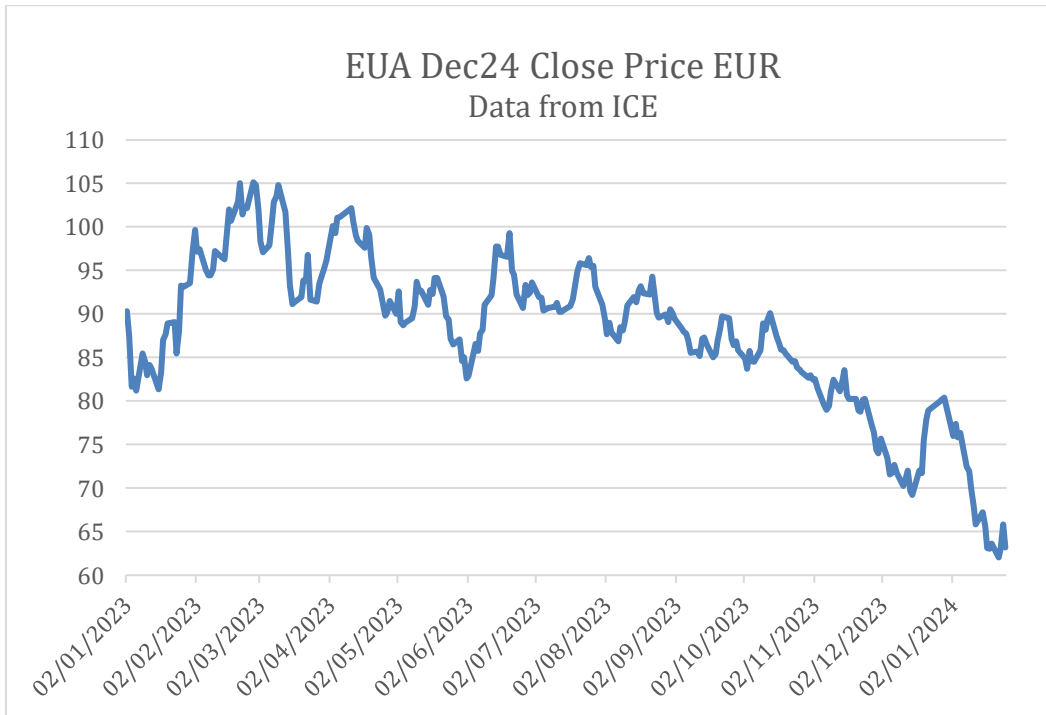




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 29/01/24

In brief: EUAs trade sideways amid conflict and warm temperatures

The benchmark contract settled at EUR 63.58 on Friday, a weekly loss of EUR 0.07 (0.1%). European gas maintained a high correlation with EU carbon, as multiple EUA price rallies followed rises in TTF contracts amid developments in the Middle East conflict. Wednesday's Commitment of Traders (CoT) data again led to a price rally as speculation around short-covering spread across the market. These bullish factors were countered by the onset of warmer than average temperatures and strong winds. January closed with a huge monthly loss of 21%. Open interest remains significantly below Q4 2023. Outlook for this week: neutral with possible price surges should tensions escalate in the Middle East.



Freight Investor (Holdings) Limited

80 Cannon Street
London, EC4N 6HL

+44 (0) 20 7090 1121
info@freightinvestor.com

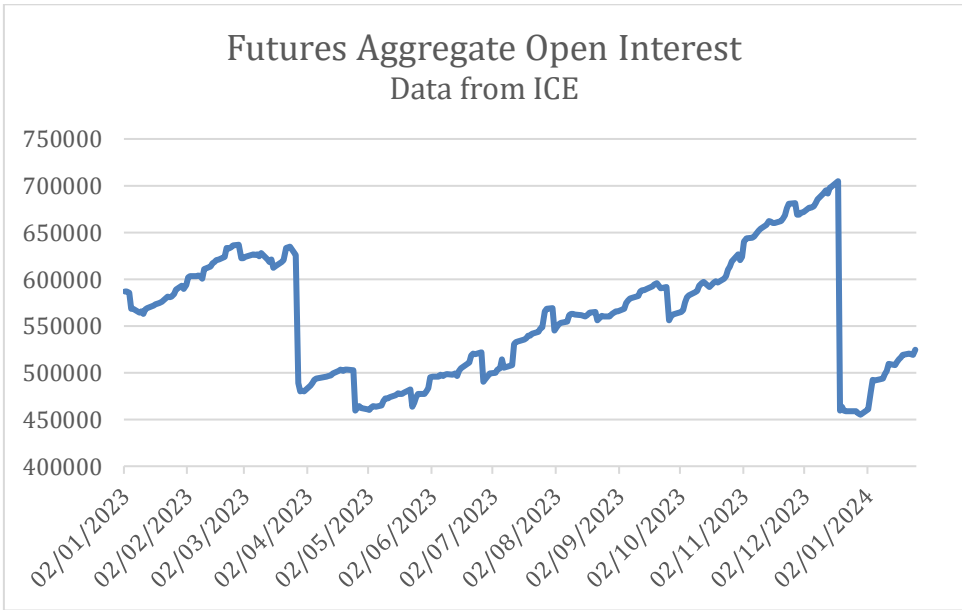
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What happened? (Price movements)

- EUAs plunged on Monday with the benchmark Dec24 contract dropping 2.5% on the day to EUR 62.04, its lowest settlement in 18 months. Falling gas prices were largely seen to be the catalyst for carbon's demise
- Tuesday saw a moderate rebound as firmer gas prices helped EUAs reclaim some of the previous day's losses, with Dec24 EUAs rising 1.6% to settle at EUR 63.05
- The upward momentum accelerated on Wednesday amid short-covering speculation and rising TTF prices. The benchmark contract settled at EUR 65.82, a daily increase of 4.39%
- Thursday saw a reversal with EUAs retreating 4% to settle at EUR 63.21. Analysts noted an absence in compliance buying and a resumption in aggressive selling



- A strong auction on Friday (the 6th largest premium since at least 2018, with the sale clearing EUR 0.87 above the spot market) helped boost prices in the secondary market, as over 650,000 EUAs traded in response to this news. The



Dec24 settled 0.6% higher at EUR 63.58, but ultimately suffered a 0.1% weekly decline.

Why? (Market drivers)

- Last week, European gas played an instrumental role on the direction of carbon
 - The benchmark TTF M+1 contract plunged 6.4% Monday morning, as an Atlantic storm brought warm conditions to Europe. EUAs fell by EUR 2 within the first 30 minutes of trading
 - Tuesday and Wednesday's gains were largely attributed gas price rises amid continued disruptions in the Red Sea Region. Qatar's Wednesday announcement of a rescheduling of LNG shipments led to gas rising 10%, with delivery uncertainty sparking concern in the market
 - Equally, Thursday's reversal was strongly associated with gas falling 4.5%
- Unusually high temperatures and higher wind generation across Northwest Europe added bearish pressure to EU carbon
 - Last Thursday in Spain saw the second warmest January day since 1985, with the country basking in 30.6C
 - Storms Isha and Jocelyn added a significant boost to Europe's wind generation, reducing the necessity for compliance buying. In Germany, intraday power prices fell below zero for a few hours on Monday morning, hitting EUR 14.88/MWh on Epex Spot Se
 - This week's forecasts indicate Central and Northwest Europe will remain unseasonably warm, relieving pressure on gas supply and subsequently EUAs
- Commitment of Traders (Cot) Report: Wednesday's CoT data revealed investment funds increased their net short position by 16.9% to 33.7 Mt the week ending 19 January
 - Analysts noted 4-5 Mt in net shorts were added when the price was below EUR 63.50 which were therefore not deeply in-the-money—this led some to speculate these positions were being squeezed on Wednesday amid the gas + EUA rally
- Last week's auctions supported prices at times, notably on Friday when the German auction cleared EUR 0.87 above the prevailing spot market. This

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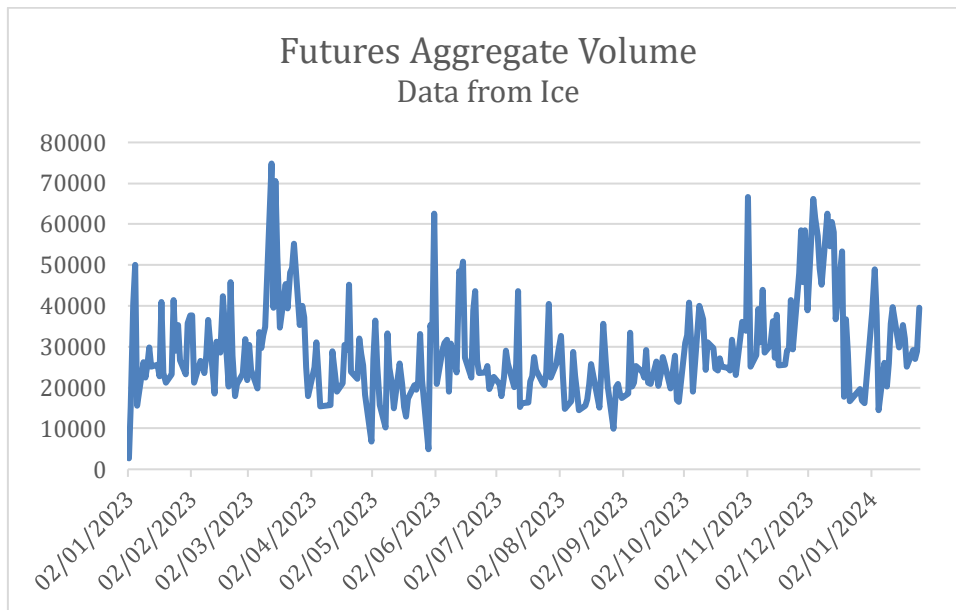
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boosted prices in the secondary market, with EUAs jumping over EUR 1 in one minute.



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

- Leaked information on the EU Commission's 2040 emission reduction target has revealed a goal to reduce emissions by 90% in 2040 compared to 1990 levels. All will be confirmed on 6 February when the Commission publish their revised target
 - As we noted again last week, LSEG analysts estimated in Autumn that such a target could lead to EUA prices over EUR 400
- EU data has shown the region emitted 8% less carbon dioxide from fossil fuel combustion in 2023 compared to 2022. Levels not seen since the 1960s
 - The report noted lower demand for electricity and warmer temperatures contributed to this fall, attributing the adoption of cleaner renewable energy as the reason for over half of the emission reduction (more below)
 - Industry and transport sectors also made significant cuts
- Auction volumes last week were 11,094,500, this week's volumes stand at 13,064,000

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- Following the death of three US service members in the Red Sea conflict, many are preparing for an escalation which could lead to oil and gas supply disruptions (more below) and subsequent price volatility.

Further Reading

- EU fossil fuel emissions hit 1960 levels despite economy growing three times in size [EU fossil fuel CO2 emissions hit 60-year low | Greenhouse gas emissions | The Guardian](#)
- International Energy Agency (IEA) warns of volatile gas prices this year due to conflict in Middle East <https://www.ft.com/content/7db41566-9d72-4253-bb95-67046e4fd0c7>
- "We believe the death of three U.S. service members today in Jordan marks a critical inflection point in the ongoing conflict in the Middle East and raises a specter of a more substantial U.S. involvement in the war," RBC Capital analyst Helima Croft noted, adding that a more direct confrontation with Iran raised prospects of regional energy supply disruptions <https://www.reuters.com/business/energy/oil-jumps-1-after-houthis-attack-fuel-tanker-red-sea-2024-01-29/>

Sources

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

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