. The five-day rolling correlation between TTF and EUAs remains at around 0.9, suggesting a strong link between the two markets. Natural gas prices avoided a sixth successive weekly decline by staging a rally for much of the session. February TTF gas ended the day more than 10% higher at €66.898/MWh on ICE, to end the week up 3.2%. The rolling front-month TTF contract was at €140.49/MWh on Dec. 9 and has dropped by as much as 56% since then.



Source: Refinitiv

Market News

(CarbonPulse): The average age of retired carbon credits fell by three years in 2022 as corporates sought fresher vintages, helping to push the primary value of the voluntary carbon market up 30% last year. The VCM saw a slight rise in credit retirement levels year-on-year, rising to 168 million in 2022 from 152 mln in 2021 after discounting from both years the now much discredited practice of retiring tokenised credits, according to Trove Research, which tracks the four largest VCM registries. The primary market, measured by the volume of retired credits multiplied by the price of credits, jumped to \$1.3 billion in 2022 compared to \$1 bln in 2021, according to Trove.

(CarbonPulse): The surplus of credits in the market continued to increase. Some 7.7 mln new credits were issued by the four main standard bodies – Verra, GS, ACR, and CAR – over the seven days to Jan. 16, while only 1.68 mln were retired. The Dec-27 NGO future, effectively 2022 issuance, tumbled to \$8.85 by Friday, down from \$11.10 on Monday, and above \$12 at the end of last year. The Dec-27 NGO future, 2021 issuance, dropped to \$7.60. But there was a bigger slide in long-dated contracts in the CME futures curve for the N-GEO, which largely reflect fresh issuance of REDD+ contracts.

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