



# Carbon Weekly Report

info@freightinvestor.com | freightinvestorservices.com | (+44) 207 090 1120

## 24/03/2023

### Voluntary Markets

#### CME Futures

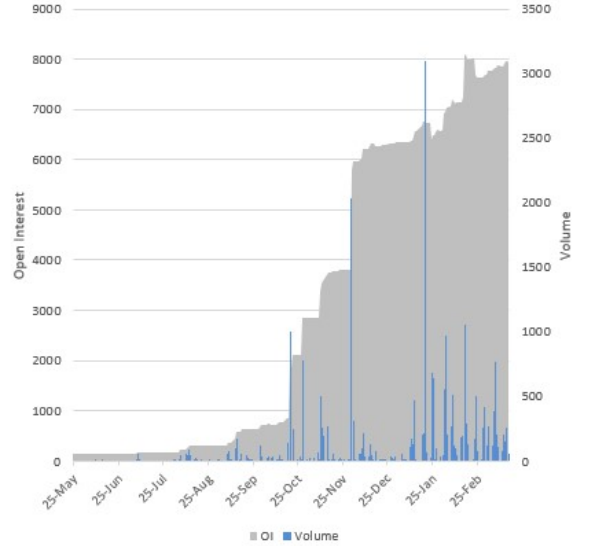
Quiet week for the NGO futures with only 105kt traded for the week on NGO Dec23 and 69kt traded for the week on NGO Dec24. Dec23 contract lost \$0.47 week on week to settle at \$3.01 on Friday close. Dec24 contract lost \$0.41 to settle at \$4.01. Spreads have crept up to settle at -\$1.00 on the Dec23/24 and -\$1.08 on the Dec24/25 spreads.

The GEO complex saw more action with 1371kt traded on the Dec23 contract and 632kt traded on the Dec24 contract. The Dec23 traded down \$0.32 for the week. Both the Dec23 and Dec24 were heavily offered on screen on Friday, to the point that the Dec23 contract was trading below \$2.00 but settling at \$2.01.

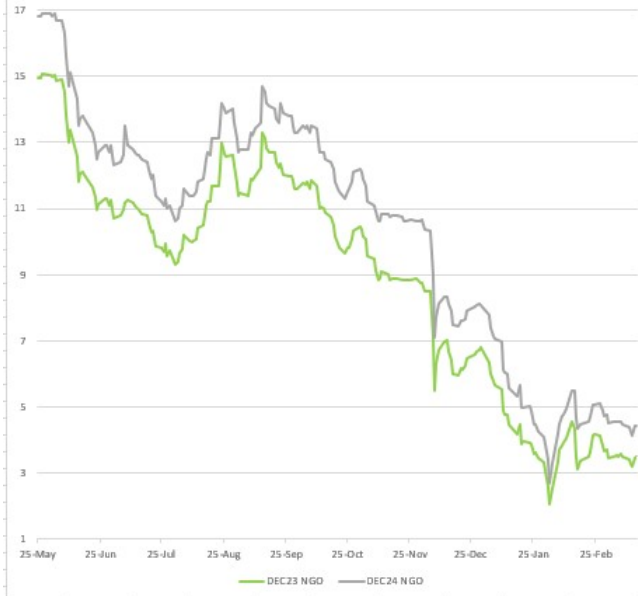
GEO DEC23/ DEC24 Futures



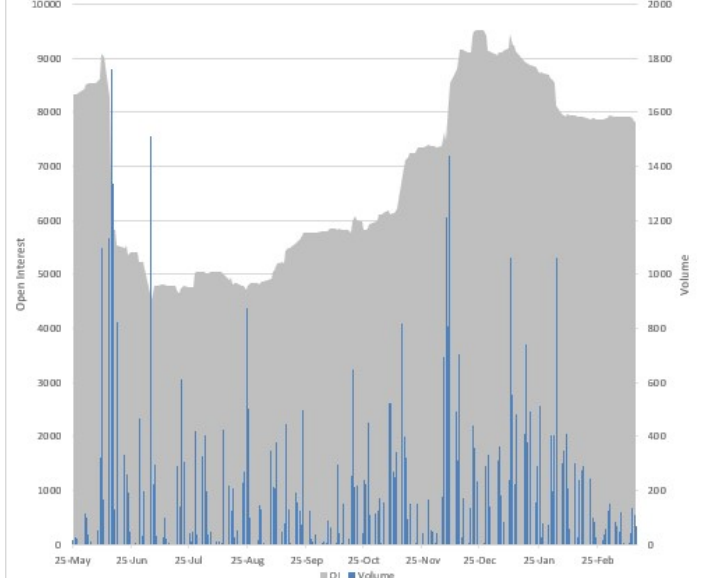
CME GEO DEC23 Open Interest/ Volume



CME NGO DEC23/ DEC24 Futures

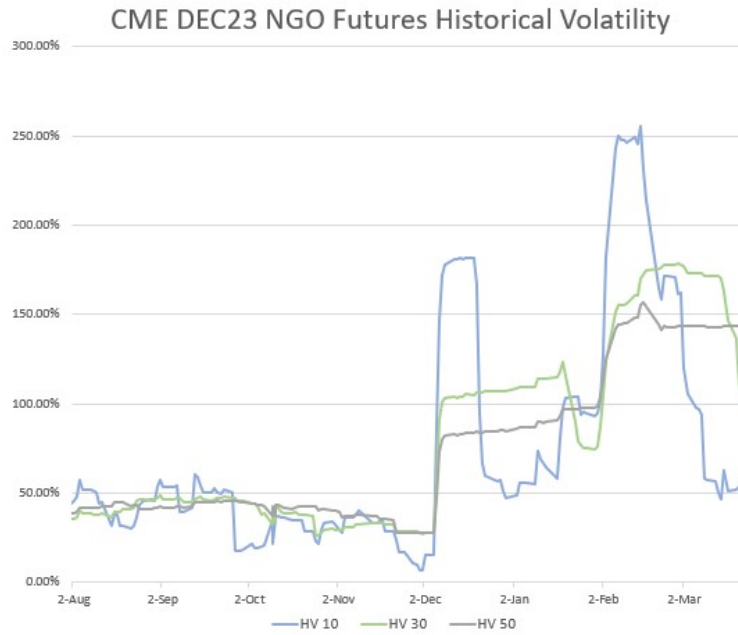


CME NGO DEC23 Open Interest/ Volume



## CME NGO Historical Volatility

10 day volatility has increased slightly to 57% from 51% the week prior. 30 day volatility has dropped to 107% from 147% and 50 day volatility is flat at 141%.



Bloomberg

Source:

## Block Trades on CME (w/c 3th March)

CME GEO, DEC 23 @ 2.30, 25kt

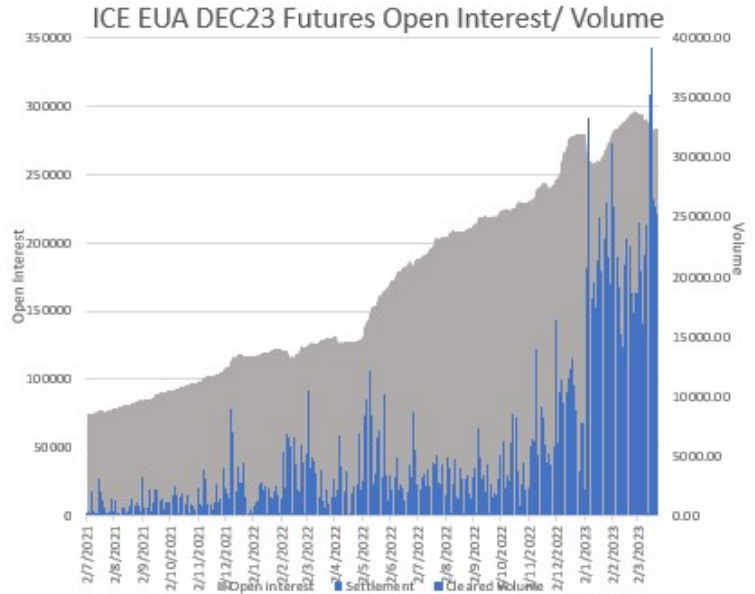
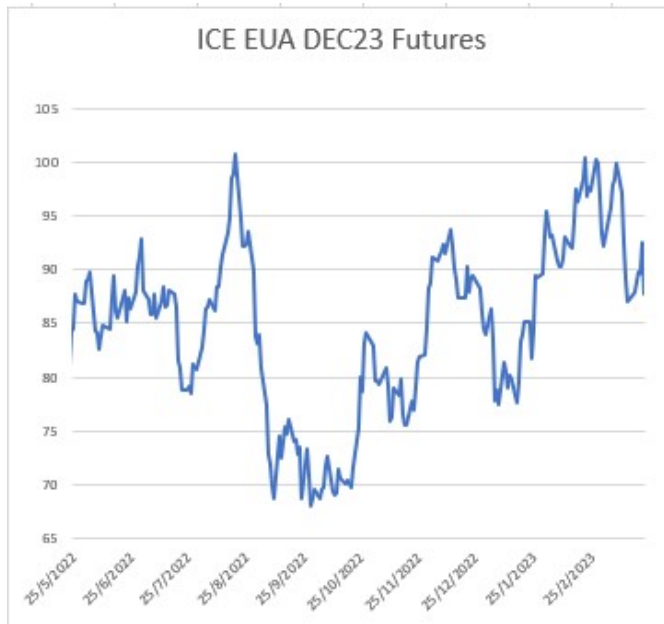
CME NGO DEC 24 @ 4.10, 25kt

Source: CME Direct

# Compliance Markets

## EUAs

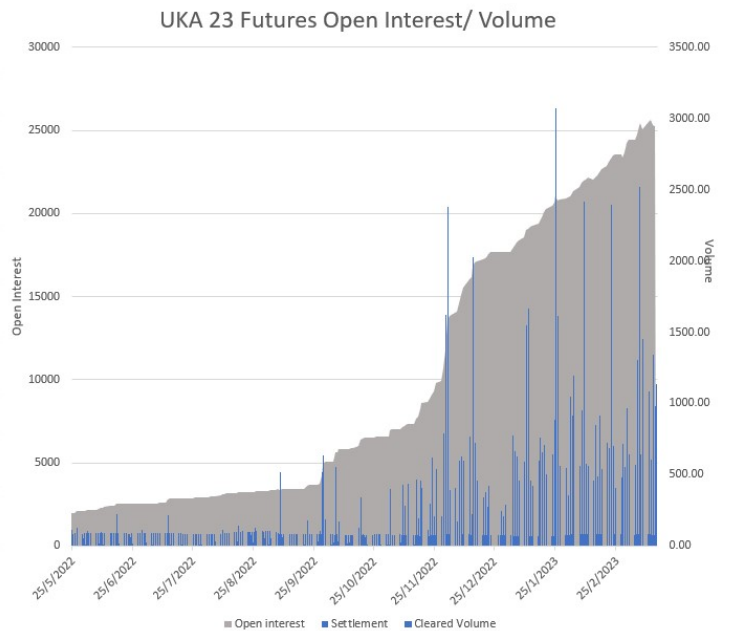
European carbon prices ended Friday little-changed from the prior week as the market plunged the most in more than two months after the weekly German EUA sale, with attention switching back to the resilience of Europe’s banking sector amid growing concerns about the future of Deutsche Bank. Dec-23 EUAs began the day trading slightly higher, rising as much as 1.7% to a high of €94.14 within the first two hours of business, before levelling off to around €92.65 in the run-up to the deadline for auction bids. The daily sale cleared 30 cents below the prevailing spot market value, in line with the March average, but the outcome was followed immediately by a steep drop in EUA prices. Volume in the front-December was nearly 32 mln EUAs, with other futures contracts adding more than 26 mln to the total. The day’s trading range of €7.52 represented the largest daily high-low since September last year.



Source: Refinitiv

## UK ETS

UK allowances tracked the decline in EUAs at a distance, with an early rise of 1.7% to £76.40 giving way to a sharp decline of 4.9% to a low of £71.45 in light morning trading. In the afternoon activity picked up as UKA prices consolidated in line with EUAs, and the benchmark contract settled 3.5% lower at £72.52, a decline of 1.4% on the week. The UKA-EUA spread narrowed to -€5.21. Front-December UKA volume totalled 1.23 mln tonnes, giving a five-day sum of 7.3 mln tonnes, the most since midDecember.



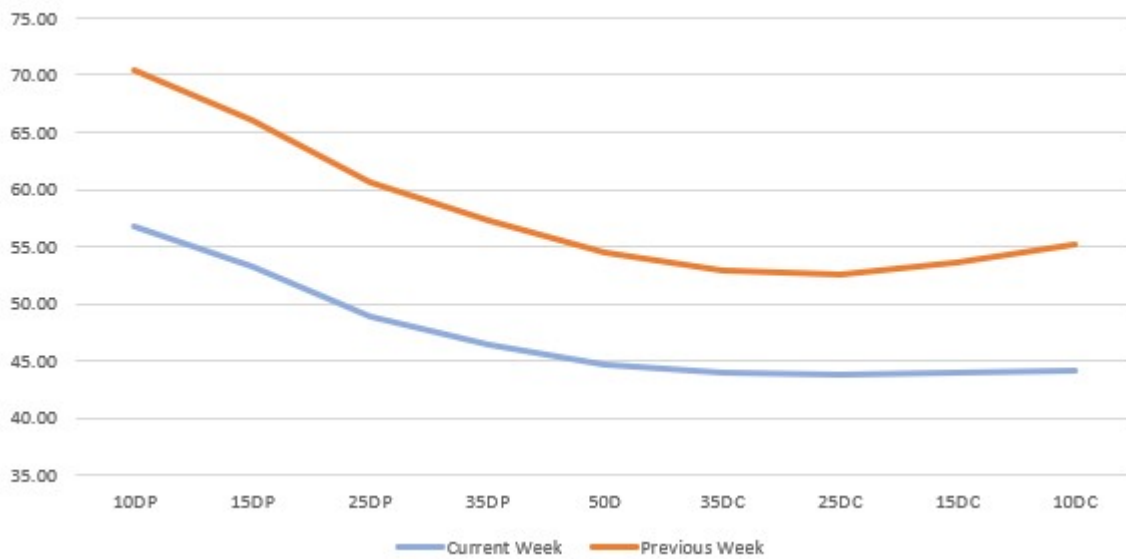
Source: Refinitiv

# EUA Options Market

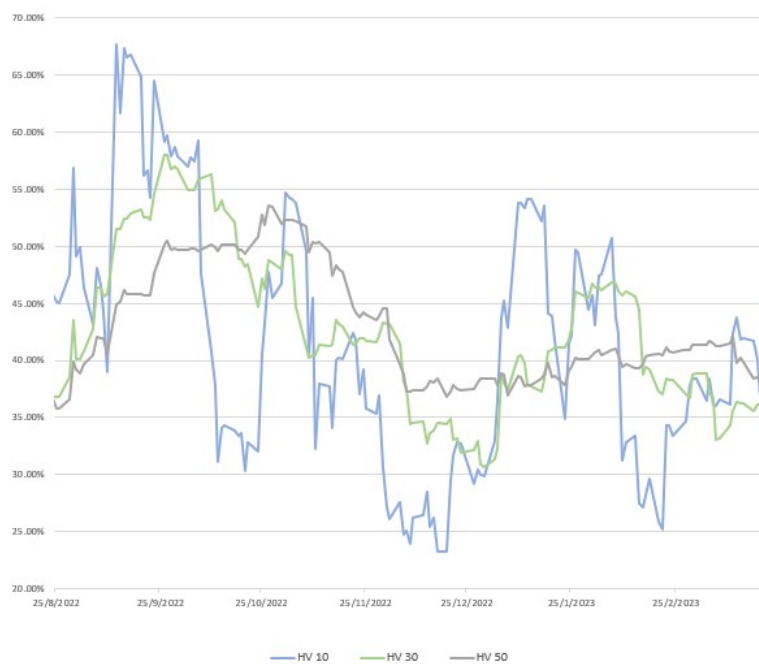
Call skew down 20.06% for the week and Put Skew down 13.78% for the week. Levels legged lower to €89.32, then €87.66, and finally to the session low of €86.62 in the hour following the auction, with ICE trading a total volume of 5.9 million EUAs during the 60-minute spell. ICE briefly suspended trading at 1045 GMT amid the steepest part of the fall. Prices consolidated throughout the afternoon, trading between €86.70 and €88.40 as activity slowed ahead of the weekend, and the benchmark contract settled at €87.65, down 5.3% on the day and an increase of just 0.4% on the week. The drop was also the biggest one-day decline since Jan. 4.

Volatility Surface: 24/03/2023									
TERM	10DP	15DP	25DP	35DP	50D	35DC	25DC	15DC	10DC
Current Week	56.73	53.24	48.81	46.47	44.76	43.95	43.84	43.90	44.08
WoW Change	-13.78	-12.85	-11.75	-10.85	-9.67	-8.97	-8.81	-9.65	-11.06
Previous Week	70.51	66.09	60.56	57.32	54.43	52.92	52.65	53.55	55.14

EUA Options Volatility



EUA DEC23 Historical Volatility



Source: Bloomberg

**(CarbonPulse)** - UN-issued carbon credits could emerge next year. The development of sovereign carbon credits, through both Article 6.2 and 6.4 of the Paris Agreement. Under Article 6.2, Switzerland is leading the pack with agreements to buy ITMOs (internationally transferred mitigation outcomes) from countries such as Ghana. The carbon crediting mechanism being designed under Article 6.4 could start to deliver its first units in 2024 via conventional asset classes such as agricultural methane, rice farming, and REDD+.

**(CarbonPulse)** - Gold Standard will look to credit the early phaseout of coal power plants and their replacement with renewables. The proposal will also further explore other fossil phaseout options towards grid decarbonisation, with Gold Standard starting work on the methodology and guidance immediately.

**(CarbonPulse)** The Australian state of New South Wales has implemented tough new Treasury guidelines that one expert says applies a carbon price through regulation, would make new fossil fuel projects untenable, and could be easily applied to other state and federal jurisdictions. The state's treasurer and environment and energy minister, Matt Kean, implemented a new guide to cost-benefit analysis. Analysis by think-tank Climate Energy Finance (CEF) said the guide makes it mandatory for proponents of projects worth more than A\$10 million (\$6.7 mln) must factor in the costs of Scope 1 and 2 emissions, using existing credible carbon pricing, such as the EU ETS price of €100 (A\$123), in a cost-benefit analysis (CBA). CEF CEO Tim Buckley told Carbon Pulse that "Effectively what they've proposed in the absence of Australia having a credible, regulated price on carbon, they recommend using the EU ETS equivalent."

**(AFR):** Former Greens leader Bob Brown resigned in disgust from the Australian Conservation Foundation after the environmental lobby urged Adam Bandt to pass Labor's cornerstone emissions reduction plan – exposing a bitter split in the green movement. The spectacular meltdown comes as Greens leader Mr Bandt battles to convince party members to do a deal with Climate Change and Energy Minister Chris Bowen on the safeguard mechanism crediting bill before parliament. Far from there being a "stalemate" between the parties, the failure to land a deal so far this week was largely due to divisions and negotiations within the Greens, close observers said. The party is split between political pragmatists who want to land a reform that would push emissions down by 205 million tonnes by 2030, and those who say the Greens should risk reigniting the climate wars with Labor by using the safeguard mechanism talks to press for a more ambitious scheme that nobbles future gas projects and caps the use of carbon offsets.

**(Reuters):** Rising airline traffic is expected to trigger global emissions-related requirements for some carriers as early as next year, according to a top airline trade group, even as debate broadens on the effectiveness of that approach. A United Nations-led scheme seeks to cap emissions from international flights at 85% of 2019 levels under the first phase of its CORSIA beginning next year. That threshold is expected to be crossed sometime in 2024 based on current traffic recovery, trade group IATA told Reuters. Carriers in the first phase could purchase offsets as early as that year, with international travel expected to rebound to near 2019 levels.

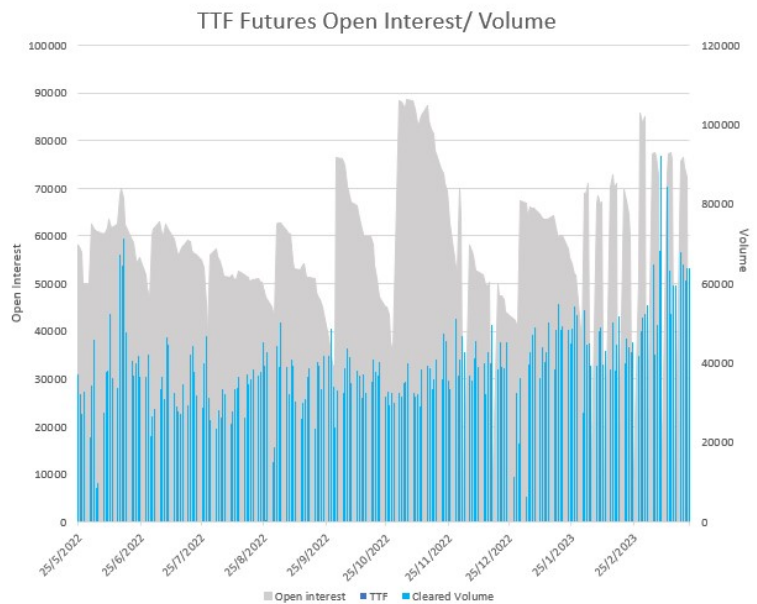
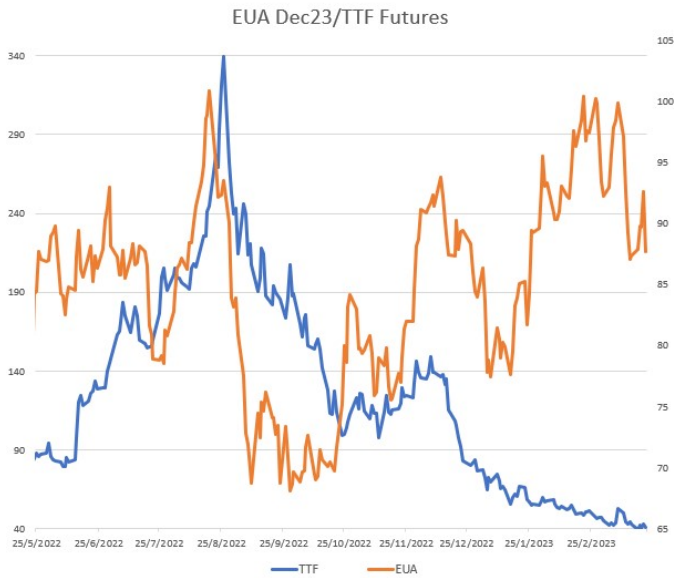
**(CarbonPulse):** In its quarterly update on the Australian carbon market, the regulator laid out its view on the outlook for ACCU demand and supply. It noted that the number of issued ACCUs has increased by an average 1.1 million annually since 2017 to 17.7 mln in 2022, but that the number has dropped to just 0.85 mln in the past two years. ACCU demand from other sources than the federal government's ERF rose 56% year-on-year in 2022 to 1.5 mln, and has tripled since 2018. However, at the same time the regulator data showed the number of ACCUs being held in registry accounts almost doubled during 2022 to 22.7 mln at the end of the year from 11.5 mln at the end of 2021.

**(CarbonPulse):** Fifteen buyers picked up the 150,000 credits on sale at the auction, sourced from the Southern Cardamom REDD+ project in Cambodia and the Linshu biogas recovery and power generation project in China and supplied by Vitol Asia. Southern Cardamom V21 credits cleared at USD\$15.16. Successful bidders include AmBank, AmBank Islamic, AmInvestment Bank, CIMB Bank, Maybank, MIDF Amanah Investment Bank, and Permodalan Nasional. Others included oil and gas corporates such as Petronas, Malaysia's national oil company, and Yinson Holdings, as well as Malaysia Steel Works, Telekom Malaysia, Press Metal Aluminium Holdings, Pet Far Eastern, a PET bottling company, and AU Synergy.

## Indicated Markets

Energy markets also fell back on the macro worries, with April TTF natural gas falling 4.8% to settle at €41.0940/MWh on ICE. EU data released this week showed that member states reduced gas consumption by nearly 20% between August and January. Finland led the way with a 58.5% cut, while German use fell by 19.4%. Cal-24 German baseload power dropped 5.5% to €134.75/MWh on EEX, while cal-24 API2 coal traded 0.4% lower at \$128.00/tonne on ICE. Meanwhile, Reuters reported that strikes in France are impacting maintenance plans at EDF’s nuclear plants, curbing production just as the utility hoped to rebound from a 34-year output low last year.

Source: Refinitiv



## Contact

### Anand Ravindran

AnandR@freightinvestor.com

+65 9782 2445

### Ben Goulson

BenG@freightinvestor.com

+44 7738 726551

### Oliver Kinkade

OliverK@freightinvestor.com

+44 (0) 207 090 1120

### Theodore Goulios

TheoG@freightinvestor.com

+65 6535 5189

The information provided in this communication is not intended for retail clients. It is general in nature only and does not constitute advice or an offer to sell, or the solicitation of an offer to purchase any swap or other financial instruments, nor constitute any recommendation on our part. The information has been prepared without considering your investment objectives, financial situation, or knowledge and experience. This material is not a research report and is not intended as such. FIS is not responsible for any trading decisions taken based on this communication. Trading swaps and over-the-counter derivatives, exchange-traded derivatives, and options involve substantial risk and are not suitable for all investors. You are advised to perform an independent investigation to determine whether a transaction is suitable for you. No part of this material may be copied or duplicated in any form by any means or redistributed without our prior written consent. Freight Investor Services Ltd (FIS) is authorised and regulated by the Financial Conduct Authority (FRN: 211452) and is a member of the National Futures Association (“NFA”). Freight Investor Services PTE Ltd (‘FIS PTE’) is a private limited company, incorporated and registered in Singapore with company number 200603922G, and has subsidiary offices in India and Shanghai. Freight Investor Solutions DMCC (‘FIS DMCC’) is a private limited company, incorporated and registered in Dubai with company number DMCC1225. Further information about FIS including the location of its offices can be found on our website at [freightinvestorservices.com](https://freightinvestorservices.com)