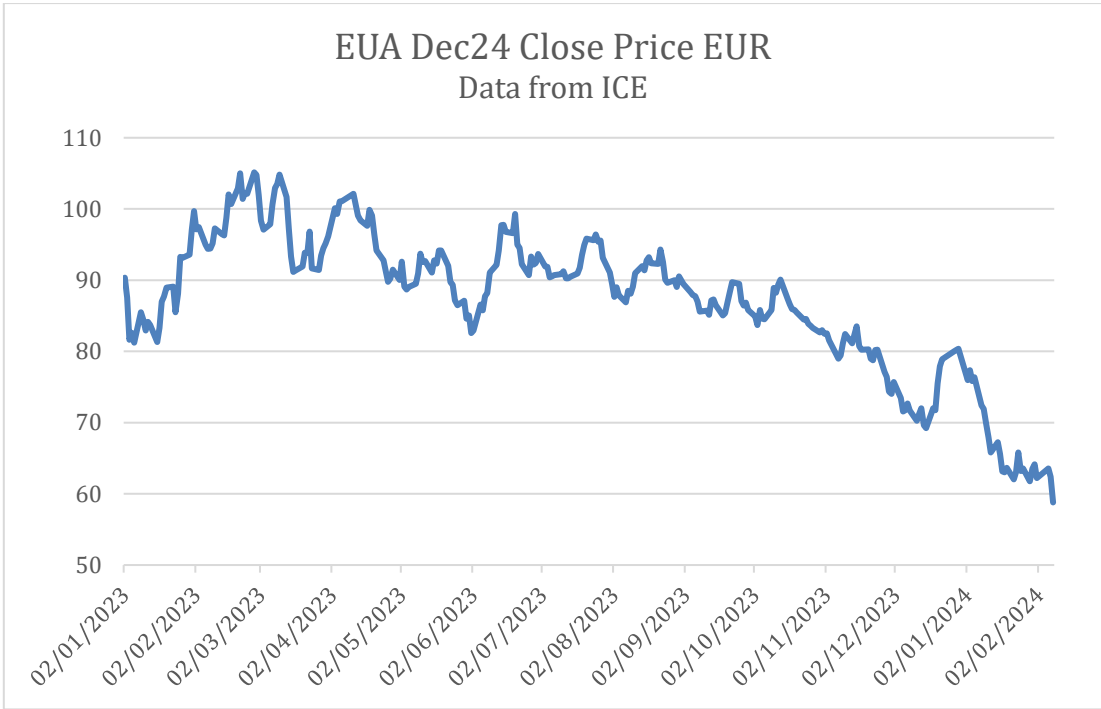




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 12/02/24

In brief: EUAs plummet to 23-month low

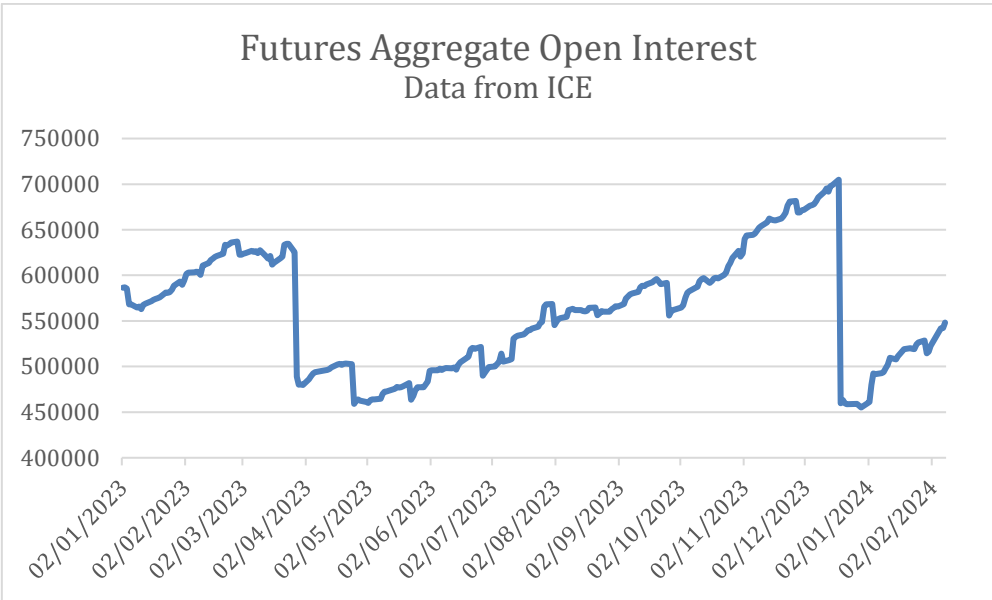
The benchmark contract settled down at EUR 58.79, suffering a hefty weekly loss of EUR 4.61 (7%). Dec 24 EUAs hit a 23-month low of EUR 58.20 on Friday afternoon as EU carbon continued to suffer from bearish fundamentals including mild temperatures, increased wind supply and weak demand from power and industry. Dip buyers provided support for prices not falling lower, with EUAs below EUR 60 being targeted by compliance entities. EUAs traded in a range of EUR 6.25. Open Interest remains significantly below Q4 2023. Traded volume remains moderate. With full auction volumes returning this week combining with continuing ongoing bearish sentiment in the market, EUAs may succumb to further downward pressure. Outlook: Neutral-Bearish.





What happened? (Price movements)

- Monday’s open was bullish as Dec24 EUAs climbed to a high of EUR 64.45 in the morning, only to later plummet tracking weakening TTF gas. The benchmark contract eventually settled at EUR 62.67
- Tuesday saw EUAs make significant gains, with gas prices playing a significant role. The benchmark contract settled at EUR 63.58, a 1.5% rise on the day
- Wednesday reversed all gains made the day prior, as aggressive selling through the afternoon outweighed bullish fundamentals, including the absence of a daily auction. The Dec24 contract settled 1.8% lower on the day at EUR 62.41
- On Thursday, we saw the lowest EUA price in 23 months (EUR 60.26) as above average temperatures eased any pressure in the energy markets, subsequently lowering demand for carbon allowances. Strong selling was sustained through the day driving down prices, with the Dec24 settling 2.6% lower at EUR 60.78
- Friday saw the biggest auction discount of the week (the German sale clearing EUR 0.31 below spot), causing the Dec24 contract to begin an early downfall. The benchmark contract settled 3.3% down on the day at EUR 58.79. This was the largest daily decline in over 2 weeks and a new 23-month low.



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Why? (Market drivers)

- Last week in Europe, significant regulatory developments took place:
 - The EU Commission published its proposal for a 2040 emissions reduction target, tabling 90% by 2040, indicating total emissions in the EU to amount to 750 million tonnes by 2040
 - A document had been leaked the week prior indicating the cut target, so any impact had likely already been priced in. In addition, a lack of mention of the EU ETS in the proposal caused a sense of disappointment in the market and subsequent lack of reaction
 - Fit for 55 Reforms: The deadline for surrendering EUAs for installations has been pushed back to the end of September, whilst the issuance of 2024 allowances will now occur in the early summer
 - This could have a bearish impact on Q1 prices given those commercials that purchase EUAs last minute for compliance purposes will now wait for later in the year
- Temperatures remained above average for this time of year, contributing to a downward price movement
- Commitment of Traders (Cot) Report: Data last week showed investment funds had increased their total net short position to 32.5 Mt the week ending 2 February, up 6.1% from 30.7 Mt two weeks ago. With results matching expectations, the CoT caused no stir in the market and no real price impact
 - Analysts noted how this small and relatively insignificant movement in short positions was representative of the 0.3% move in carbon the week ending 2 February
- All last week, the secondary market reacted to auctions, with discounted auctions causing EUAs to go in both directions
 - The sale cleared EUR 0.08 and EUR 0.09 below the spot market on Tuesday and Thursday respectively, causing immediate price surges in the Dec24 contract, albeit short rallies
 - The biggest discount of the week on Friday (German sale clearing EUR 0.31 below spot value) gave way to an immediate dip in EUAs, with the Dec24 dropping to EUR 59.26 post auction

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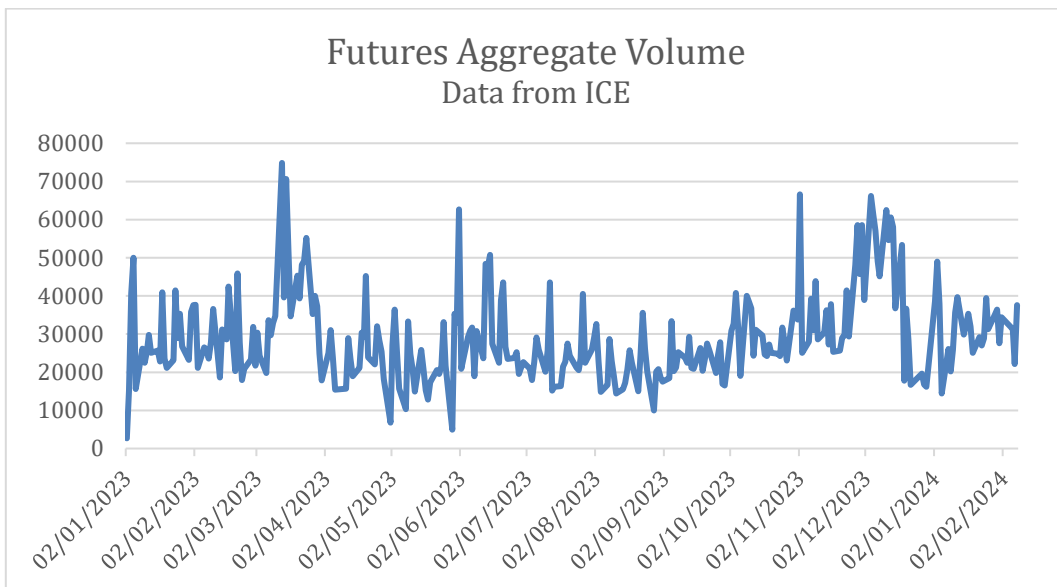
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- The absence of a Polish auction on Wednesday, which reduced weekly supply by 17%, failed to alter the bearish sentiment in the market
- For the most part last week, carbon tracked movements in the benchmark TTF contract, as mixed energy markets led to fluctuating EUA prices
 - The days on which carbon was notably independent of gas were Wednesday and Friday. On Wednesday, German power prices spiked due to a big drop off in wind generation, causing TTF prices to rise but failed to ignite a rally in EUAs.



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

- This week's auction volumes will increase from 10,754,000 to 13,064,000
- UPCOMING WEBINAR- In partnership with Carbon markets experts Redshaw Advisors, we will be hosting a webinar on 21 February at 10am GMT. It will be focused on trading OTC physical EUAs for shipping players (how to set up, how it works, strategy, etc.). Information and sign up via the following link:
<https://rb.gy/nj4xoy>

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Further Reading

- EU Commission sets ambitious 2040 target
<https://www.theguardian.com/environment/2024/feb/06/eu-lays-out-plan-to-cut-greenhouse-emissions-by-90-by-2040>
- A recap of the steps needed to open a Maritime Operator Holding Account (MOHA) <https://www.hellenicshippingnews.com/eu-ets-shipping-companies-now-know-who-to-deal-with/>
- Hottest January on record aligns with EUAs great price fall
<https://www.morocoworldnews.com/2024/02/360700/january-2024-broke-global-heat-records>
 - Goldman Sach's report on EU gas prices:
<https://markets.businessinsider.com/news/commodities/energy-crisis-europe-lng-price-gas-demand-destruction-exports-russia-2024-2>
- Current EUA prices grant market participants a lucrative investment opportunity [Falling EUA prices raise investment opportunities – SEB | Montel \(montelnews.com\)](https://montelnews.com)
- Leading researchers including LSEG's Yan Qin published an academic paper (available for free) on what drives EU carbon price movements:
<https://arxiv.org/abs/2402.04828>

Sources

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

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