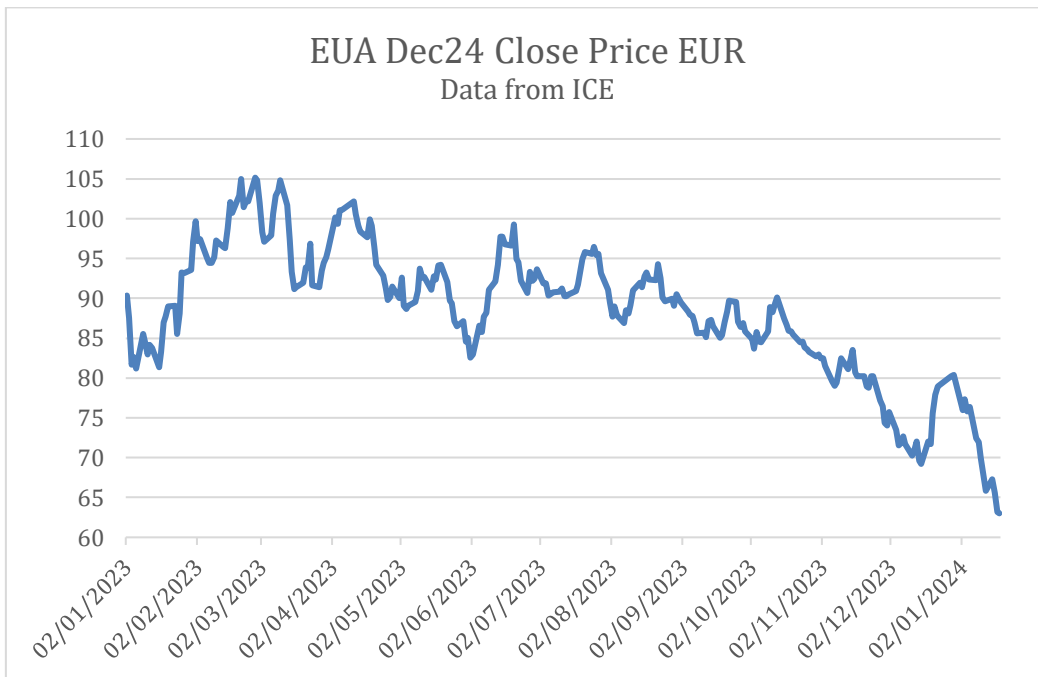




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 22/01/24

In brief: EUAs tank to two-year low

London: The benchmark Dec24 contract settled at EUR 63.65 on Friday, a weekly loss of EUR 2.16 (3.3%). Any threat of cold conditions leading to a price rally was short-lived, as prospects of milder temperatures this week combined with healthy gas stocks to ensure EUAs resisted any significant upward pressure. The return of auctions helped spur price brief bumps on Monday and Friday amongst compliance buyers. However, strong selling was the story of the week. Meanwhile, the Commitment of Traders (CoT) report revealed investment funds' net short positions had increased the week ending 12 January, with analysts speculating bearish bets to reach the same levels seen before Christmas. While prices are testing lows, should funds continue to short as expected further downward pressure could be expected. Our outlook is neutral to bearish.



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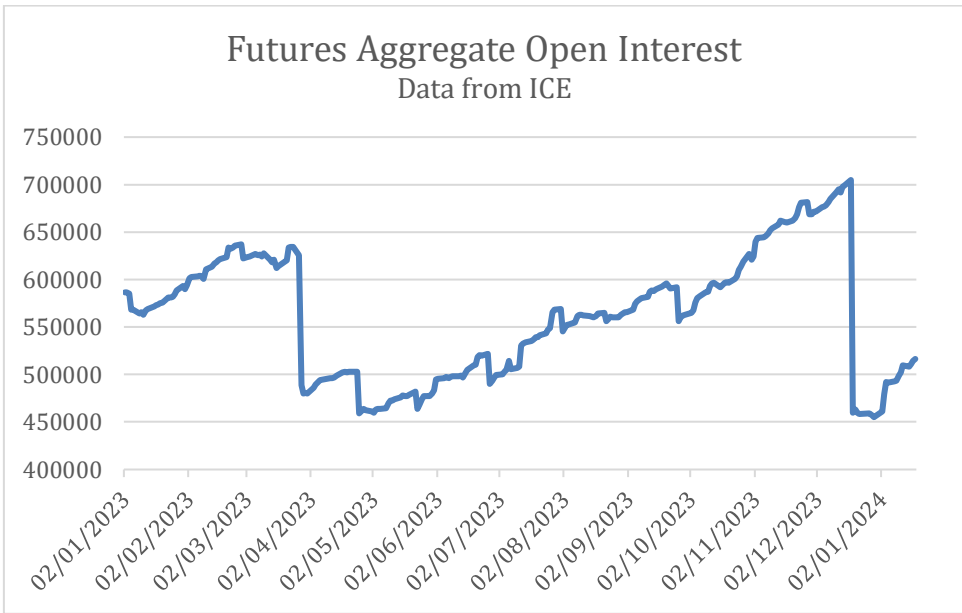
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What happened? (Price movements)

- Monday saw an unexpected rally in EUAs with the benchmark Dec24 contract climbing 2.2% on the day to settle at EUR 67.25. With warmer weather forecasts pushing gas prices down, some analysts inferred the low prices (EUR 64-65) had encouraged buyers into the market
- Tuesday saw a reversal in fortunes as EUAs lost Monday’s gains. Monday’s buying activity was notably absent as market participants appeared to be waiting for Wednesday’s weekly Commitment of Traders (Cot) report. The Dec24 contract settled at EUR 65.59, a 2.5% drop on the day
- Wednesday was a truly bearish day in EUAs, as the benchmark contract fell to its lowest settlement in almost two years (7 March, 2022). While CoT data showed funds had increased their net short positions by 8.8 Mt the week ending Jan 12, this result was expected and the impact in the market was thought to be minimal. However, aggressive selling unfolded through the afternoon and EUAs settled a 3.7% lower at EUR 63.15



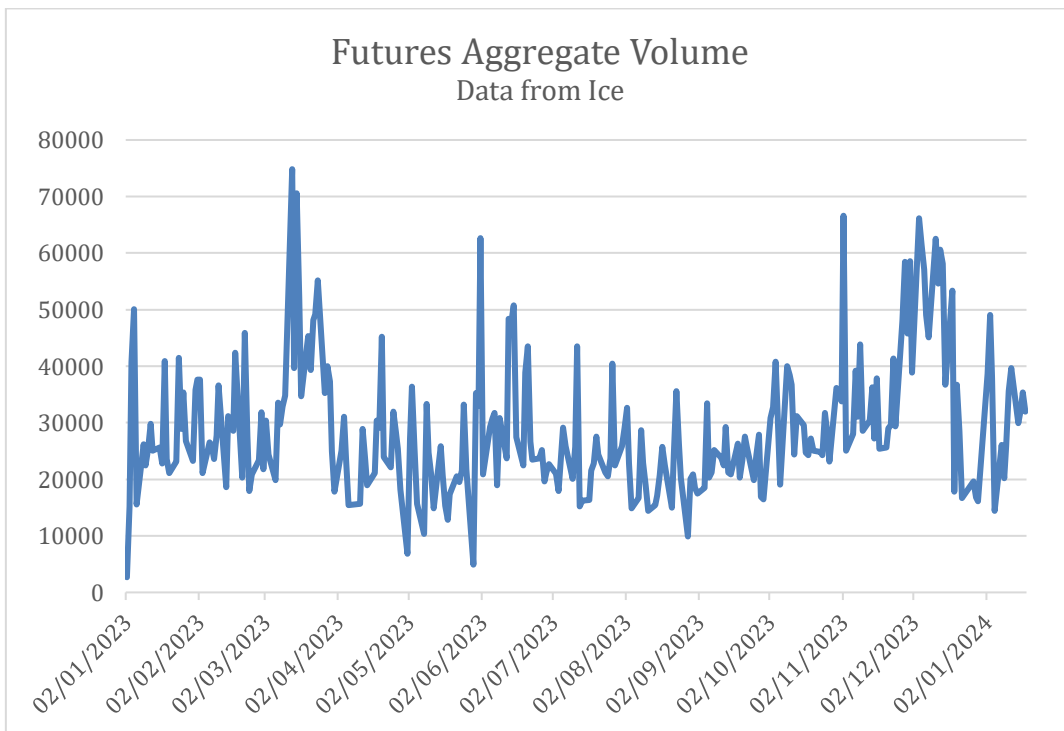
- EUAs suffered further decline on Thursday as selling was spurred on by a discounted auction, driving prices down in the morning. While prices rebounded in the afternoon, the Dec24 contract settled 0.2% lower at EUR 63.01
- Friday saw some bullishness injected into the market, as a strong auction (clearing EUR 0.96 above the prevailing spot market) led to high compliance buying amongst participants. The Dec24 contract settled 1% higher at EUR 63.65.

Why? (Market drivers)

- Despite cold weather fronts spreading across Europe last week, high gas reserves and warmer forecasts leading into this week meant EU carbon resisted any upward pressure brought about by the icy conditions
 - Gas storage is sufficiently high—last seen 77.5% full, as reported by Reuters on 19 January
 - Forecasts on Friday pointed to an average increase of 7.2 degrees for today across North-West Europe
- Continuing depletion in emissions from utilities has resulted in low compliance demand for the start of the year, with open interest an estimated 146 Mt lower on a year-on-year basis
- Last week’s resumption of auctions injected an additional supply of 13.4 Mt EUAs
 - Auction results spurred price rallies on Monday and Friday as they cleared at a premium to the prevailing spot market
 - Friday’s auction premium of EUR 0.96 was the biggest spread to spot prices since 25 August 2023
 - While auction results boosted prices on these days, the additional supply is a bearish fundamental, especially with additional allowances being added to the market this year for shipping and RepowerEU
 - Aggressive selling unfolded on Thursday after the sale cleared 8 cents below spot, pushing prices down EUR 1.40 in only 20 minutes.
- Last week, escalations in Red Sea tensions caused further disruptions to global trade. EUAs have so far been resilient to any impact, with investors seemingly not pricing in the conflict into the risk premium



- The energy market also showed resilience despite ships diverting away from the Red Sea. For example, the TTF Contract fell 0.9% Tuesday to settle at EUR 29.656/MWh
- Falling energy prices (especially from Monday-Wednesday) contributed to the bearish undertone in the market.
- Commitment of Traders (Cot) Report: Data revealed investment funds increased their total net short position to 28.8 Mt the week ending Jan 12, up 43.9% from the week prior
 - While total net long positions increased by 1.4 Mt to 24.9 Mt, total shorts grew by 10.2 Mt to 53.7 Mt, giving greater weight to bearish bets in the market. Given the high levels of selling that ensued last week, this renewed shorting by investment funds is likely to have grown and is believed to be part of the reason for the downward trend in prices. All will be revealed this coming Wednesday.



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

- It has been projected that the shipping sector's 2024 EUA demand will amount to 36 million. 81 million EUAs have been added to the auction calendar for the sector. This means a surplus of 45 million EUAs
- Total auction volumes were 13,404,500 (13.4 Mt) last week. Volumes for this week stand at 11,094,500
- Notwithstanding the lack of impact on EUA prices thus far, it is worth keeping an eye on developments in the Red Sea region. More info below on the current situation
- The EU Commission intends to increase the ambition of climate targets by setting a 90% reduction in greenhouse gases by 2040. Further information below.

Further Reading

- European Commission appears likely to back 90% reduction level at upcoming 2040 climate targets vote [EU Commission to back 90% emissions cut for 2040 climate target - sources | Reuters](#)
 - LSEG analysts estimate carbon prices could reach EUR 400 if 90% emissions reduction target by 2040 is implemented [EU carbon price to hit €400 mark with 90% climate goal: analysts – Euractiv](#)
- Final April meeting with current EU Parliamentarians before elections could lead to ambitious climate policies being passed into law [Don't stop now on climate policy, scientists tell EU ahead of elections \(ft.com\)](#)
- UK takes steps to increase military capacity in Red Sea <https://www.reuters.com/world/uk/uk-upgrade-warship-defence-missile-system-used-red-sea-2024-01-21>
- Weather forecasts point to mild conditions, starting today <https://www.nasdaq.com/articles/europe-gas-prices-mixed-on-weather-forecasts>

Sources

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

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