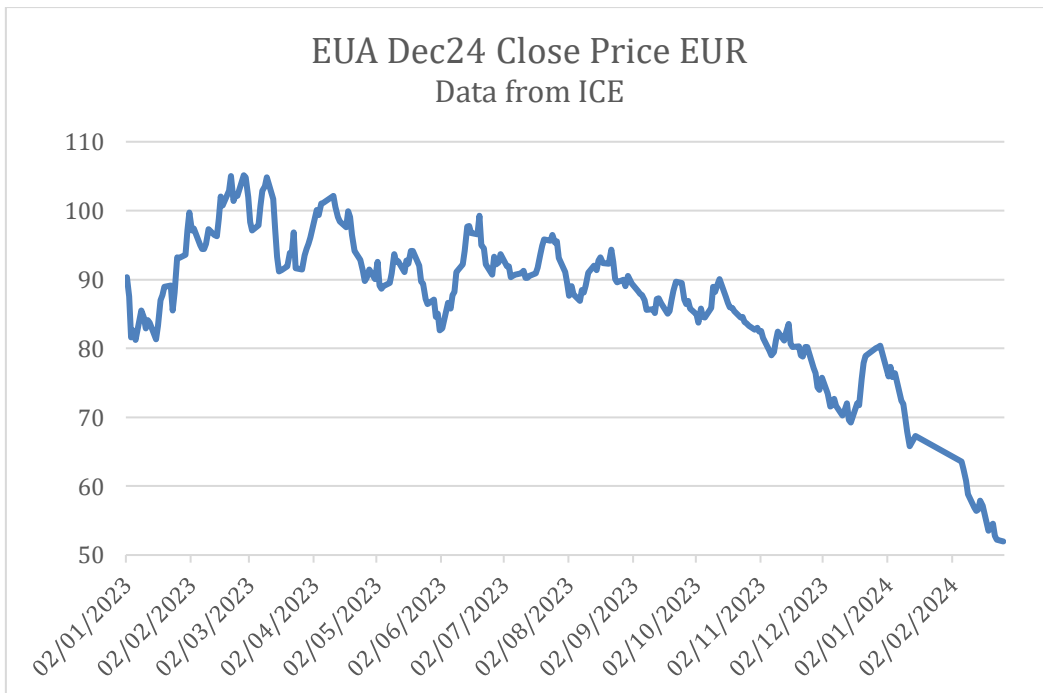




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 26/02/24

In brief: EUAS hit 31-month low, fall 8.7%

The benchmark Dec24 contract closed Friday at EUR 52.22, a hefty weekly loss of EUR 4.95 (8.7%). EU carbon traded in a EUR 6.01 range. Wednesday's Commitment of Traders (CoT) report revealed little change in funds net short position, falling 1.6% to 37.6 Mt. Some analysts suggested the data signalled speculators might sense a floor. With ongoing mild temperatures and a weak EU gas market, EUAs continued to suffer downward pressure, with the Dec24 hitting a 31-month low of EUR 51.10 on Friday. While news from the US of fresh sanctions on Russian's energy production infrastructure gave some upward support for prices on Friday, the prospects of any lasting impact are yet to be seen. As the year progresses and the EU economy recovers, it is expected EUAs will pick up in price. For now, our outlook is Neutral to Bearish.



Freight Investor (Holdings) Limited

80 Cannon Street
London, EC4N 6HL

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

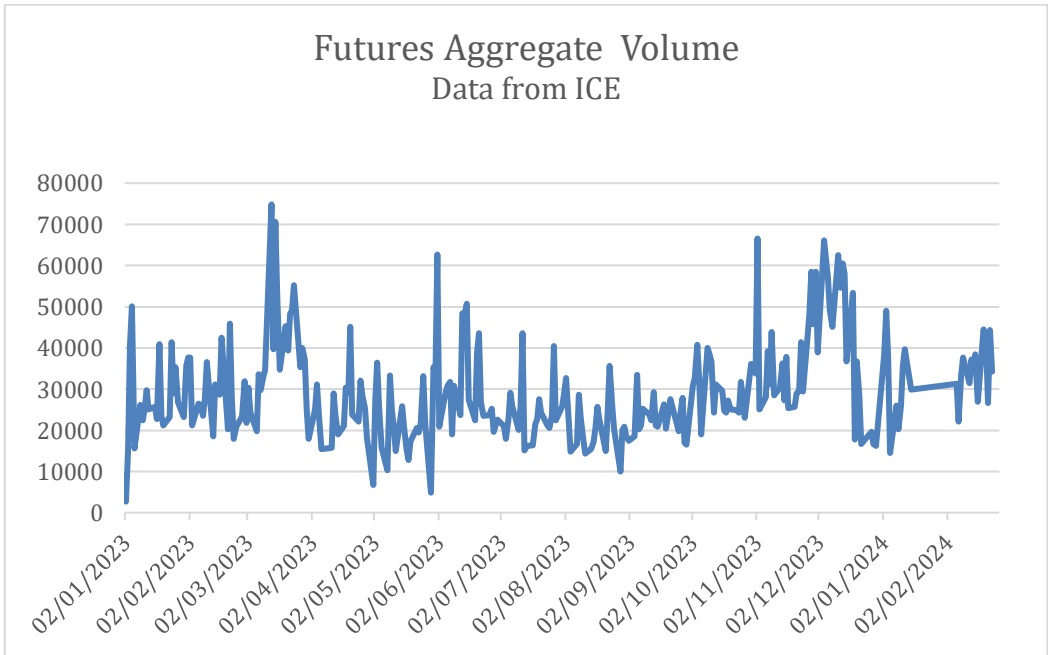
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What happened? (Price movements)

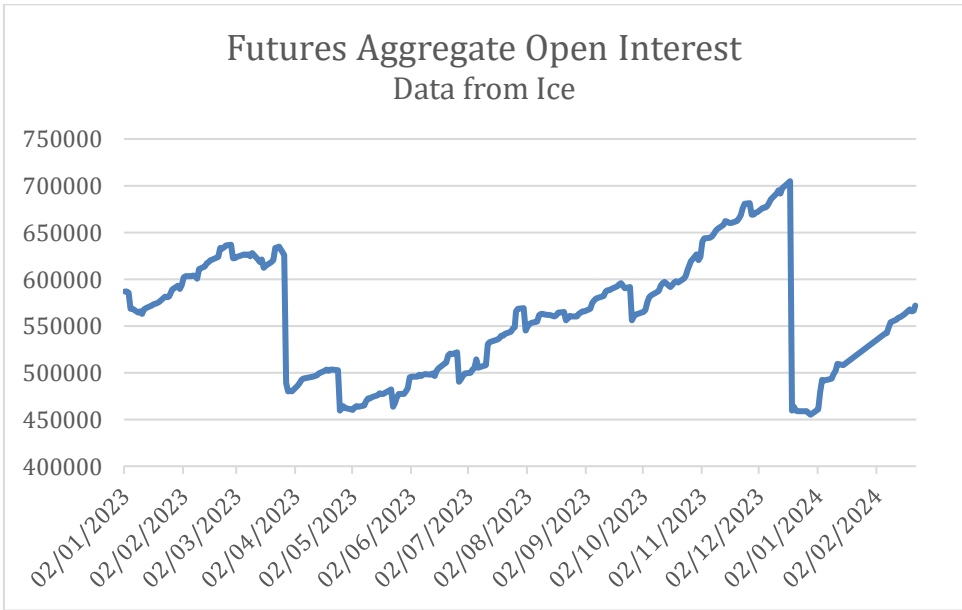
- Monday was a day to remember for the bears as low demand for the benchmark Dec24 contract saw it hit a new 30-month low of EUR 52.90 late in the afternoon. It settled at EUR 53.54, a 6.4% decline on the day
- Tuesday opened to further selling pressure resulting in a new 31-month low of EUR 51.72 right after midday. Once prices dropped below EUR 52, some short-positioned traders began buying, bringing prices back up to EUR 55. Dec EUAs settled at EUR 54.31, a 1.4% increase on the day
- Wednesday was somewhat flat as the release of the Commitment of Traders (CoT) report revealed minimal direction, with speculators' short positions barely changing from the week prior. Dec24 EUAs crept up 0.4% to EUR 54.55
- Thursday saw the market reverse the minor gains made the day prior as the front-December contract plummeted under aggressive selling. It settled at EUR 52.80, a 3.2% decline on the day and the lowest settlement since July 23, 2021
- Friday saw the week close with the benchmark contract losing a further 1.1% to settle at EUR 52.22. The overall weekly loss came in at 8.7%.





Why? (Market drivers)

- Falling gas and power prices across Europe continue to exert downward pressure on EUAs as any prospects of cooler temperatures were offset by continued weak fundamentals
 - The 5- and 10-day rolling correlation between the Dec24 and the front-month TTF contract is currently greater than 0.9, whilst the 60-day rolling correlation has been climbing over the past two weeks, now standing over 0.7
 - Emissions in the electricity generation sector are estimated to have fallen by 20% in 2023, with the drop-off in coal-fired power generation indicated as the main driver. This pattern has continued into 2024 as falling gas prices continue to make it a more appealing fuel choice



- Commitment of Traders (CoT) Report: Wednesday’s CoT data showed little movement with investment funds trimming their net short position 660,000 tonnes (1.7%) to 37.6 Mt the week ending 16 February. The data failed to make



any impact in the market, with analysts noting sellers remained in the driving seat

- Some analysts argued the data did reveal funds are cautious of how much lower prices can go—noting the refusal to increase short positions and preference to stay in the money with current positions
- Short covering and profit taking took place on Tuesday when prices dipped below EUR 52, boosting prices by up to EUR 3
- Wednesday’s auction absence contributed to the lack of direction in the market, with the day’s EUR 1.71 trading range being the smallest high-low in two weeks.
- E-World, a German energy event, attracted many EUA and energy traders away from their desks from Tuesday to Thursday last week, with volume notably lower on Wednesday.

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

- According to a study by the European Parliament, 2023 saw the ratio of speculative positions to hedging positions double
 - It also found the correlation between investors’ net positions and EUA price direction increased. The correlation between the two rose as positions held by commercial undertakings fell
- A Global Carbon Market report by BNEF indicated EU renewable power output is set to increase further in 2024. Five of the major power markets (Belgium, France, Italy, UK & Germany) are estimated to raise renewable capacity by 34 gigawatts this year, an increase of 3 GW (6%) from 2023
 - Nuclear generation is projected to increase by 9% compared to 2023, with French nuclear capacity being strengthened significantly
- Historically popular due to their alignment with the calendar year compliance requirements, the December and March contracts are currently at a five-year low in open interest
 - Whilst open interest for the September contract is at record highs, due to the compliance deadline moving from 30 April to 30 September, it is still noticeably less than the Dec and March contracts.
- With the ECB set to implement its first interest rate cut in June 2024, an industrial recovery in the second half of the year remains on the cards.

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freightinvestor.com



- This week's auction volumes will increase from 10,754,000 to 13,064,000.

Further Reading

- US implement fresh sanctions on Russia stemming from the death of opposition leader Alexei Navalny, with leading tanker group Sovcomflot accused of violating G7's price cap on Russian oil. Dec24 price 80 cents in 20 minutes following the news
<https://www.reuters.com/world/key-parts-sweeping-us-sanctions-against-russia-2024-02-23/>
- Gas prices hit lows not seen since before Russian invasion of Ukraine, causing debate over the future of global gas stores, terminals and pipes
<https://www.theguardian.com/business/2024/feb/25/gass-future-looks-cloudy-as-demand-and-prices-tumble>

Sources

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

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