FIS Carbon Weekly Report

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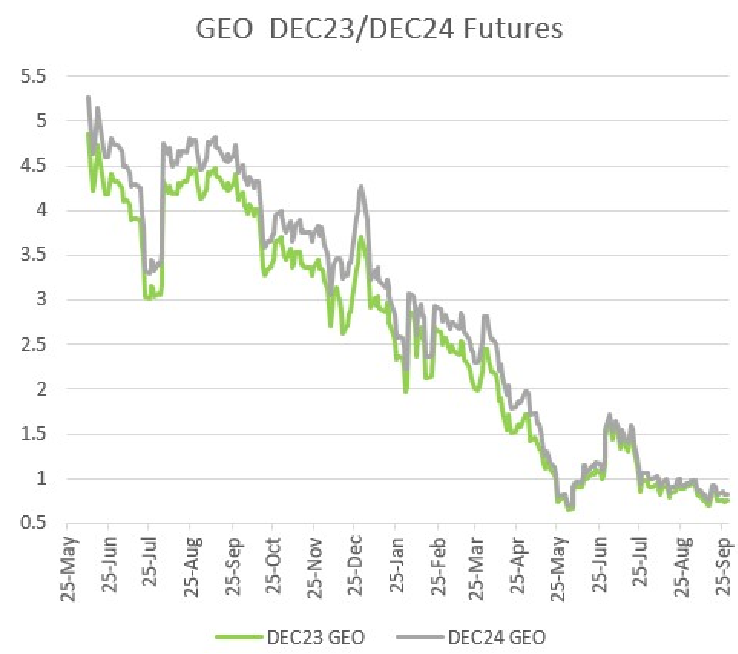
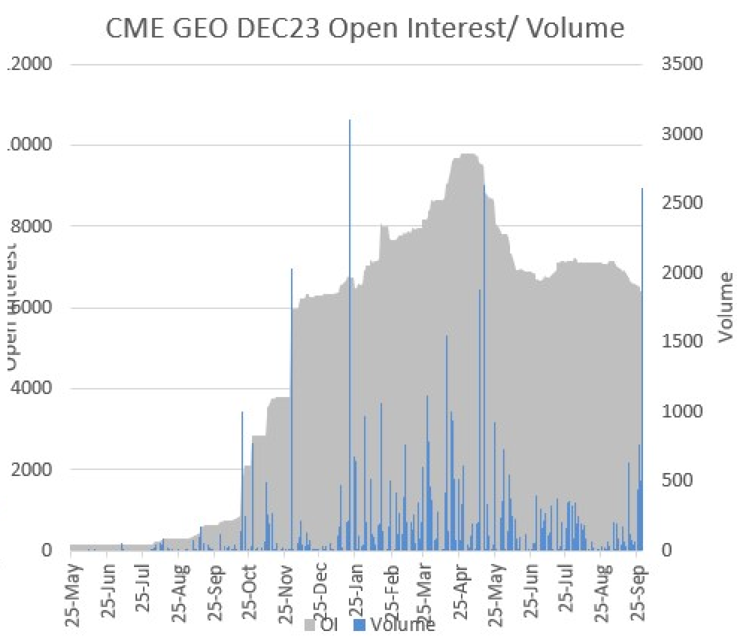
02/10/2023

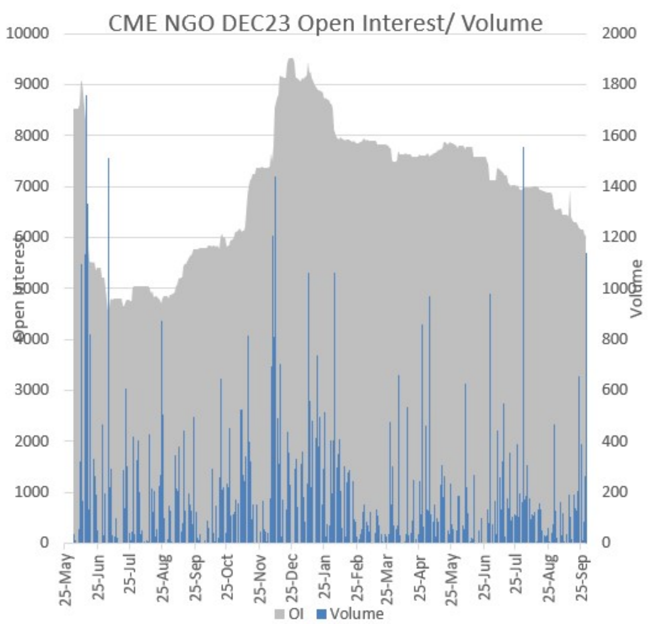
Voluntary Markets

CME Futures

(FIS View): 1893kt traded on the NGO Dec23 contract for the week, with the contract settling at $1.81. Activity on the Further dated future contracts was muted. Open Interest on the NGO Dec23 is 100kt lower at 6.05Mt. 4332kt traded on the GEO Dec23 contract for the week with the contract settling flat at $0.76. Open Interest down from 6.56Mt to 6.40Mt.







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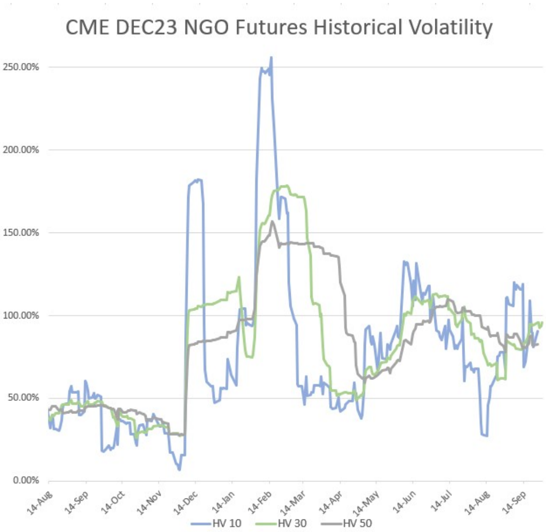
CME NGO Historical Volatility

10 day volatility at 105%. 30 day volatility flat at 95% and 50 day volatility at 85%. NGO Dec23 contract is down $0.49 for the week, settling at $1.781



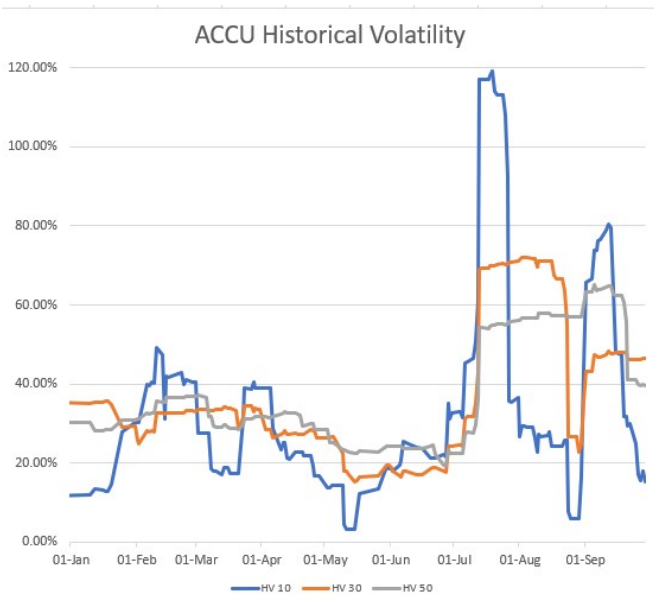
Source: Bloomberg

Block Trades on CME (w/c 29nd Sep)

NGO DEC 23/24, -0.20, 50kt

ACCU & NZU Market

A group of Australian scientists have raised “serious concerns” that ACCUs generated from soil carbon projects could be overinflated and based on non-additional activities, urging the Clean Energy Regulator to release its data on how it calculates its crediting. The regulator has issued some 250,000 ACCUs to soil carbon projects so far in 2023, with more expected soon by project developers. However, a group of 12 agriculture and soil scientists from across the country have penned an essay in the Conversation, published Friday, raising several issues with the way those ACCUs have been generated.



ACCU IMPLIED VOLATILITY SURFACE

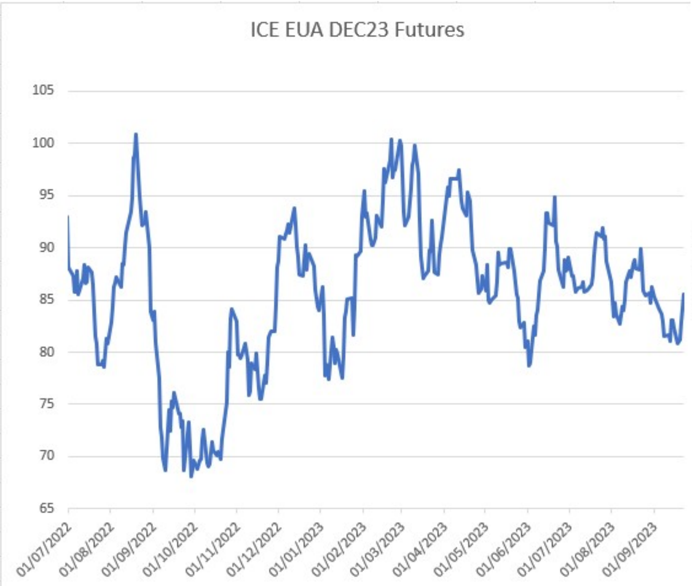
IO	10% Put	25% Put	ATM	25% Call	10% Call
Sep-23	49.00	46.50	44.00	45.00	46.50
Dec-23	47.00	44.50	42.00	43.00	44.50
Mar-24	45.00	42.50	40.00	41.00	42.50
Jun-24	43.00	40.50	38.00	39.00	40.50
Sep-24	41.00	38.50	36.00	37.00	38.50
Dec-24	39.00	36.50	34.00	35.00	36.50

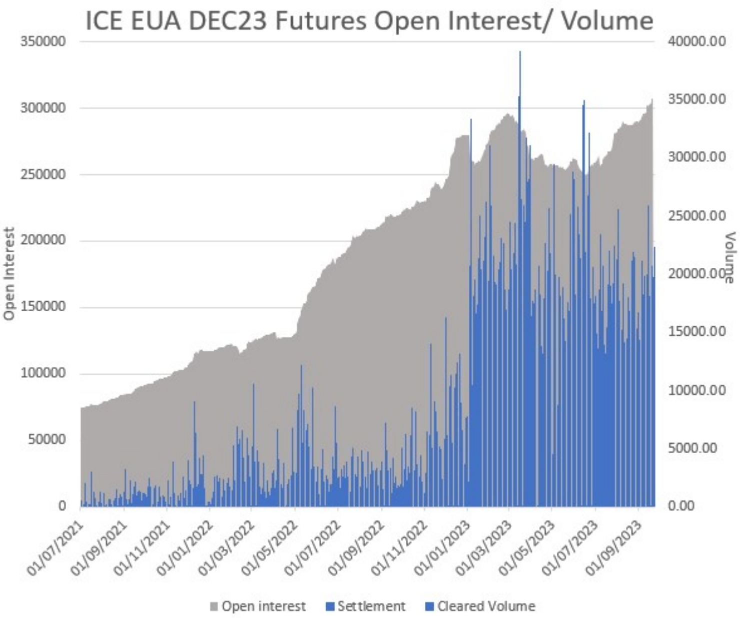
Source: *Bloomberg*

Compliance Markets

EUAs

European carbon prices posted their biggest weekly loss in nearly two months in a very illiquid market as September and the third quarter wound to a close, while energy markets also weakened as mild weather and high gas stocks continued to weigh on the markets. Dec-23 EUAs opened slightly above Thursday's settlement but were soon on the slide, falling steadily throughout the morning under the weight of light selling and relatively little demand. The weekly German auction cleared 12 cents above the spot market value at 0900 GMT but the third auction premium in a row failed to interrupt the market's steady downward trend. After a brief rally above €82.50 just after midday, the market extended its losses steadily throughout the afternoon, and repeatedly tested technical support at €81.80 until this gave way during the settlement window. Prices went on to reach a seven-day low of €81.40 in the last half-hour of trading, before the final trade went through at €81.45. The benchmark contract settled 1.3% lower on the day at €81.66, with front-December volume totalling just over 14 million EUAs, the lowest daily total for a month. Other futures contracts exchanged a combined 3.9 mln allowances. EUA prices fell 4.1% over the month of September, the sixth monthly drop since March. The market has drifted 2.7% over the year to date.

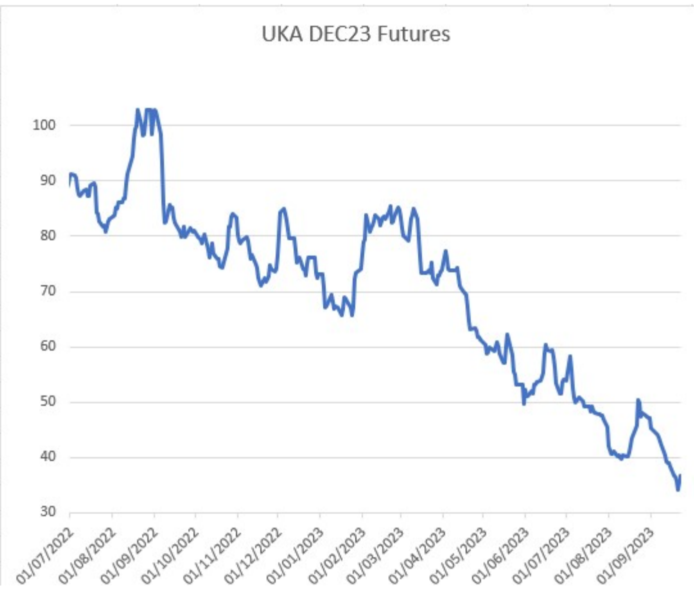


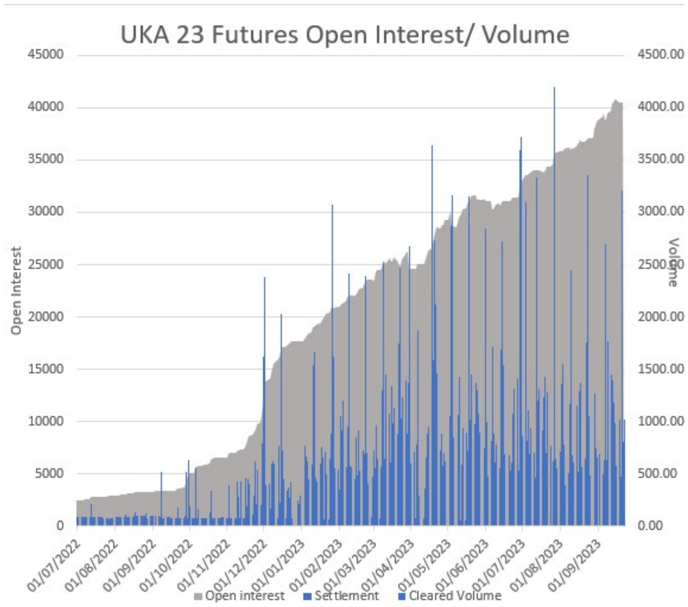


UK ETS

UK Allowances bucked the weaker trend, with Dec-23 UKAs rising as steadily as EUAs fell throughout the day. Levels opened at the low of £36.75 and slowly gained to reach £39.45, their highest in more than two weeks, shortly after the settlement window. The contract settled at £39.20, an increase of 6.6% on the day and 7.1% since last Friday, while volume totalled 780,000 tonnes.

Source: Refinitiv



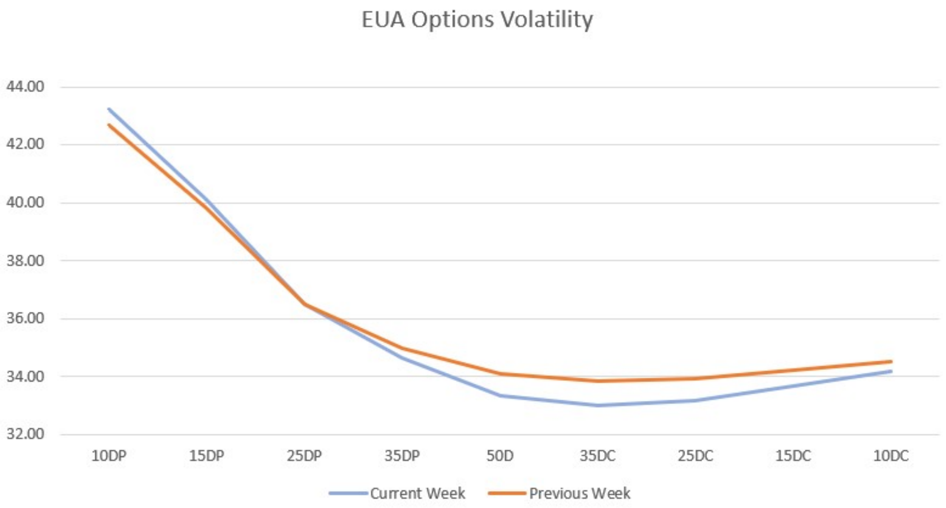


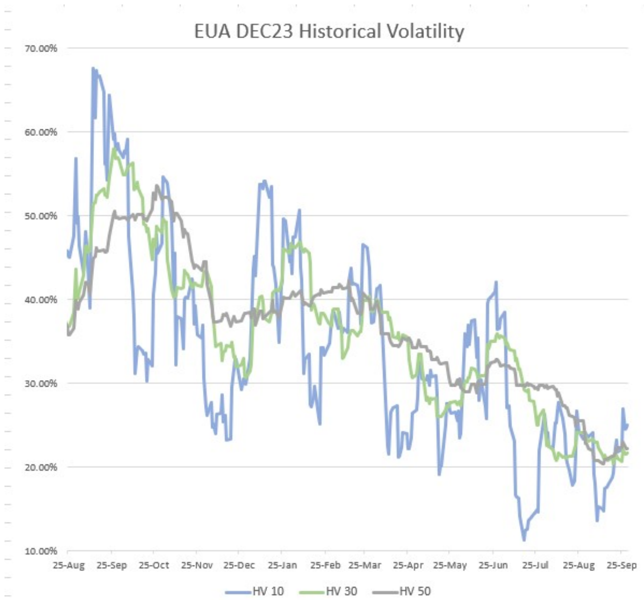
EUA Options Market

Put skew up 1.34% and call skew down 0.98% for the week. EUA volume handled by ICE in screen and block trades the front-December so far this year is around 3.7 billion tonnes to date. At the same time in 2021 this volume was nearly 4.2 billion, and the 2023 total is the lowest since 2019, data show

Source: CarbonPulse

Volatility Surface: 02/10/2023									
TERM	**10DP**	**15DP**	**25DP**	**35DP**	**50D**	**35DC**	**25DC**	**15DC**	**10DC**
Current Week	43.23	40.09	36.50	34.65	33.34	33.01	33.16	33.69	34.18
WoW Change	0.57	0.27	0.02	-0.34	-0.74	-0.84	-0.76	-0.53	-0.34
Previous Week	42.66	39.82	36.48	34.99	34.08	33.85	33.92	34.22	34.52





Source: Refinitiv

Source: Bloomberg

Market News

(CarbonPulse): A group of Australian scientists have raised “serious concerns” that ACCUs generated from soil carbon projects could be overinflated and based on non-additional activities, urging the Clean Energy Regulator to release its data on how it calculates its crediting. The regulator has issued some 250,000 ACCUs to soil carbon projects so far in 2023, with more expected soon by project developers. However, a group of 12 agriculture and soil scientists from across the country have penned an essay in the Conversation, published Friday, raising several issues with the way those ACCUs have been generated.

(CarbonPulse): Traders and brokers have increased their holdings of ACCUs by some 20%, a regulator report shows, in anticipation of a tightening market following the recent Safeguard Mechanism reforms. The Clean Energy Regulator released its quarterly carbon market report Monday, showing intermediaries – which includes banks, trading houses, and brokerage firms – had increased their ACCU holdings to 9.8 million units in the quarter ending June 30 this year. This is more than double the 4.2 mln they held over the same period last year, and a 19% increase compared to the 8.2 mln ACCUs they held at the end of Q1 2023.

(CarbonPulse): New Zealand’s Ministry of Primary Industries (MPI) has defended its move to introduce annual fees per hectare of forest and a range of service charges on ETS participants, arguing the funds accrued will be essential to maintain the integrity of the scheme. Last month New Zealand forestry groups reacted with fury and disbelief (https://carbon-pulse.com/224147/) over the government’s decision to introduce an annual fee of NZ$30.86 ($17.90) per hectare on post-1989 forest land, as well as a list of new service fees for ETS participants, warning it will only dampen new investment into forestry. They argued the charges were ill-conceived and would have a range of perverse outcomes on large and small forestry developers alike.

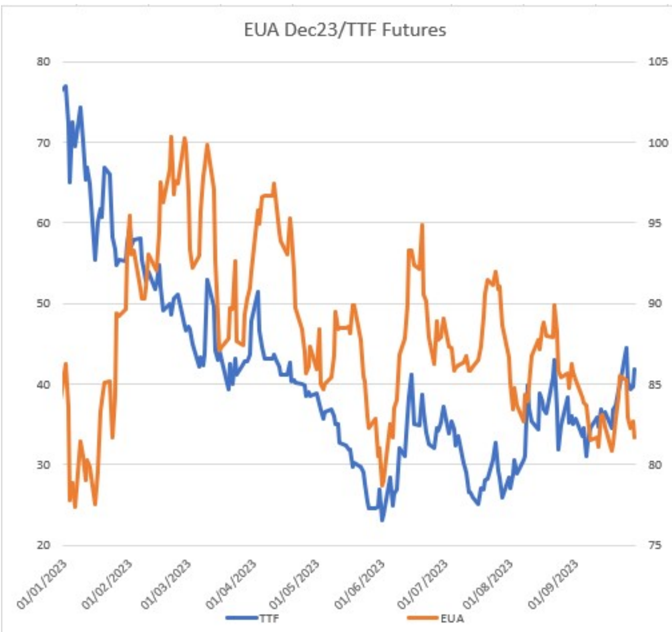
(CarbonPulse): Vietnam has taken further steps towards a more comprehensive voluntary carbon market as tech and real estate firm CT Group launched the ASEAN Carbon Credit Exchange Joint Stock Company (CCTPA) in southern business hub Ho Chi Minh City. The company plans to establish an online trading platform as its next move towards a working carbon market in the country, according to deputy director Nguyen Vo Truong An. CCTPA will act as a consultancy for those involved in carbon projects, offsets, and credit mechanisms. “This platform’s model is designed to facilitate favourable pricing dynamics for both buyers and sellers, with a focus on enhancing the value of Vietnam’s carbon credits,” he told local

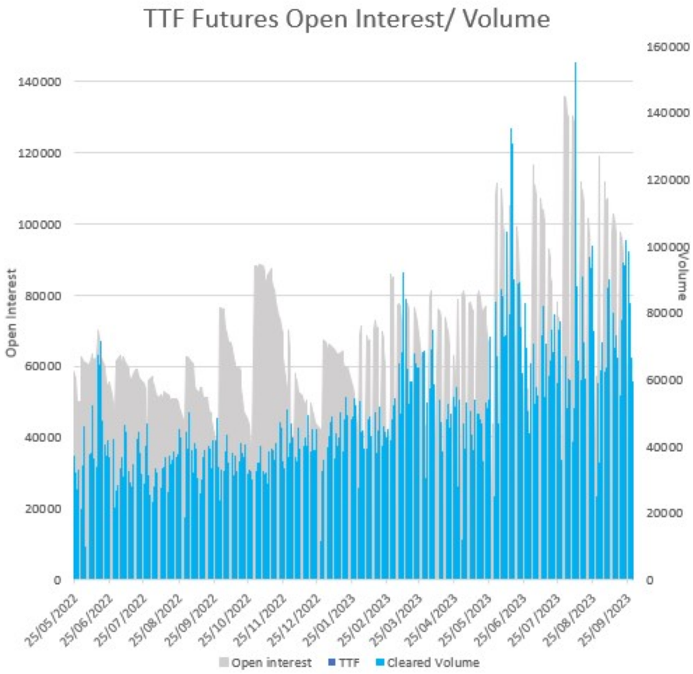
(CarbonPulse): Mozambique will prioritise community benefits and greater clarity for carbon credit buyers when drafting comprehensive regulations to support the development of offset projects in the country, the country’s environment minister was reported as saying Thursday, as it readies almost 50 million units for the market. The country’s participation in the African Carbon Markets Initiative (ACMI), alongside others in the region including Kenya, Gabon, Malawi, Togo, Nigeria, Burundi, and Rwanda, will help Mozambique to draw up a plan to promote carbon activities in the country and to develop a set of comprehensive regulations to govern the sector.

(Xpansiv): Volume in CME Group’s CBL-linked futures was 9.3 million tons with activity concentrated in the December contracts. All three current-vintage CBL futures traded more than 1 million tons on Friday led by the CBL GEO futures with 2.6 million. The CORSIA-aligned GEO futures led high volumes across the CME Group CBL emissions contracts with 4.5 million tons. The broad-based technology C-GEO followed with 2.5 million tons. Both contracts racked up relatively heavy volumes although their prices were unchanged week over week. CBL N-GEO December 2023 futures opened the week at $2.24 but traded steadily downward to close at $1.81, a drop of more than 20%. The contract saw light volumes throughout the week until Friday, when activity jumped to 1.1 million tons. On Friday, 33,000 tons were delivered via CBL to settle expiring September futures positions.

Indicated Markets

Energy prices were weaker across the board on Friday. November TTF natural gas fell a much as 4.5% before settling 2.9% lower at €41.859/MWh on ICE, while cal-24 German baseload power was last seen 0.5% lower at €122.00/MWh on EEX. Cal-24 API2 coal drifted 4 cents to $130.70/tonne. Some observers said Nov-23 TTF futures appear overpriced in light of market fundamentals, with current inventory levels above 95% – higher than the average pre-winter highs of 91% seen since 2010 – Bloomberg reported. Furthermore, warmer-than-average weather is predicted for most of continental Europe into next month – factors that should exert downward pressure on prices, especially given that the seasonal drawdown typically doesn't start until at least late October. Bloomberg highlighted that while this doesn't provide insight into demand during the colder months, it suggests that contracts trading at prices more than double their pre-Russia-invasion seasonal average may be excessively high for early winter.





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