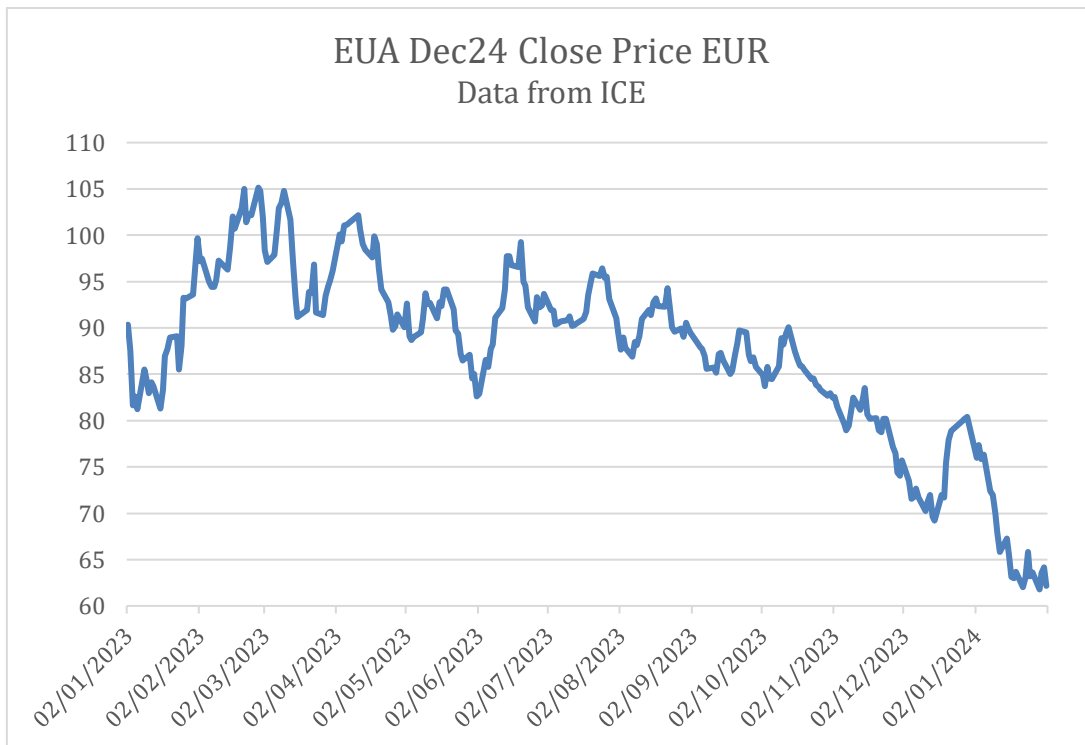




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 05/02/24

In brief: EUAs halt slide as Middle Eastern tensions rise

The benchmark contract settled down at EUR 63.40, a weekly loss of EUR 0.18 (0.3%). Dec24 EUAs plummeted by 20% in January, the greatest month-on-month fall since March 2020, and the second worst January since 2014. Rising gas prices following disruptions in the North Sea and Red Sea were the major price supporter last week, helping prevent serious downward pressure from bearish fundamentals including unseasonably warm temperatures and full auction volumes. Attacks over the weekend in Yemen, with US and UK strikes on the Houthis, is likely to escalate tensions in the Middle East, potentially causing further price spikes in gas and subsequently EUAs in the weeks to come. Open interest and volume remain moderate. Outlook: Neutral.



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What happened? (Price movements)

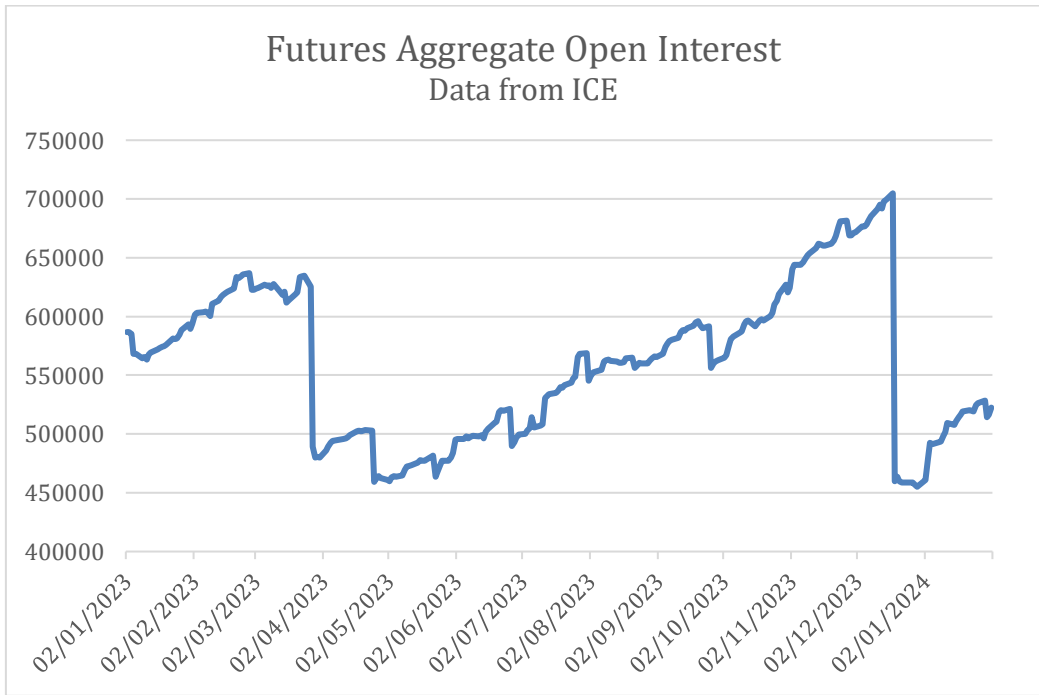
- EUAs endured sustained pressure on Monday as aggressive selling and a lack of buying interest in the afternoon meant prices plunged. The Dec24 contract settled down 2.6% on the day at EUR 61.90, the lowest settlement since March 7, 2022
- Tuesday saw a reversal with the benchmark contract rebounding strongly, as rising gas prices and suspected short covering by speculative traders supported EUAs. The Dec24 contract settled 2.8% higher at EUR 63.51
- Wednesday saw a moderate continuation of upward direction with Dec24 emissions settling 1% higher on the day at EUR 64.16. Despite this, for EUAs January was the worst month in eight years
- The arrival of February failed to ignite any optimism in the market. The benchmark contract fell 3.1% to settle at EUR 62.19
- On Friday the Dec24 contract shrugged off the weakest German auction of the year (clearing EUR 0.16 below spot market), instead tracking rising gas prices to climb 2% on the day. EUAs settled at EUR 63.40, a 0.3% decline on the week.

Why? (Market drivers)

- Last week, temperatures across Central and Western Europe remained unseasonably warm, on average 3C-6C hotter than usual. Fewer fossil fuels burned for heating purposes provided a bearish signal to traders
- Auction volumes and discounts added to bearish sentiment
 - Full auction volumes (13.4 Mt), up from 11,094,500 the week prior
 - Last week saw multiple auction discounts. Thursday's auction cleared at a EUR 0.64 discount, which was the largest negative differential since October, leading to an immediate EUR 0.83 price drop. Auction discounts tend to act as a negative signal in the secondary market
 - That said, Friday's weakest German auction of the year (clearing EUR 0.16 below spot market) did not see a reflection in the secondary market, which instead tracking rising gas prices
- Disruptions in the North Sea Region contributed significantly to Tuesday's price rally, as concern surrounding supply of gas led to TTF prices surging by near 4%. Carbon was not far behind, settling 2.8% higher



- TTF and German power contracts rose by 3.63% and 4.06% on Wednesday. EUAs trailed with a 1% bump
- Data shows the correlation between EUAs and the TTF benchmark contract over the past 60 days has risen to 0.65
- Commitment of Traders (Cot) Report: Wednesday's CoT data revealed investment funds had reduced their net short position by around 555,000 tonnes (1.6%) the week ending 26 Jan. This marked a dip on the trend of recent weeks in which funds have significantly raised their net short stakes. The total net short position now stands at 33.1 Mt, of which financial institutions likely hold the vast majority
 - Compliance entities increased their net long positions by 777,000 tonnes, a 0.6% increase
 - With many expecting the European Commission to publish its 90% emissions cut target by 2040 this week, analysts have suggested it has become risky to be so short at the current price level.



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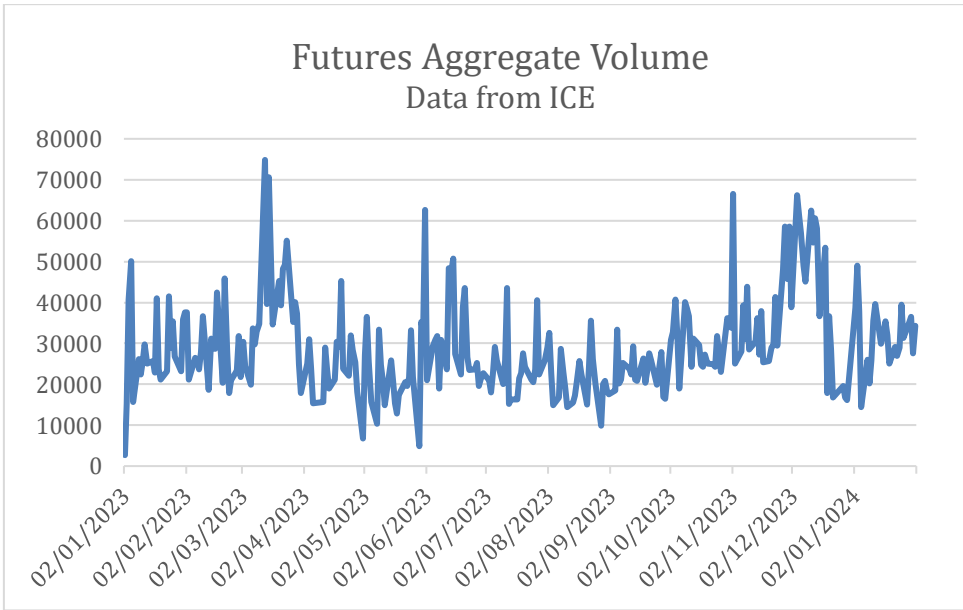
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What's coming up? (Trends and key developments)

- The European Commission is scheduled to publish its proposal for a 2040 emissions target on 6 February. It has been leaked in recent weeks that they intend to propose the ambitious 90% reduction target that will likely lead to EUA prices more than doubling over coming years if all other factors remain constant
 - In addition to the leaks, 11 EU nations have written to the Commission advocating for ambitious target setting
- Further escalations in the Middle East should be expected following last week's announcement from Joe Biden that strikes against Iranian backed militia will go ahead as a response to the killing of US three troops. This could lead to energy price spikes in the short-term (more below)



- This week's auction volumes will fall to 10,754,000 from 13,064,000
- Forecasts next week indicate a temperature drop across northern France and Germany, potentially putting upward pressure on gas this week

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- Gas performance in January: European gas demand returned to double digit growth in January, supported by colder weather and stronger gas use in industry
 - Estimated European gas consumption grew by 12% in January—its strongest growth rate since May 2021
 - Industrial gas consumption continues to climb as lower gas prices are now supporting stronger demand from the most gas and energy intensive sectors.

Further Reading

- Attacks in Yemen 'Just the beginning' as US warns of further strikes on Houthis <https://www.theguardian.com/world/2024/feb/04/houthis-vow-more-red-sea-attacks-after-third-wave-of-us-uk-strikes-on-yemen>
- The Commission released the final legal act containing the list of administering authorities for shipping companies under the EU ETS last week. This now means you can begin the process of opening your Maritime Operator Holding Account (MOHA). To get started, reach out to the relevant registry that should be listed next to your shipping company name in the attached document [Commission Implementing Decision \(EU\) 2024/411 of 30 January 2024 on the list of shipping companies specifying the administering authority in respect of a shipping company in accordance with Directive 2003/87/EC of the European Parliament and of the Council \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32024L0411)
 - You can find details of your registry at the below link: https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/union-registry_en#contact
- In a report published by Lloyd's Register, it was suggested sending the more efficient ships from a fleet's to EU ports is a significant strategy operators can take to minimise carbon price exposure and to contribute to the EU's emission reduction targets [Lloyd's Register advises efficient vessel deployment for EU ETS compliance - Port Technology International](https://www.lloydsregister.com/news/2024/01/24/lloyds-register-advises-efficient-vessel-deployment-for-eu-ets-compliance-port-technology-international)



- Over the long term, oil and gas prices are expected to trend higher and see bouts of increased volatility, as the unprecedented shock from the pandemic continues to work its way through the market [Oil and Gas Prices Are on a Rollercoaster From 'Mother of All Shocks' \(businessinsider.com\)](#)

Sources

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

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