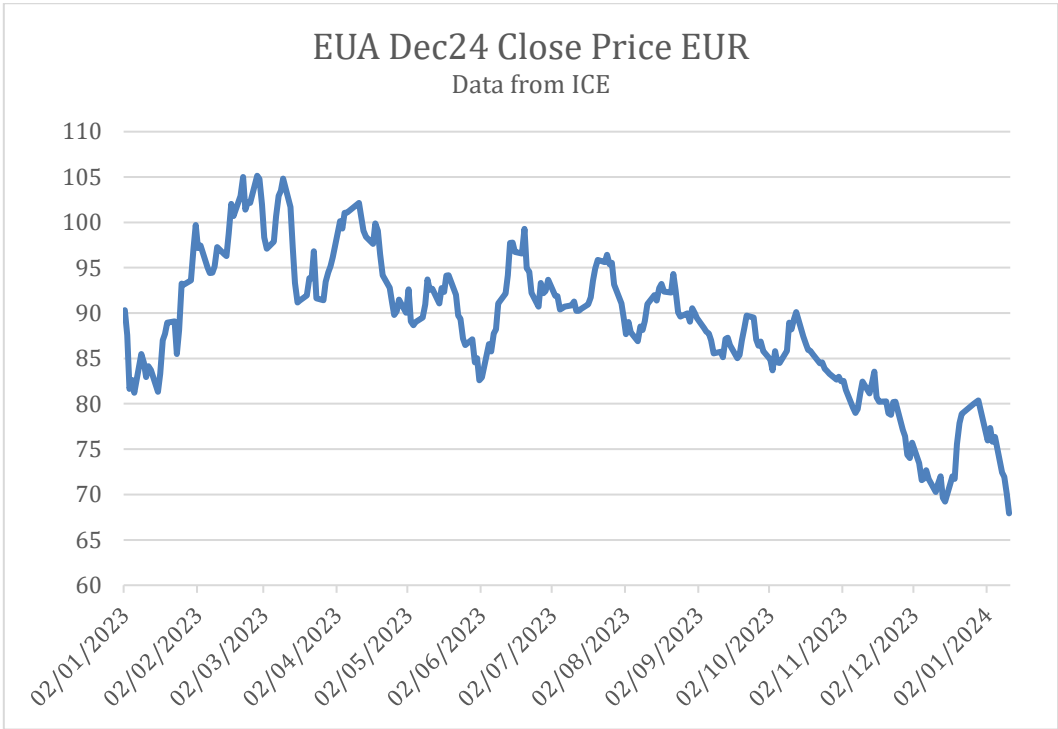




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 15/01/24

In brief: EUAs plunge to lowest in 15 months

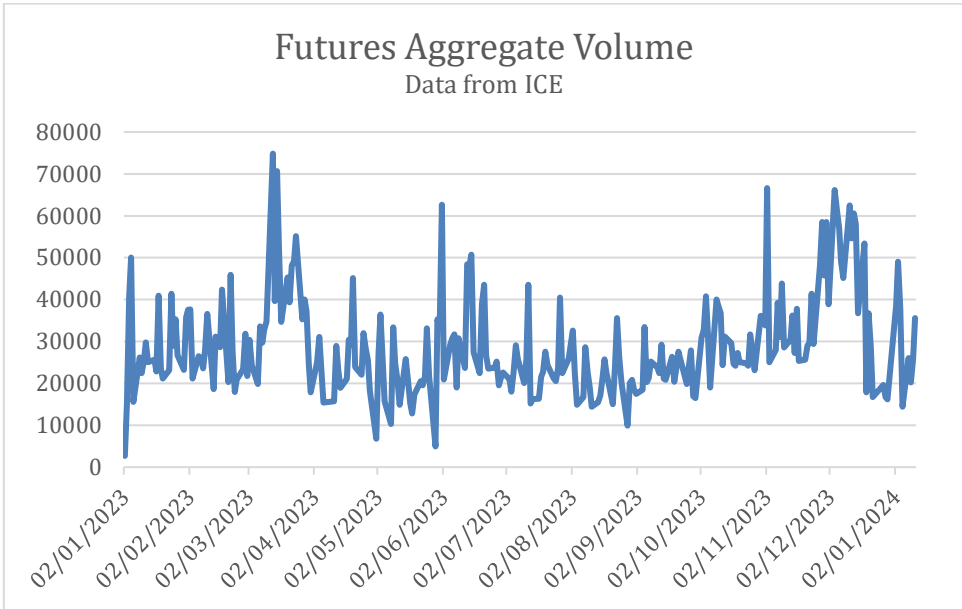
LONDON: The benchmark contract settled at EUR 65.81 on Friday, a hefty weekly loss of EUR 6.68 (13.8%). Heavy selling pushed prices to the lowest weekly settlement since Sep 29, 2022. EUAs defied the cold snap as reports emerged that strong EU gas storage could endure any further temperature drops, thus reducing the threat of a price spike to EU gas and carbon. Further downward pressure arose following reports that in 2023 Germany had seen its lowest emissions since the 1950s, adding weight to the narrative the EU has fundamentally changed its energy matrix since the Russian full-scale invasion. While freezing conditions across much of Scandinavia should offer some support for EUA prices this week, today's return of auctions could induce a further downward trend. Our outlook is neutral.





What happened? (Price movements)

- EUAs plunged on Monday, with the benchmark Dec24 contract falling 5.2% to settle at EUR 72.42. Sort-sellers were out in force as plummeting EU gas prices took centre stage
- EUAs showed some resistance to downward pressure on Tuesday with the Dec24 enduring a period of aggressive selling in the morning. The remainder of the day saw EUAs trade in a narrow range, with the front December future settling 0.6% lower at EUR 71.76



- EUAs continued their slide on Wednesday, breaking the EUR 70 barrier to settle at EUR 69.99. The weekly Commitment of Traders (CoT) report revealed a hefty increase in net short positions—many of these were placed by utilities in contrast to recent shorts usually placed by funds (more below)
- On Thursday, EUAs suffered their second significant plunge of the week, touching a three-week low of EUR 66.98. Plummeting gas prices again prompted high levels of selling. Despite a slight recovery before the settlement window, the December future sustained a 3% daily loss to settle at EUR 67.92

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- Dec24 EUAs continued their downward trend on Friday, hitting a new 15-month low of EUR 64.73, in spite of geopolitical concerns arising from the Red Sea Region. The contract eventually settled at EUR 65.81, a 3.1% fall on the day and a near 14% drop on the week.

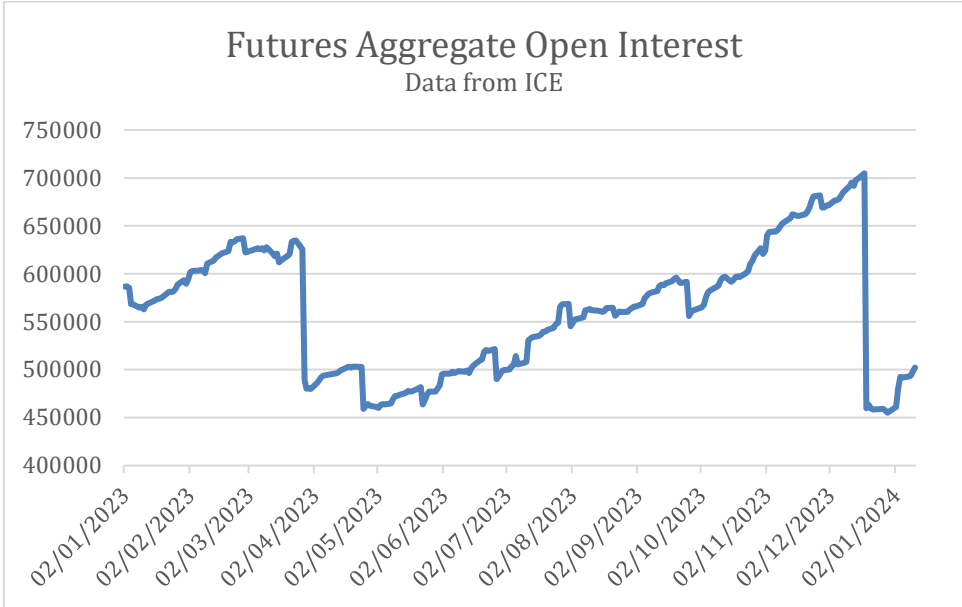
Why? (Market drivers)

- Commitment of Traders (Cot) Report: Wednesday's report contained conflicting perspectives—while banks increased their total long positions by more than 35 Mt, commercial undertakings did the opposite, significantly building their short positions
 - Commercial undertakings, which include the likes of utility trading desks, increased their net short position by 40.7 Mt the week ending 5 January. Analysts noted this was the most likely driver behind the EUA price collapse two weeks ago
 - Some analysts suggested this short-selling by commercials owed to trading desks unwinding prior positions—News emerged last week that the EU's biggest emitter, Germany, produced its lowest amount of emissions in 2023 since the 1950s, largely due to the phasing out of coal fired power production (more below)
 - Meanwhile, investment firms in conjunction with credit institutions decreased their net short position by 39.3 Mt.
- Significantly, the cold snap that swept Europe last week failed to have any significant impact on EUA prices
 - News emerged EU gas storage is high enough (84.27% as of 7 January) to endure any concern deriving from the cold weather for the remainder of winter. The benchmark EU gas contract, TTF, fell by as much as 9.5% on Monday
 - This further bolstered the narrative that, two years after the Russian invasion of Ukraine, EU energy security is in a much better place. This has put a significant downward pressure on EUAs.
- On 11 January it was reported that EUAs would have to drop to EUR 50 before coal starts to threaten gas as a more economical option in the energy matrix. As such, gas is in the money—this means less emissions, a further bearish impact on EUAs.



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

- Auctions recommence today. Total volumes to be auctions this week stand at 13,404,500. This influx of supply could well have a further downward impact on the market
- Tensions in the Middle East are once again on the rise, with the Houthis attacking merchant ships travelling through the Red Sea. Further disruptions to shipping in this region, and subsequently energy supply to Europe, are expected (More information below).



Further Reading

- An insight into the potential impacts the Carbon Border Adjustment Mechanism (CBAM) could have on global trade flows <https://www.ft.com/content/ca51ebf5-fbb8-4c88-a93d-ded3d6d3bcdd>
- A recap of some of the key dates going forward for ships under the ETS [EU ETS impact on EU MRV reporting \(gard.no\)](https://www.gard.no/en/industry/energy/2023/12/14/eu-ets-impact-on-eu-mrv-reporting)
- Gas prices resilient to cold snap pressures <https://www.ft.com/content/4039713a-1e97-46d8-b208-d612e888eb79>

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- The Houthis and their attacks in the Red Sea Region
<https://www.bbc.co.uk/news/world-middle-east-67614911>
- Germany hits 70-year low on emissions front <https://www.power-technology.com/news/germany-emissions-70-year-low-study/?cf-view>

Sources

All pricing data taken from Intercontinental Exchange (ICE) and European Energy Exchange (EEX)

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