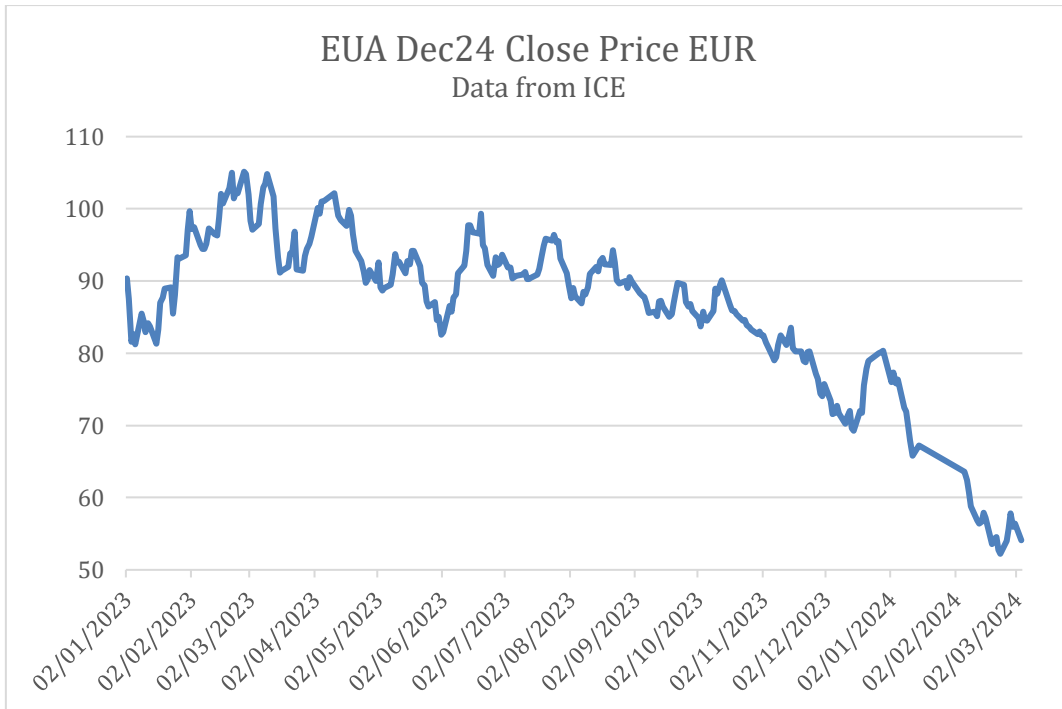




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 04/03/24

In brief: EUAs surge 8% on short-covering

The benchmark Dec24 contract closed Friday at EUR 56.37, a weekly gain of EUR 4.15 (8%). EU carbon traded in a EUR 6.88 range. Wednesday's Commitment of Traders (CoT) report revealed little changed in speculator's positions, with funds net short holdings increasing 1.6 Mt (4.4%) to 39.2 Mt. This data failed to stir any real reaction in the market, with notable interest instead put on Wednesday's EUR 0.91 auction premium, which caused a jump in prices. European gas continues to play an instrumental role in the direction of carbon, with the 10-day correlation between EUAs and the front-month TTF contract at 0.95 on Friday. The story of the week was the funds' short-covering that unfolded, as a refusal for prices to dip under EUR 51 led speculators to believe prices may have consolidated. Outlook: Neutral.



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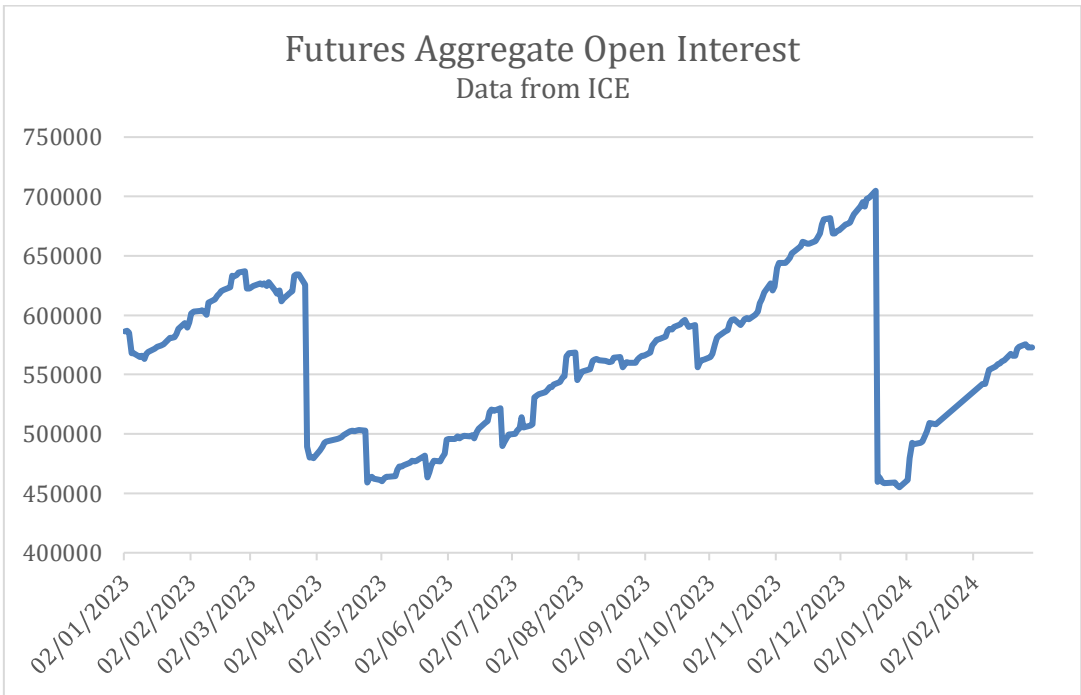
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What happened? (Price movements)

- Monday saw significant gains as firmer energy markets led to short covering, boosting EUA prices. The benchmark contract rose 3.4% on the day to EUR 53.97
- On Tuesday, EUA prices continued to rise as funds closed out positions, seemingly growing cautious of possible rallies in the market. The Dec24 contract climbed a further 3.2% to EUR 55.68
- Wednesday marked the third consecutive day of EUA price gains, as a high auction premium and fund' profit taking helped spur bullish momentum. The benchmark contract settled 3.9% higher at EUR 57.84
- Thursday saw the three-day rally come to an end as Dec24 EUAs receded 3.2% to EUR 56. February closed with an 8.2% loss for EUAs
- Friday saw the ball back in the bulls' court, with funds taking cover before the weekend. Prices rose 0.7% on the day, with the Dec24 settling at EUR 56.37. This marked a weekly increase of 8%.

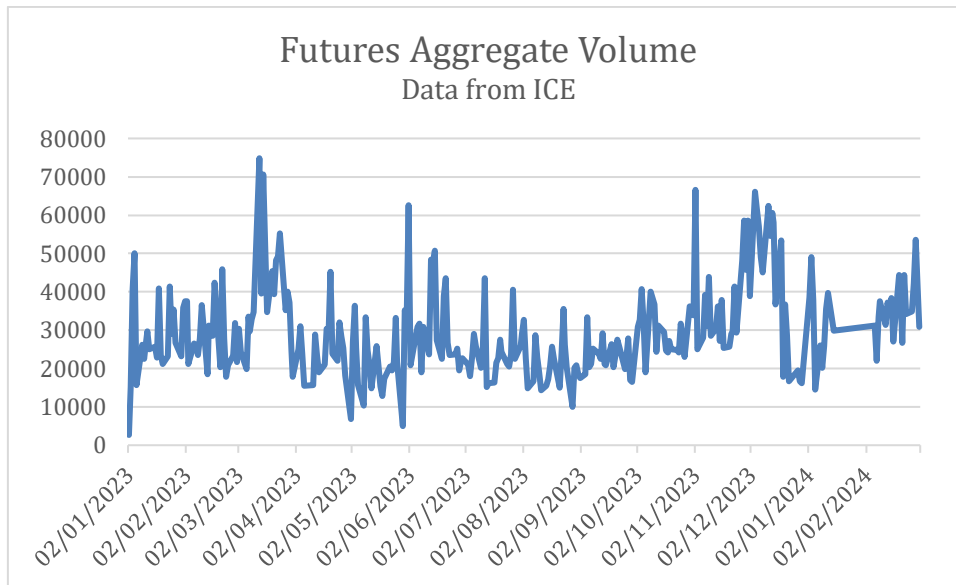


Why? (Market drivers)

- Last week energy markets added plenty of support to EUAs, as the March TTF natural gas contract rose following some strong auction results and news of a drop in renewable output
 - A strong auction result for TTF on Tuesday sparked a rally in March TTF (climbing 7% to reach EUR 24.910/MWh) was matched by a 7.2% rally in carbon, signifying a high correlation between the two markets and highlighting the pivotal role gas has on carbon pricing
 - Monday's rally was also attributed largely to stronger prices across gas and coal, especially the latter with coal rising 4.1%
 - Despite March TTF adding more than 11% from Monday to Wednesday, above-average temperatures limited further upside potential
- EUA auctions played a hand in price direction, particularly Wednesday's auction which cleared at a EUR 0.91 premium. This was the biggest differential since 19 January, leading to a price jump in the secondary market from EUR 55.85 to EUR 57.14 within minutes
 - Largest Auction discount for more than two weeks on Tuesday (23 cents)–prompted an instant EUR 0.15 drop to EUR 52.75
- Commitment of Traders (CoT) Report: Data from last week showed investment funds increased their net short position by 1.6 Mt (4.4%) to 39.2 Mt the week ending Feb 23
 - CoT data also revealed commercial and compliance buying is up by 26 Mt since the beginning of the year, illustrating an attraction for EUAs at current prices. This increase in purchasing played a part in driving EUA prices up last week, with these entities picking up EUAs now for use down the line.
 - Short covering began at the outset last week. It was suggested that once prices dipped under EUR 52, but yet refused to go lower than EUR 51, prices had finally consolidated, and sparked funds to close out short positions
 - Prices rose following these close-outs, meaning recent shorts (placed at lower values) were now out of the money, and consequently much more susceptible to a short squeeze



- Low utility hedging (and perhaps even net selling of utility hedges) continues to impact the EUA market, lowering demand for allowance and keeping prices down.



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

- Analysts at Morgan Stanley (MS) amended their price projections for year end to EUR 65, compared to the EUR 75 they had projected at the end of 2023
 - Also, MS forecasted emissions to be 15% lower than 2021
- Open interest (OI) for compliance and commercial entities is now 103 Mt lower year-on-year
 - It is expected that when the March contract expires, the OI differential will reduce as March comprises 70 Mt of the year-on-year drop in current OI
- This week's auction volumes will decrease from 13,064,000 to 11,094,500.

Further Reading

- Analysts see 'imperfect' market as EUA Prices plummet following a drop in emissions and a surplus of allowances
<https://www.ft.com/content/c01f737d-58df-4efa-9a29-9e708598b026>

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- Red Sea tensions cause ongoing disruptions to global trade, with oil, gas and shipping markets notably feeling the impact <https://www.offshore-technology.com/features/red-sea-tensions-impact-on-the-oil-and-shipping-market-in-the-west/?cf-view>
- European countries set record high temperatures for February, with countries including Germany and Poland leading the way <https://www.express.co.uk/news/weather/1873268/europe-hot-weather-alert-record-breaking-temperatures>

Sources

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

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