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FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS)

EUA WEEKLY REPORT 18/03/24

In brief: EUAs secure third consecutive weekly gain

The benchmark contract closed Friday at 59.39, a weekly gain of EUR 1 (1.7%). Wednesday's Commitment of Traders (CoT) report showed funds had reduced their short positions by 3.5 Mt (9.4%) to 33.4 Mt the week ending 8 March. As has been the case recently, CoT data did little to excite the market, and if anything gave confidence to the bears to continue selling. Instead, the expiry of the March options contract on Wednesday afternoon took the focus in the first half of the week, with funds closing out positions and taking profit. Gas continued to play a role in the narrative of carbon last week, with the rolling five-day correlation between EUAs and TTF staying above 0.9. With the market up EUR 2.80 at time of writing on Monday morning, perhaps the bulls will have something more substantial to say this week. However, with bearish fundamentals including mild temperatures ensuing this week, our outlook remains: Neutral

What happened? (Price movements)

- Monday saw the biggest fall in three weeks for EUAs as the market succumbed to downward pressure following a drop-off in gas markets. The benchmark contract settled 3.7% down at EUR 56.21
- The first gain for EU carbon in five days took place on Tuesday, as traders allegedly sought to cover shorts ahead of Wednesday's March options expiry. The Dec24 contract ended the day at EUR 56.51, up 0.5%
- Wednesday saw EUAs pull back, with the Commitment of Traders (CoT) data reigniting the bears' confidence with an insignificant change in speculators' short positions (more below). The benchmark contract settled at EUR 56.04, down 0.8% on the day
- Thursday morning recorded the narrowest trading in four weeks as volatility in the market took on a wider decline. Nonetheless, the Dec24 contract secured its second daily gain of the week, settling 4.3% up on the day at EUR 58.45

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- Friday was no different as the bulls in the market maintained their momentum from the day before. The benchmark contract settled at EUR 59.39 to close out the day up 1.6%, also securing the third 5 -day gain in a row (1.7%).

Why? (Market drivers)

- European gas continued to influence the direction of carbon last week, with the rolling five-day correlation between carbon and TTF remaining above 0.9, while the 10-day measure went below 0.8 for the first time in a month
    - Despite an outage at Nyhamna plant in the North Sea and interruptions in the US Gulf, forecasts for mild weather and plentiful supply pushed gas down, subsequently leading to a drop-off in carbon
    - Commitment of Traders (CoT) Report: CoT data showed investment funds reduced their net short position by around 3.5 Mt (9.4%) to 33.4 Mt the week ending 8 March
        - Given the volumes traded last week, the change in short positions surprised traders who were expecting a larger reduction. As such, the data was considered underwhelming, and instead focus turned to the expiry of March options contract in afternoon
        - The data did seem to instill confidence amongst funds that prices would continue to fall, with selling reconvening soon after the CoT release
        - Total longs dropped 697000 to 34.7 Mt, while total shorts fell by 4.1 Mt to 68.1 Mt
        - The gains made on Tuesday and a brief rally on Wednesday were largely attributed to funds unwinding their positions and taking profit ahead of the March options expiry on Wednesday.

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

- With the end of the heating season approaching and healthy gas storage levels in Europe, sentiment in the gas and carbon markets is bearish and resistant to any upward movement attempts

- Upcoming Event: Shipping Risk Management in 2024- FIS will be heading to Athens to host a workshop on FFA, Fuel Oil and EUA risk management in 2024 and beyond. The event will take place on 25 April in the stylish Grand Hyatt Hotel just south of the centre. Register via the following link https://freightinvestorservices.zohobackstage.eu/ShippingRiskManagementin2024-WiththeExperts#/

Further Reading

- OceanScore estimates the volume of EUAs needed for ships could triple due to the Red Sea crisis causing commercial ships to take alternative routes to Europe via the Cape of Good Hope, adding around 9,000 nautical miles to the distance sailed https://www.offshore-energy.biz/shippings-eu-ets-costs-could-nearly-triple-due-to-red-sea-crisis-oceanscore-says/
- After a second consecutive mild European winter in 2023/2024, a report carried out by Wood Mackenzie estimates that storage levels for European gas could reach 89% by the end of July, exerting even greater pressure on prices https://www.naturalgasworld.com/european-gas-prices-seen-dropping-further-in-2024-on-high-storage-woodmac-110193

Sources

All pricing data taken from Intercontinental Exchange (ICE) and European Energy Exchange (EEX) *by the Financial Conduct Authority (FRN: 211452) and is a member of the National Futures Association ("NFA"). Freight Investor Services PTE Ltd ('FIS PTE') is a private limited company, incorporated and registered in Singapore with company number 200603922G, and has subsidiary offices in India and Shanghai. Freight Investor Solutions DMCC ('FIS DMCC') is a private limited company, incorporated and registered in Dubai with company number DMCC1225. Further information about FIS including the location of its offices can be found on our website at freightinvestorservices.com*