

FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) CHRISTMAS RECAP

Over the final quarter of 2023 we saw warmer-than-normal temperatures and reports of a continued drop in industrial consumption, with emissions from the EU power mix falling significantly. These bearish fundamentals combined with the buildup of a record net short position (42 Mt) from investment funds—as revealed in the weekly Commitment of Traders (CoT) report—to push the benchmark Dec23 contract to a 14-month low of EUR 65.99 on 14 December.

However, for the remainder of 2023 we saw a surge in EUA prices. Several factors contributed, including an absence of auctions, low liquidity and short covering (funds reduced their short positions by 20Mt/50% following the expiry of the Dec23—see below Open Interest chart). This culminated in the Dec24 contract hitting a 10-week high of EUR 81.25 (up 19% on 14 December's low) on 2 January, just minutes into the new trading year. This peak proved to be short-lived, as the benchmark contract soon fell back by more than EUR 4 within 90 minutes. Traders were likely profit taking and bringing the price back closer to the bearish fundamental picture that characterized the second half of 2023.

Noteworthy news going into 2024 include (more trends and news later in the report):

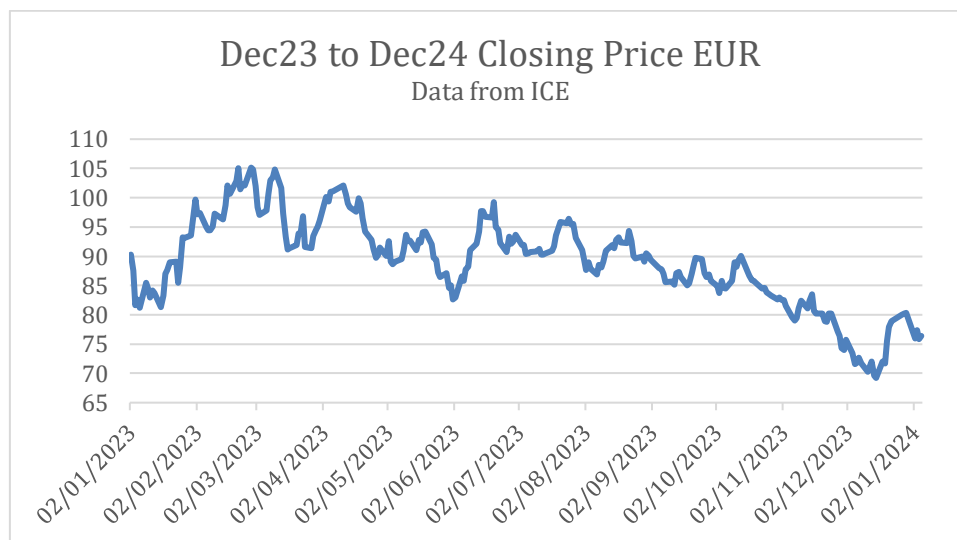
- The auction calendar for 2024 was released, which highlighted the volumes to be sold by EEX, standing at 396.2 million EUAs + EUAAs, an increase of 22% year-on-year
- The Eurozone is set to enter a recession as the economy shrunk for a second consecutive quarter in 2023, as revealed by a Bloomberg poll of analysts. This could contribute to a continued downward trajectory of energy demand and emissions from industry.

Note: EUA prices throughout the report are taken from the Intercontinental Exchange (ICE).

EUA WEEKLY REPORT 08/01/24

In brief: Cold snap halts EUAs slide

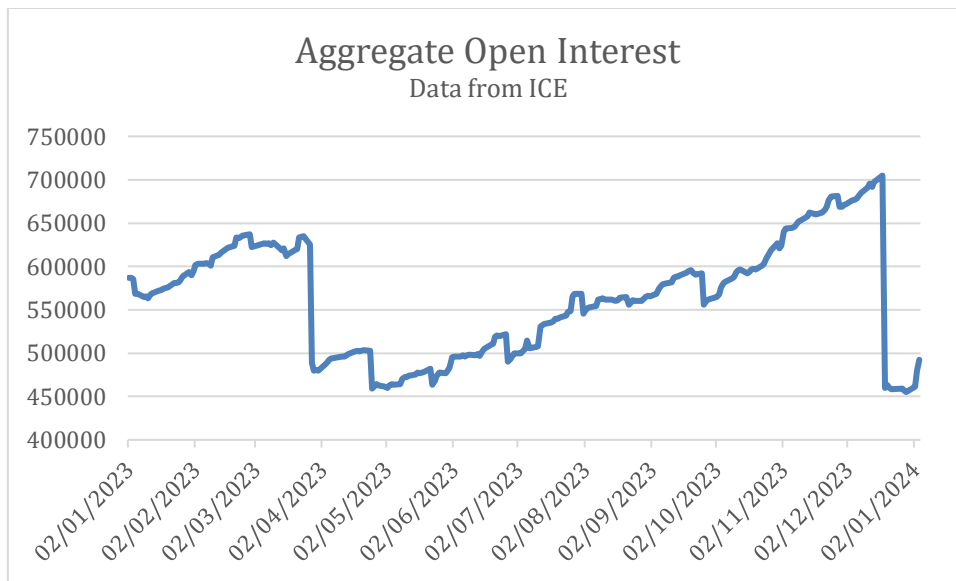
The benchmark contract settled at EUR 76.35 on Friday 5 January, chalking up a five-day loss of EUR 4.02 (5%). As the week progressed, cold weather spurred EU gas prices which in turn added some support to EUAs, tapering any further aggressive selling. This cold weather is expected to continue through the week which will likely continue to bolster EU gas and EUA prices. Although EU gas storage levels remain high so significant gas price rises remain unlikely. Meanwhile, it has been widely suggested that funds might start to rebuild their net short positions (more below) back in line with the overall bearish fundamentals. Amid these two competing trends, our short-term outlook is neutral.



What happened? (Price movements)

- Tuesday marked the start of the new trading year. EUAs quickly fell back from the peak reached over the Christmas period. A likely return of speculative traders and their bearish bets contributed to the Dec24 contract dropping 5.5% on the day to settle at EUR 75.96
- The benchmark contract resisted any further downward pressure on Wednesday as the prospect of cold continental weather arriving at the end of the week helped boost prices. The Dec24 increased by 1.8% to settle at EUR 77.35

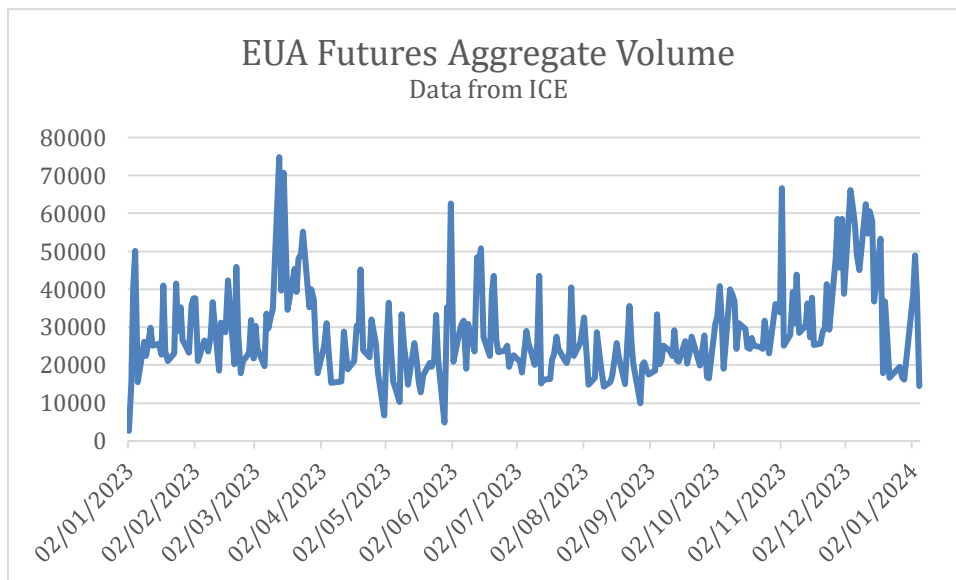
- Aggressive selling returned on Thursday, reigniting the bearish narrative that summed up Q4 2023. The Dec24 contract settled at EUR 75.82, eliminating gains made the day prior
- On Friday rising EU gas prices added support to EUAs. Despite Dec24 settling at EUR 76.35, 0.7% higher on the day, the story of the week was a 5% drop.



Why? (Market drivers)

- One of the main drivers last week was the arrival of colder temperatures across Europe, particularly throughout Scandinavian countries such as Norway and Sweden. This weather pattern is set to continue into this week and will likely drive an increase in fossil fuel burning
 - As a result of these weather conditions, a price rally in the energy and power market unfolded, with gas settling at EUR 34.551 EUR/MW Friday on the Feb contract, up EUR 3.98 (up 11%) since Tuesday
- Commitment of Traders (Cot) Report: Data from last week showed funds had reduced their net short position for the third week in a row, bringing the total position to 20.3 Mt, down 25% from the week prior. The release of this report spurred a short rally, only to be subdued shortly afterwards by high selling

- It is suggested funds may begin soon, if not already, to increase their net short position given the outlook in the market has not changed since the final quarter of last year
- The absence of auctions (until the new calendar year commences on 15 Jan) resulted in a lack of market participants last week, resulting in low liquidity and an overall quiet week.



What's coming up? (Trends and key developments)

- The potential remains for disruptions to EU energy supply, deriving from continued unrest in the Middle East
- Jan 15—The return of the weekly auctions on EEX
- The linear reduction factor, an EU measure which determines how fast the cap on emissions are to be reduced annually, now stands at 4.3% for 2024-27, an increase of 2.1% from 2023.

Further Reading

- More on the Bloomberg poll claiming Europe is entering a recession
<https://www.bloomberg.com/news/articles/2023-12-11/euro-area-to-suffer-first-recession-since-pandemic-survey-shows>
- Further information on the 2024 Auction volumes on EEX
https://climate.ec.europa.eu/news-your-voice/news/2024-eu-ets-auction-calendars-published-2023-12-21_en
- Weather, German emissions, and trend projections from S&P Global
<https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/energy-transition/010524-eu-ets-prices-under-pressure-but-colder-weather-could-boost-demand>
- Important details on the compliance responsibility process for surrendering EUAs [EU ETS: important compliance clarifications \(gard.no\)](https://gard.no)

For More Information

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