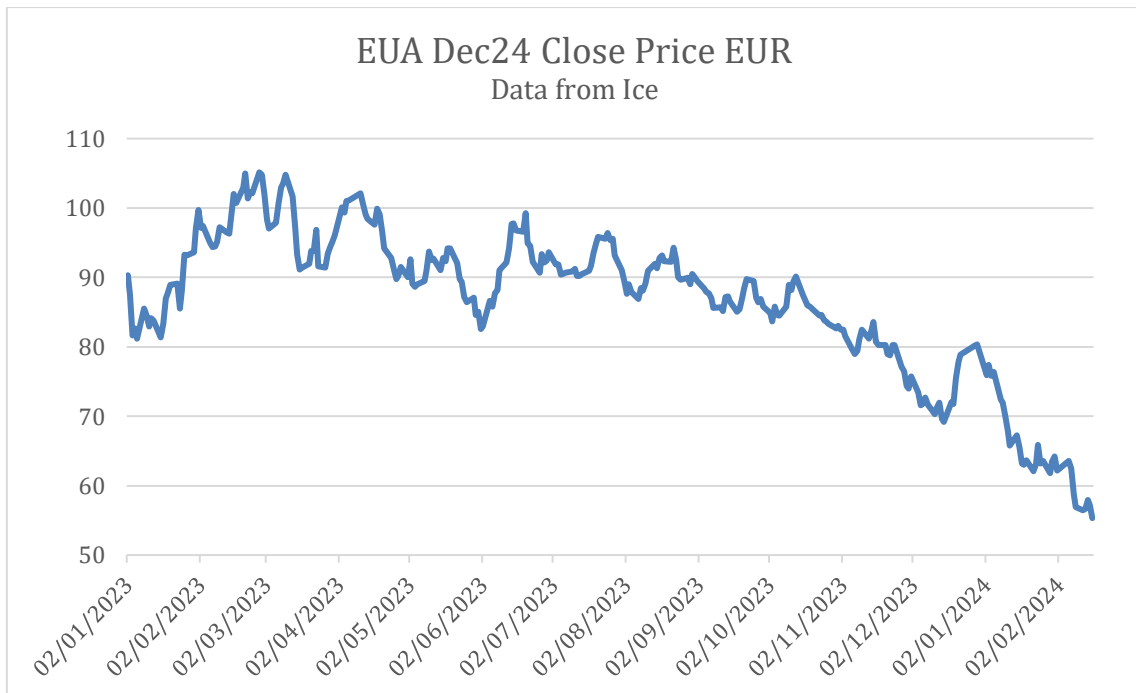




## FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 19/02/24

### In brief: Record net short captures investor outlook

The benchmark Dec24 contract settled down at EUR 57.17, a weekly loss of EUR 1.62 (2.8%). EUAs traded in a EUR 3.64 range and Wednesday's Commitment of Traders (CoT) data revealed a record net short position of 38.2 Mt. Funds continued to bet against EU carbon despite prices approaching the EUR 55-mark, a near two-year low. Last week's bearish sentiment continued to grow as unseasonably mild EU weather and high gas storage exert downward pressure on the bloc's energy mix. Such conditions have reduced the need for allowances from compliance entities across the Emissions Trading System (ETS). Barring spillover effects from the Middle Eastern conflict, it remains unlikely the bearish trend that has characterised the year to date will break. Outlook: Neutral-Bearish.



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### What happened? (Price movements)

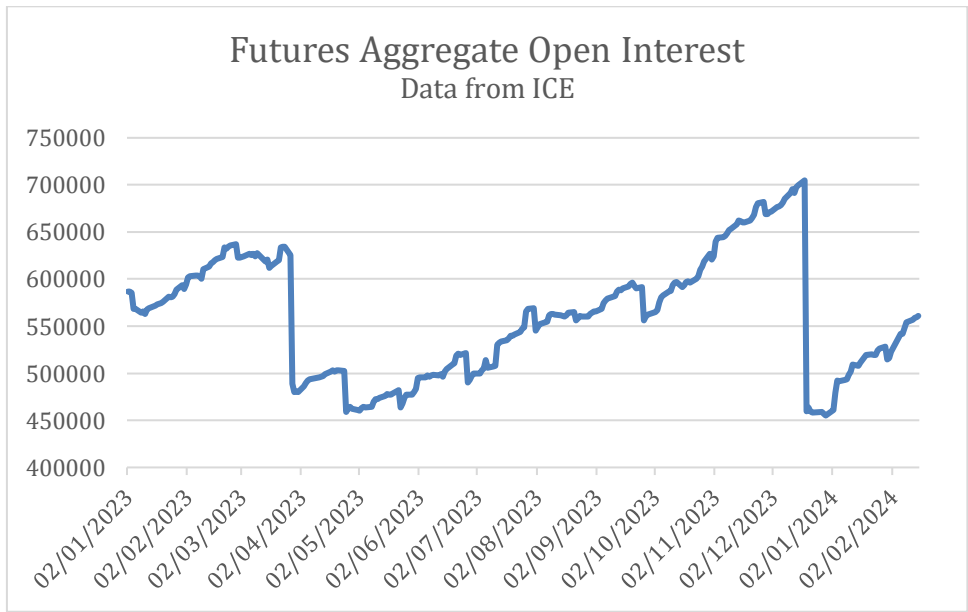
- Monday opened to aggressive selling in the EUA market as the front-December fell by almost EUR 1 within the first 15 minutes of trading. Dec24 eventually settled down at EUR 56.89, a 3.2% decline on the day
- Tuesday saw prices continue to fall with front-December EUAs hitting a new 23-month low of EUR 55.61 in the afternoon. A subsequent short rally reversed much of the discount, but settlement came in at EUR 56.43, a 0.8% daily reduction
- Wednesday's Commitment of Traders (Cot) report brought an end to the downward spiral, as record net short positions held by funds set off rallies throughout the day. The benchmark rose 0.4% to settle at EUR 56.63
- Thursday saw news from Germany that surplus EUAs in coal would be cancelled, which added to CoT data triggered short covering in the market. EUA prices rose by more than 4.3% at one point, closing up at EUR 57.91
- Friday saw sellers regain control, with the Dec24 falling 1.3% on the day to finish trading at EUR 57.17, marking a 2.8% decline on the week.

### Why? (Market drivers)

- The EUA-gas correlation remained high last week. The TTF contract has dropped by nearly 20% this year; while the Dec24 has fallen 29.6% from a high of EUR 81.25 on 2 January
  - Mild weather forecasts continue to add downward pressure to energy markets, with temperatures remaining unseasonably high across Europe and subsequently reducing need for heat generation
  - High gas storage levels have added to bearish pressure in EU energy markets, with analysts stating levels could end winter at a record high, whilst Northwestern Europe storage is approaching a five-year high.
- Commitment of Traders (Cot) Report: Last week's data showed funds increased their total net short position to 38.2 Mt the week ending 9 February, a record position since ICE started recording data in 2019
  - Despite the short exposure held by funds, there was a relative absence of short squeezing, which sums up market bearishness and signals belief prices could continue to plummet



- CoT data also revealed commercials increased their net long position by 2.7% to 186.3 Mt, reconfirming sentiment prices will rise in the long-term, with analysts pointing to a price above EUR 70 for the end of the year
- The price rise on Thursday was largely attributed to news out of Germany that a quantity of EUAs, yet unknown, are to be cancelled due to the closure of coal plants. This added momentum to short coverers. However, it remains unclear whether these EUAs are already concealed from the market and so will cease to have any material impact on the balance of EUAs in circulation (more information below)
- Auction results last week mostly cleared at a premium, with the first on Tuesday (first since 31 January) followed by premiums on Wednesday and Thursday. These outcomes all initiated small rallies.



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

- UPCOMING WEBINAR—FIS and Redshaw will host a webinar on 21 February at 10am GMT. It will be focused on trading OTC physical EUAs for shipping players

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(how to set up, how it works, strategy, etc.). Sign up via the following link:

[Webinar](#)

- This week's auction volumes will increase from 13,064,000 to 13,513,000
- Ongoing tensions in the Middle East and Eastern Europe are worth noting as potential triggers for reversing the current bearishness in the market. More below on the current impact of Middle Eastern tensions on oil prices
- Despite recent strong downward pressure in the market, long-term price projections (2026 onwards) remain bullish. With the frontloading of EUAs for the RepowerEU diminishing, in conjunction with a continued supply reduction (4.3% per annum 2024-27), bulls remain poised for a return market.

### Further Reading

- The 40-day deadline to open a MOHA account could be a challenge for shipping companies and national administrators alike, with Greece and Spain assigned 707 and 450 companies  
<https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/shipping/021524-shipping-firms-enter-eu-ets-at-market-trough-admin-backlogs-expected>
- 'We are not panicking at all' states the EU Commission's climate action director-general Kurt Vandenberghe in spite of plummeting prices since beginning of 2024 [EC "not panicking" about falling carbon prices – official | Montel News - English](#)
- Continuing unrest in the Middle East is putting pressure on oil prices as worries about supply outlook increase. Meanwhile, The US reject Putin's suggestion for ceasefire in Ukraine <https://www.reuters.com/markets/commodities/oil-prices-near-flat-demand-worries-offset-middle-east-risk-2024-02-13/>
- Germany announces elimination of allowances due to closure of country's coal plants, total quantity yet unknown  
<https://montelnews.com/news/1447442/germany-to-cancel-euas-over-early-coal-closures>

### Sources

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

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